A CRISIS OF AFFORDABLE HEALTH CARE IN GEORGIA: PHOEBE PUTNEY HEALTH SYSTEM
EXECUTIVE SUMMARY

What makes health care different from other consumer-driven industries, and more often linked to bankruptcy, is a lack of clear pricing and information, a lack of choice in most Georgia markets, the role of insurance in health care choices and the complexity and importance of health care treatment.

Health care is a market where consumers are perpetually at a disadvantage. More oversight, transparency, accountability and efforts to increase affordability and access are necessary.

Tax-exempt nonprofit hospitals, by definition, have an obligation to the community to provide accessible and affordable health care. However, the very hospitals charged with caring for those most in need are increasingly turning their backs on, and in some cases taking advantage of, uninsured and indigent patients. For example, many tax-exempt nonprofit hospitals – including Phoebe Putney Memorial Hospital – charge uninsured patients a significantly higher cost for services than average payments received from most third party payers, such as private insurance, Medicare and Medicaid.

In fact, Phoebe Putney Memorial Hospital and Health System:

- Marked up prices overall in 2005 by 252 percent, having paid approximately $298,235,192 in costs, but having charged $752,273,508.1
- Maintained over 250 days of cash on hand from 2003 to 2005 – almost twice the national median, and enough to operate for over nine months without new revenue.
- Delivered compensation packages to high-level hospital executives and key employees that included hundreds of thousands of dollars in salary and benefits.

Policy Recommendations:

Level 1 Trauma Center: Phoebe Putney Health System should utilize surplus funds to open a Level 1 trauma center, which would serve an unmet need in southwest Georgia.

Affordability: Charges to patients should be fair and clearly explained at the time of admission to the hospital, as should financial assistance options. Also, state lawmakers should act to extend tax-exempt status to free health care clinics.

Transparency: State lawmakers should create and enact definitions for the terms “indigent care,” “charity care” and “bad debt” that are based on cost instead of marked-up charges and inflated hospital pricing schedules.

Oversight: The state Department of Revenue should conduct annual audits and certifications of tax-exempt nonprofit entities in Georgia.

Assessments to evaluate real value of tax-exempt status: County taxing authorities should regularly assess the property holdings of tax-exempt nonprofit health care facilities to ensure the community is receiving a comparable benefit for its loss of property tax revenue.
INTRODUCTION

Eighty percent of hospitals in Georgia operate as tax-exempt nonprofit organizations, including Memorial Health in Savannah, Northside Hospital in Atlanta, the Medical Center of Central Georgia in Macon and Phoebe Putney Memorial Hospital in Albany. In recent years, most every major urban hospital in Georgia has become a tax-exempt nonprofit organization.

Georgia’s tax-exempt nonprofit hospitals share the common mission of guaranteeing care to all, regardless of ability to pay. These facilities are subsidized by state and local governments to offer health services to medically uninsured and indigent patients.

For example, tax-exempt nonprofit hospitals do not pay sales, income or property taxes. In short, nonprofit hospitals don’t contribute to vital local infrastructure, such as road and sewer maintenance, or police and firefighter forces, even though they may use all of these services.

Tax-exempt nonprofit hospitals also draw down funds from the state Indigent Care Trust Fund (ICTF). The purpose of the ICTF is to expand Medicaid eligibility and services, support rural health care facilities that serve the medically indigent, and fund primary health care programs for medically indigent Georgians.

Under IRS law, a tax-exempt nonprofit hospital, classified as a 501 (c) (3) charity, should:

- **Have a mission to provide community benefit:** This is key to receiving tax-exempt status, which allows a group to sidestep property, income and sales tax. Federal law requires tax-exempt organizations to have a clearly defined mission statement that commits the institution to its core charity.
- **Use profits for good:** By their very nature, nonprofit hospitals are prohibited from making a profit. If they do generate a surplus, that surplus must be reinvested back into the hospital in a way that benefits the community, as required by both state and federal laws. Compensation for executives and others must be in accordance to fair market value.
- **Financial accountability:** No part of their net earnings goes to the benefit of any private shareholder or individual. Money paid as compensation to executives and other employees should be fair and not excessive.
- **Remain accountable to the community:** According to IRS regulations, the organization's board of trustees must hold itself accountable to its community for maximizing the organization's contribution to the community.
- **No politicking:** A tax-exempt nonprofit organization is not allowed to participate in political campaigns for or against candidates or to lobby as a substantial part of their activities.
THE PHOEBE PUTNEY HEALTH SYSTEM

Established in 1911, Phoebe Putney Memorial Hospital became a tax-exempt nonprofit organization in 1991, forming Phoebe Putney Health System as the parent company. Phoebe Putney Memorial Hospital serves 26 counties in southwest Georgia. It is the largest employer in Albany, GA.

The Health System also holds Phoebe Worth Medical Center in nearby Sylvester, Ga., as well as Phoebe Health Ventures, the Phoebe Foundation, the Gohupad Clinic and Grove Point Indemnity.

The hospital has 443 beds and more than 3,400 employees, at a payroll of over $110,000,000. There are about 300 physicians on staff. In a given year at Phoebe Putney Memorial Hospital, nearly 3,000 babies are born, approximately 53,000 people visit the emergency room, and about 16,000 surgeries are performed.

Phoebe Putney is significantly larger than its only area competitor, the for-profit hospital Palmyra Medical Centers, which staffs approximately 450 employees. Unlike Phoebe Putney, Palmyra has been unsuccessful in its attempts to obtain permission under the state’s Certificate of Need (CON) program to expand into lucrative health services such as obstetrics and certain heart procedures.

Phoebe Putney Memorial Hospital is owned by the Hospital Authority of Albany/Dougherty County, which "leases" to the hospital board its grounds and equipment for $1 per year. The Authority acts as a conduit for transfers of funds between government programs, including the ITCF and Medicare, and the health system or hospital. Phoebe Putney’s Board of Directors is responsible for the management of the hospital’s resources.

PATIENT ISSUES

At the core of patient issues are affordability, access to care and quality of care.

At least 45 million Americans are living without health insurance. Between 2003 and 2005, 17.5 percent of Georgia residents were medically uninsured – a number that increases every year.

The majority of the newly uninsured between 2003 and 2004 – over 750,000 people – were working adults. Meanwhile, from 2000 to 2005, employer-provided health insurance to children under 18 years old decreased by 8.9 percent.

Today’s medically uninsured are the working poor, the self-employed, the middle class and small business owners. The majority of the medically uninsured are not the poorest among us, who can access Medicaid assistance, or older citizens, who are covered by Medicare.
**Affordability**

According to a report recently released by Harvard University, approximately half of all Americans who file for bankruptcy in the United States do so because of medical bills. Three-quarters of those patients had health insurance at the time of illness or injury. Of the 100 counties in the nation with the highest rates of bankruptcy, 45 are in Georgia.

On average, Georgians spend $4,891 a year on health care at hospitals and doctor's offices.

**Hospital Pricing**

Regulations and requirements associated with the ICTF and the tax-exempt status – not to mention their own founding missions – compel tax-exempt nonprofit hospitals to provide free and reduced charge health services to eligible patients. Instead, hospital pricing practices targeting the medically uninsured discourage eligible patients from accessing reduced-cost health services.

While all patients are charged the same for services, only self-pay patients are actually expected to pay that amount. In fact, hospitals charge the uninsured as much as ten times more than HMOs, insurance companies and government programs such as Medicare. Because nobody negotiates a discount for the uninsured, these patients get stuck with unreasonable mark-ups, artificially inflated prices and enormous bills.

Government health insurance programs (Medicaid, Medicare, PeachCare) and private health insurance companies negotiate lower prices that often vary between markets. For example, in a large city like Atlanta, competition for most procedures is high, leading a particular company to negotiate a contract with a particular facility that makes it cheaper for the insurance company to send its enrollees to that facility. Consequently, in towns where competition is low and certain procedures are only available at one facility, the insurance company often pays more for that procedure than it would in other, more urban areas.

For example, though it only costs an average of $3.19 for a technician to draw blood, Phoebe Putney charges $10.80. While heart bypass surgery without cardiac catheter or angioplasty in 2006 would cost an average $60,904 at a facility similar to Phoebe Putney, the same procedure at Phoebe Putney would cost $67,188. And though cardiac catheterizations cost Phoebe Putney $1,256.16, they charge $4,001.79. Phoebe Putney is the only provider of cardiac catheterizations in the area.

While markups are common in today’s health care market, charges for services of which Phoebe Putney is the only area provider are higher than the national average. Two of the most expensive services at Phoebe Putney are certain cardiac procedures, such as heart catheters and obstetrics – services that only Phoebe Putney offers. The other hospital in the area, Palmyra Medical Centers, is not able to offer these services due to CON restrictions.

In 2005, Phoebe Putney Memorial Hospital's prices overall were marked up 252 percent over cost, as the hospital paid approximately $298,235,192 for services, materials and procedures, but charged $752,273,508.
In July 2007, the *Albany Herald* reported an across the board increase of 6 percent for both in-patient and out-patient services at Phoebe Putney Memorial Hospital. At the time, Phoebe Putney CEO Joel Wernick claimed the hospital would only receive about 1.5 percent of the increase, citing cutbacks in Medicaid, Medicare and insurance reimbursements.

**Collections**

Hospitals are the number one client of collection agencies. The federal Fair Debt Collections Practices Act prohibits a hospital from forming a collection agency to collect on their debt. However, hospitals can circumvent the federal prohibition by joining together to own a collection agency.

For example, HSI is the primary collections contractor for member hospitals of the Voluntary Hospital America Georgia (VHA Georgia), including Phoebe Putney. The HSI board of directors is made up of various nonprofit hospital executives, including Phoebe Putney Chief Financial Officer Kerry Loudermilk, who has served as chairman.

In addition to contracting with HSI, Phoebe Putney also pursues collection efforts against uninsured patients in court. In response to questioning in September 2005 by Sen. Chuck Grassley (R-Iowa), then-Chairman of the U.S. Senate Finance Committee, Phoebe Putney stated “hospitals aren’t required under federal law to engage in any specific level of collection effort for Medicare or non-Medicare patients.”

Phoebe Putney also provided Sen. Grassley with a tally of recent lawsuits that the hospital had filed against uninsured patients, including:
Affordability & Industry
Several major manufacturing firms are located in Albany and Dougherty County, including Procter & Gamble, SAB-Miller Brewing and Cooper Tire.

According to the Coalition for Competitive and Affordable Healthcare (CACH), rising health care costs could potentially drive industry from Albany. The Albany-based consumer health care group alleges that the region’s health care costs rise with regularity, often far outpacing the state and national average.

Health care costs average about $7,630 per employee in three key Albany industries, a figure approximately $1,400 higher than in other parts of the country for these companies. According to The Southern Pricing Expectation, health care as a whole in Albany costs about $2,850 more than in comparable southern markets. Medical inflation in 2005 was an average 17 percent for those three industries, compared to the national average of 7.6 percent.

Procter and Gamble’s own research shows that employee health care costs at their Albany plant are 23 percent above the national average, and 31 percent above health care costs in the southeast region. In fact, Procter & Gamble employee health care costs in Albany were almost 62 percent higher than employee costs at their Augusta plant. According to P&G plant manager Trey Bloodworth:

"It's basically a health care tax to do business in Albany, because the health care costs are so much above the national average and the average for the Southeast."

CACH claims that Phoebe Putney's pricing practices have a significant impact on the local economy, stifling industry and causing large plants to lose out on profitable projects. Their data and information claim:

"Miller Brewing, Procter & Gamble Paper Products and Cooper Tire & Rubber collectively employ over 3,600 people... these three key industries have identified health care costs as an important problem preventing their growth and raising concerns about the future of their Albany operations. These corporations are facing some of the same pressures that caused Bob's Candies, Flint River Textiles and Merck to close. Losing 350 jobs takes about $75 million out of the Albany economy."
CACH also states: "...We pay way too much, and we get way too little. Despite massive Albany company expenditures by Miller, P&G, and Cooper Tire ($27.5 million in 2004 alone, excluding dental and prescription drugs), employees still lament the quality of care they receive, the burdensome out-of-pocket expenses, and inadequate coverage."xxiii

### Access to Care

Almost 30 percent of Albany residents live below the poverty level – more than twice the national average of 13.3 percent. Nearly 23 percent of Albany’s families are below the poverty level, a figure that is also more than twice the national average of 9.8 percent. The median household income in Albany is $30,934, and per capita income is $23,353. Albany is the center of the ninth poorest congressional district in the United States.

Many in Albany rely on some form of public assistance for health care, including PeachCare for Kids, Medicaid and the Indigent Care Trust Fund. Many others are uninsured.

### PeachCare

In 2003, Phoebe Putney was awarded the Foster G. McGaw Prize for excellence in community service. At the time, they were commended for "increasing six-fold the number of children in a nine county area enrolled in state-provided insurance."xxiv

PeachCare is Georgia’s insurance program for low-income children, jointly supported by the federal and state treasuries. Because of federal funding issues with the State Children’s Health Insurance Program (SCHIP), PeachCare has experienced severe budgetary shortfalls, having received several one-time emergency grants in 2007 to keep the program afloat.

Phoebe Putney offers health insurance to family members of employees – at an additional monthly cost to the employee. The hospital also encourages eligible new employees to enroll their children in PeachCare, as evidenced by this full-page flyer given to many employees:
As the largest health care facility in the area, Phoebe Putney provides a significant amount of health care for southwest Georgia children covered by PeachCare, and receives reimbursement funds from the state, per PeachCare guidelines. Essentially, in some cases, taxpayer dollars reimburse Phoebe Putney for health care services they provide through PeachCare to children of hospital employees – children that they refuse to cover outright through their own insurance plan.

Furthermore, Phoebe Putney counts its PeachCare for Kids Outreach program towards its “community benefit” obligation as required by the IRS for their tax-exempt status. The program is described as an initiative that "targets uninsured children who are eligible for PeachCare with a goal of enrolling 1,000 children in the program for Dougherty, Lee, Terrell, Baker, Worth, Calhoun and Randolph Counties."xxvi

**Quality of Care**

A February 2007 evaluation of the facility by The Joint Commission (also known as JCAHO), a nonprofit accreditation group, resulted in “conditional accreditation” for Phoebe Putney, meaning it is not in full compliance with all applicable care standards.

Among JCAHO’s many recommendations for improvement at Phoebe Putney were changes to its heart attack care, heart failure care and pregnancy care – three services that are among the most expensive at the hospital.

The hospital was also cited for not accurately and completely reconciling medications across the continuum of care, such as providing a complete list of medications to a patient on discharge.

**Level 1 Trauma Center**

The state trauma death rate is approximately 20 percent higher than the national average.xxvii According to the Georgia Joint Comprehensive State Trauma Services Study Committee, there is an 18 percent reduction in deaths for all injuries if patients are taken to a designated trauma center, though only an estimated 30 percent of major traumatic events in Georgia are treated at designated trauma centers.

There are fifteen trauma centers in the state. Only four of those are Level 1 trauma centers, which are able to provide the highest level of trauma care by having the personnel and resources necessary to handle the most severe cases, no matter the time or day.

None of these facilities are located in the southwestern part of the state that Phoebe Putney serves. Other trauma centers are located at Grady Memorial Hospital in Atlanta, the Medical College of Georgia in Augusta, Memorial Medical Center in Savannah and the Medical Center of Central Georgia in Macon. The Medical College of Georgia also serves part of South Carolina.

The closest Level 1 trauma center to Albany residents is in Macon, approximately 105 miles away. However, that travel distance may nearly double if the Medical Center of Central
Georgia (MCCG) shuts down its Level 1 trauma center due to lack of funding, as MCCG executives have warned for the past two years, citing nonpaying patients and reduced Medicaid payments. According to its last available tax returns, MCCG is profitable by about $29 million.

As Phoebe Putney regularly reports a revenue surplus in the tens of millions, it is economically feasible for the hospital to operate a Level 1 trauma center. In the past, Phoebe Putney representatives have expressed support for a statewide trauma network.

**EXECUTIVE COMPENSATION**

Executive compensation at Phoebe Putney is excessive when compared to other tax-exempt nonprofit entities – even those that operate on a much larger scale.

Phoebe Putney CEO Joel Wernick’s compensation was $972,025 during Fiscal Year 2005, according to IRS Form 990 filings. During that year, Mr. Wernick was paid more than the top executives at the following nonprofits:

- Brian Gallagher, CEO of United Way America - $638,505
- Edward A. Powell, CEO of USO - $668,889
- James Maddy, Past President of National Park Foundation - $833,290
- M. Cass Wheeler, CEO of American Heart Association - $926,467
- Wayne Lapierre, Executive V.P. of National Rifle Association - $953,110

Wernick’s compensation during Fiscal Year 2005 also eclipses that of CEOs at nonprofit hospitals in cities around the state with similar population and cost of living figures, including Rome, Athens and Savannah.

In addition to salary and bonuses, officials at Phoebe Putney enjoy a perk available to few executives employed by other non-profits. Phoebe Putney has made substantial contributions, ranging from $50,000 to $500,000, to a defined benefit retirement plan on behalf of senior executives, known as “split-dollar life insurance.” The practice continued at Phoebe Putney at least through 2006, according to *The Albany Herald*, although the amounts that Phoebe Putney pays on behalf of those employees are no longer reported.

According to a survey of 100 charitable organizations conducted by the United States Government Accountability Office (GAO), most do not provide split-dollar life insurance to CEOs and other top four executives. Of the 65 charitable organizations that responded to the GAO survey, only 18 indicated it is part of their executive compensation package.

Moreover, since accepting the CEO position at Phoebe Putney, Wernick has received a new automobile every three years, and was given an interest-free loan on his house. In the event that Wernick is terminated for cause, he will receive 36 months of pay unless he is convicted of a felony. According to the GAO survey, of the 41 charitable organizations that divulged
information about severance packages, only three provided severance packages to a terminated CEO.xxxiii

**Fiscal Year 2000**

<table>
<thead>
<tr>
<th>Name and position</th>
<th>Total salary and benefits</th>
<th>Salary</th>
<th>Benefit plan</th>
<th>Expenses and Allowances</th>
<th>Split-Dollar Life Insurance</th>
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<tbody>
<tr>
<td>J. Wernick, Pres and CEO</td>
<td>$608,764</td>
<td>$464,315</td>
<td>$6,994</td>
<td>$16,990</td>
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<td>G. Chastain, Sr. VP - Medical Affairs</td>
<td>294,916</td>
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<td>E. Ollie, Sr. VP and CFO</td>
<td>113,807</td>
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<td>6,994</td>
<td>1,822</td>
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<td>E. Cassity, Sr. VP/Chief Strategy Officer</td>
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<td>J. Ray, Fr. VP and COO</td>
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Note: G. Chastain was reported under Phoebe Putney Memorial Hospital in 2001. E. Ollie was only employed for a partial year in 2000.

**Fiscal Year 2001**

<table>
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<tr>
<th>Name and position</th>
<th>Total salary and benefits</th>
<th>Salary</th>
<th>Benefit plan</th>
<th>Expenses and Allowances</th>
<th>Split-Dollar Life Insurance</th>
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<td>309,321</td>
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<td>F. Middleton, Sr. VP - Medical Director</td>
<td>490,151</td>
<td>302,929</td>
<td>6,311</td>
<td>5,499</td>
<td>175,412</td>
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<td>K. Loudermilk, Sr. VP and CFO</td>
<td>227,659</td>
<td>206,305</td>
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<td>E. Cassity, Sr. VP/Chief Strategy Officer</td>
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<td>J. Hobson, Sr. VP and COO</td>
<td>329,204</td>
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Note: Compensation of G. Chastain was recorded in Phoebe Putney Memorial Hospital, Inc., in FY 2001 on IRS Form 990, Schedule 1, Part 1. All other officers were recorded in Phoebe Putney Health System, Inc.
### Fiscal Year 2002

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<tr>
<th>Name and position</th>
<th>Total salary and benefits</th>
<th>Salary</th>
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<td><strong>Total compensation of top seven officers</strong></td>
<td><strong>$3,345,995</strong></td>
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Note: Note that in FY 2002, G. Chastain had income reported from both Phoebe Putney Heath System, Inc. and Phoebe Putney Memorial Hospital, Inc. The Hospital reported salary of $157,756 and benefits of $3,155 on IRS Form 990, Schedule A, Part I. The amounts reported above for G. Chastain reflect the combined totals.

### Fiscal Year 2003

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<tr>
<th>Name and position</th>
<th>Total salary and benefits</th>
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<td><strong>Total compensation of top eight officers</strong></td>
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Note: Split-dollar life insurance amounts are not reported on the IRS Form 990 filing, despite a 2006 *Albany Herald* article that cited a deposition by Kerry Loudermilk that the program still continued. The absence of these numbers impacts the total salary and benefits amounts.
### Fiscal Year 2004

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<th>Name and position</th>
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<td>J. Wernick, Pres and CEO</td>
<td>$758,367</td>
<td>$682,550</td>
<td>$69,131</td>
<td>$6,686</td>
<td></td>
</tr>
<tr>
<td>G. Chastain, Sr. VP- Medical Affairs</td>
<td>448,623</td>
<td>325,671</td>
<td>105,924</td>
<td>17,028</td>
<td></td>
</tr>
<tr>
<td>F. Middleton, Sr. VP - Medical Director</td>
<td>397,561</td>
<td>348,306</td>
<td>33,344</td>
<td>15,911</td>
<td></td>
</tr>
<tr>
<td>K. Loudermilk, Sr. VP and CFO</td>
<td>321,694</td>
<td>289,775</td>
<td>19683</td>
<td>12236</td>
<td></td>
</tr>
<tr>
<td>E. Cassity, Sr. VP/Chief Strategy Officer</td>
<td>283046</td>
<td>241,476</td>
<td>30,011</td>
<td>11,559</td>
<td></td>
</tr>
<tr>
<td>J. Hobson, Sr. VP and COO</td>
<td>374,277</td>
<td>334,289</td>
<td>21,803</td>
<td>18,185</td>
<td></td>
</tr>
<tr>
<td>J. Johnston, Sr. VP - Patient Care</td>
<td>154,312</td>
<td>140,813</td>
<td>7,334</td>
<td>6,165</td>
<td></td>
</tr>
<tr>
<td><strong>Total compensation of top seven officers</strong></td>
<td><strong>$2,737,880</strong></td>
<td><strong>$2,697,125</strong></td>
<td><strong>$340,736</strong></td>
<td><strong>$48,651</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: Split-dollar life insurance amounts are not reported on the IRS Form 990 filing, despite a 2006 *Albany Herald* article that cited a deposition by Kerry Loudermilk that the program still continued. The absence of these numbers impacts the total salary and benefits amounts. Compensation of J. Wernick and K. Loudermilk was recorded in Phoebe Putney Health System, Inc. on IRS Form 990, Statement 12. Compensation of G. Chastain, F. Middleton, E. Cassity, J. Hobson and J. Johnston was recorded in Phoebe Putney Memorial Hospital, Inc. and in Phoebe Putney Healthy System, Inc. on IRS Form 990.

### Fiscal Year 2005

<table>
<thead>
<tr>
<th>Name and position</th>
<th>Total salary and benefits</th>
<th>Salary</th>
<th>Benefit plan</th>
<th>Expenses and Allowances</th>
<th>Split-Dollar Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>J. Wernick, Pres and CEO</td>
<td>$972,025</td>
<td>$705,627</td>
<td>$257,737</td>
<td>$8,661</td>
<td></td>
</tr>
<tr>
<td>F. Middleton, Sr. VP - Medical Director</td>
<td>517,472</td>
<td>365,290</td>
<td>138,913</td>
<td>13,269</td>
<td></td>
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<tr>
<td>K. Loudermilk, Sr. VP and CFO</td>
<td>401,585</td>
<td>302,345</td>
<td>88,253</td>
<td>10,987</td>
<td></td>
</tr>
<tr>
<td>J. Hobson, Sr. VP and COO</td>
<td>470,090</td>
<td>345,165</td>
<td>106,723</td>
<td>18,202</td>
<td></td>
</tr>
<tr>
<td><strong>Total compensation of top four officers</strong></td>
<td><strong>$2,361,172</strong></td>
<td><strong>$2,243,409</strong></td>
<td><strong>$101,764</strong></td>
<td><strong>$17,530</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note: Split-dollar life insurance amounts are not reported on the IRS Form 990 filing, despite a 2006 *Albany Herald* article that cited a deposition by Kerry Loudermilk that the program still continued. The absence of these numbers impacts the total salary and benefits amounts. Compensation of J. Wernick, F. Middleton, K. Loudermilk and J. Hobson was recorded in Phoebe Putney Memorial Hospital, Inc. and in Phoebe Putney Healthy System, Inc. on IRS Form 990.
Other Salaries
From 2003 to 2005, some salaries to Phoebe Putney physicians included:

- Jose Tongol, hematology and oncology physician, totaled $2,736,691 in salary and compensation between 2003 and 2005.
- David Dodd, cardiothoracic surgeon, totaled $921,057 in salary and compensation in 2005.
- Charles Holley, cardiothoracic surgeon, totaled $901,570 in salary and compensation in 2005.
- Oncologist Thomas Neal totaled $1,265,739 in salary and benefits in 2003 and 2004.

Expenses and Perks
According to a 2006 Albany Herald article citing a deposition by Phoebe Putney CFO Kerry Loudermilk, top hospital and health system executives received:

- DSL service at their homes
- $13,000 annual automobile allowance
- Doublegate Country Club membership
- Payment of American Express annual fees

Some payments made by Phoebe Putney for their executives and others include:

- Between July 1999 and April 2004, Phoebe Putney paid approximately $108,535.46 for 44 corporate hunting trips to various locations throughout Georgia and Florida.
- In June 2002, Phoebe Putney paid approximately $41,901.84 to Sandestin Golf and Beach Resort.
- In March 2002, Phoebe Putney paid $64,921.61 to the Ritz Carlton Hotel in Fernandina Beach, Fla., which included more than $18,000 in room fees, more than $10,000 in incidentals, approximately $22,714 in catering, and another $4,350 in recreation charges.
- In October 2001, Phoebe Putney paid $16,766.12 to Sandestin Golf and Beach Resort, which included two dinners costing just over $2,500 each, two breakfasts costing $1,446.53 and $1,119.82, a boat charter priced at $1,450, and $385.20 spent on recreation for children for one day. Among those on the trip were Phoebe Putney executives Jim Hobson, Frank Middleton and Joel Wernick.
- A 2002 receipt shows that CEO Joel Wernick was reimbursed by Phoebe Putney for four yards, or 144 inches, of fabric that his wife purchased for $984.40.
Loudermilk also stated that allowable expenses included:

- Gambling
- Theater tickets
- Tour fees
- Bicycle rentals
- Alcoholic beverages
- Cigars
- Chartered fishing trips
- Admission to water parks and theme parks
- Child care
- Recreation
- Sight-seeing tours

As reported on its 2006 IRS Form 990, the Phoebe Foundation held about $9.36 million in net assets, and spent approximately $460,266 in cash and non-cash grants, including $79,952 to the Willson Hospice House. The Foundation gave its largest grant of $172,572 to Volunteer Services, which is Phoebe Putney Memorial Hospital’s group of volunteers. Phoebe Putney considers these volunteer services as part of their community benefit offerings, and assigns an hourly wage amount to the hours spent volunteering. Those amounts are then tallied and considered part of the community benefit.

**Phoebe Putney By The Numbers**
Phoebe Putney generally enjoys strong revenue.

**Phoebe Putney Memorial Hospital, Inc. and Phoebe Putney Health System, Inc.**
From 2000 to 2005, Phoebe Putney Memorial Hospital’s total revenue increased by $143,196,170, from $278,107,883 in 2000 to $421,304,053 in 2005. But expenses grew as well, rising $166,937,120, from $243,048,609 to $409,996,394. Total profit for the hospital slipped to $11,307,659 from $35,048,609 during that same time.

However, parent company Phoebe Putney Health System enjoyed tremendous prosperity between 2000 and 2005 – ending 2000 far in the red, at a negative $7,846,341, then bouncing back to the black by 2005, at $33,353,455 – an increase of $41,229,796. This number more than makes up for the decline in profit for the hospital, by almost double.

**Investments and transfers of equity**
Funds from tax-exempt nonprofit hospitals may be moved to a variety of related organizations and corporations, outside of the public view, through transfers of equity or investments in subsidiaries, for example.

Certain financial data of tax-exempt nonprofit hospitals is reported annually to the federal government on Centers for Medicare & Medicaid Services (CMS) Cost Reports, which are
eventually made public. The same reporting requirements do not apply to hospitals’ related organizations, including subsidiaries and parent companies.

When a transfer of equity from a hospital to a health system occurs, the wealth of that hospital is not disclosed in the CMS Cost Reports, nor is it included in any government or industry analyses based upon Cost Report data. These transfers are not easily seen by policymakers, government agencies, and the general public.

Thus, hospital financial data as reported annually on Cost Reports may reflect a fundamentally incomplete picture of the true financial condition of the complex hospital system as a whole.

In 2003 and 2004, Phoebe Putney Memorial Hospital transferred tens of millions of dollars in fixed assets, property, and marketable equitable securities to Phoebe Putney Health System.\textsuperscript{xI}

<table>
<thead>
<tr>
<th>PHOEBE PUTNEY</th>
<th>2003: $19,402,351</th>
<th>PHOEBE PUTNEY</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEMORIAL HOSPITAL</td>
<td>2004: $34,671,705</td>
<td>HEALTH SYSTEM</td>
</tr>
</tbody>
</table>

Similarly, wealth can flow between related organizations and corporations in the form of an investment in a subsidiary. In recent years, investments within Phoebe Putney’s network have occurred in top-down fashion, from Phoebe Putney Health System to a variety of subsidiaries, both taxable and tax-exempt.\textsuperscript{xII} Specifically, the value of the Health System’s investments in various subsidiaries on the last day of Fiscal Years 2003, 2004 and 2005 are:

<table>
<thead>
<tr>
<th>2003</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Phoebe Putney Health Ventures, Inc. (non-exempt)</td>
<td>$752,020</td>
</tr>
<tr>
<td>Investment in Grove Pointe Indemnity, SPC</td>
<td>$252,550</td>
</tr>
<tr>
<td>Investment in Worth County Hospital</td>
<td>($323,921)</td>
</tr>
<tr>
<td>Investment in Gohupad Clinic, Inc. (non-exempt)</td>
<td>$192,863</td>
</tr>
<tr>
<td>Total End of Year Investment – 2003</td>
<td>$873,512</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2004</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Phoebe Putney Health Ventures, Inc. (non-exempt)</td>
<td>$929,577</td>
</tr>
<tr>
<td>Investment in Grove Pointe Indemnity, SPC</td>
<td>$2,559,868</td>
</tr>
<tr>
<td>Investment in Phoebe Worth Medical Center</td>
<td>($268,748)</td>
</tr>
<tr>
<td>Investment in Gohupad Clinic, Inc. (non-exempt)</td>
<td>$76,417</td>
</tr>
<tr>
<td>Total End of Year Investment – 2004</td>
<td>$3,297,114</td>
</tr>
</tbody>
</table>
### 2005

<table>
<thead>
<tr>
<th>Investment Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Phoebe Putney Health Ventures, Inc. (non-exempt)</td>
<td>$3,252,404</td>
</tr>
<tr>
<td>Investment in Grove Pointe Indemnity, SPC</td>
<td>$2,857,091</td>
</tr>
<tr>
<td>Investment in Phoebe Worth Medical Center</td>
<td>($156,662)</td>
</tr>
<tr>
<td>Investment in Gohupad Clinic, Inc. (non-exempt)</td>
<td>$90,272</td>
</tr>
<tr>
<td>Investment in SOWEGA CHI, Inc.</td>
<td>$554,481</td>
</tr>
<tr>
<td>Total End of Year Investment – 2005</td>
<td>$6,098,586</td>
</tr>
</tbody>
</table>

Thus, Phoebe Putney Health System has significant investments in subsidiaries – investments that have grown over the period primarily due to increases in Phoebe Health Ventures, Inc., a non-exempt for-profit corporation, and Grove Pointe Indemnity, SPC, a foreign corporation domiciled in the Cayman Islands.

**How much is too much?**

Nonprofit and for-profit hospitals alike keep “on hand” cash and other assets that can be quickly liquidated. “Days of cash on hand” measures how many days a hospital could operate if funded solely by working capital and investment assets, and serves as one method of assessing the size of a hospital’s precautionary assets.\(^{xlii}\)

Moody’s Investors Service calculates days of cash on hand as:

\[
\frac{365 \times \text{CASH} + \text{SAVINGS} + \text{INVESTMENT ASSETS} - \text{LIABILITIES} - \text{DEPRECIATION}}{\text{DEPRECIATION}}
\]

Based on IRS Form 990 fillings by Phoebe Putney Memorial Hospital, Inc. and Phoebe Putney Health System, Inc., and using Moody’s days of cash on hand calculation, Phoebe Putney maintained over 250 days of cash on hand from 2003 to 2005.

![Bar chart showing days of cash on hand from 2003 to 2005](chart.png)
In short, Phoebe Putney could have operated as usual for almost nine months without generating a single penny of new revenue before running out of funds.

According to the Congressional Budget Office, the median days of cash on hand for all rated tax-exempt nonprofit hospitals in 2004 was 146.3. That same year, Phoebe Putney maintained 266 days of cash on hand – almost twice the national median.

Currently, there is no limit on the assets a tax-exempt nonprofit hospital can divert into precautionary savings.

As a practical matter, tax-exempt nonprofit hospitals are rewarded by financial markets for maintaining precautionary savings. Hospitals with larger stockpiles of precautionary savings are given higher credit ratings by bond-rating agencies. In turn, a high credit rating enables a hospital to access financing options at lower interest rates. This is generally how only for-profit companies are measured, though it serves as good example of how much cash Phoebe Putney has on hand.

**Community benefits**
Through its agreement with the Hospital Authority of Albany/Dougherty County, Phoebe Putney has agreed to provide health care services to the indigent population in its market at a level of at least 3 percent of gross patient charges less certain contractual allowances and bad debts.

Tax-exempt nonprofit hospitals use a variety of terms to describe financial losses on services provided to the community. Though these descriptions aren’t always uniform, they are generally defined as:

- Charity care: health care services delivered to a patient with no expectation of payments for those services.
- Indigent care: health care services for self-pay patients who are unable to pay any portion of their bill.
- Uncompensated care: health care services that go uncompensated, regardless of the reason, and which may include charity care, bad debts, and discounts for Medicaid and Medicare.

These terms are often used interchangeably on recent IRS Form 990 filings made by Phoebe Putney Memorial Hospital. Because of this confusing method of accounting, it is difficult to see just how much charity care the hospital believes it offers.

For example, for the year ending July 31, 2003, Phoebe Putney Memorial Hospital delivered $31,600,000 in "charity care," according to their IRS Form 990. However, documentation from Phoebe Putney’s Web site filed with the 2003 IRS Form 990 states that the hospital delivered $52,600,000 in "charity/indigent care." Incidentally, according to subsequent IRS Form 990s, the hospital delivered $49,300,000 in "charity care" during the year ending July 31, 2004, and $43,755,673 in "charity care" the following year.
Furthermore, Phoebe Putney Memorial Hospital’s "Service to the Community" statement that accompanies each annual IRS Form 990 filing indicates that the hospital provided the community a contribution valued at $62,021,700 in 2005, $68,983,000 in 2004, and $34,525,000 in 2003.

However, on the audited financials, which were prepared by Draffin & Tucker, the hospital’s independent accounting firm, the cost of charity care was reported as only about $14 million.

**PHOEBE PUTNEY PLAYING POLITICS**

Like many large corporations, Phoebe Putney engages in politics. However, they are regulated by strict rules and limits established by the IRS for 501(c)(3) nonprofit organizations.

**Lobbying expenses**

From August 1, 2004 to July 31, 2005, Phoebe Putney Health System paid $387,632 in lobbying expenses to influence federal or state legislation. These expenses included payments to staff or management, and/or grants to other organizations for lobbying purposes. The previous fiscal year, Phoebe Putney reported $330,211 in lobbying activities. Also, in October 2002 and again in August 2003, Phoebe Health Ventures, a for-profit subsidiary of Phoebe Putney Health System, gave $10,000 to the Georgia Alliance of Community Hospitals, a membership-based hospital association and lobbying group.

**Campaign contributions**

Between 2003 and 2007, Phoebe Putney executives donated $36,516 to federal and state candidates. The bulk was directed to state candidates, including the 2004 campaign of Michael Spinks, who ran against incumbent Rep. Austin Scott (R-Tifton). That same year, Rep. Scott introduced House Bills 1533 and 1573, which would have allowed self-pay patients to pay the same prices as the average insurance company. Both bills faced considerable opposition from the Medical Association of Georgia and the Georgia Alliance of Community Hospitals. Neither HB 1533 nor HB 1573 advanced out of the House Health and Human Services committee.

In April 2002, Phoebe Putney CEO Joel Wernick donated $1,000 to then-state Senator Charles Walker (D-Augusta). That same year, according to its 2001 IRS Form 990, Phoebe Putney hired Georgia Personnel Services to provide “staffing services,” despite the fact that Georgia Personnel had only unskilled labor on staff.

In June 2004, Walker was convicted of 127 counts of various crimes committed under the names of several of his businesses, including Georgia Personnel Services and the newspaper *Augusta Focus*. Walker was sentenced to 10 years in prison.
State Senator George Hooks
Sen. George Hooks (D-Americus) has worked for Phoebe Putney as an insurance consultant to its subsidiary, Grove Pointe Indemnity, SPC. Sen. Hooks received $1,000 a month in consultation fees. He also accompanied Phoebe Putney executives Joel Wernick and others on a controversial May 2002 trip to London to meet with representatives from Lloyds of London, an insurance firm based in the United Kingdom that has offices in Atlanta.

Complaints were brought against Hooks that he had violated state ethics rules through his alliance with Phoebe Putney. The Senate Ethics committee ultimately determined that no laws were broken, and decided not to pursue an investigation.

Phoebe Putney’s Other Roles

Phoebe Putney Real Estate
Phoebe Putney owns 200 acres of land and is one of Dougherty County’s largest property owners. In fact, Phoebe Putney’s holdings are almost seven times that of local competitor Palmyra Medical Centers, who owns 28.6 acres. Phoebe Putney’s holdings can be found at some 200 different addresses in the city and county combined.

Phoebe Putney has grown at a rapid pace since becoming a tax-exempt nonprofit hospital – a growth that has been compared to kudzu by some. Because Phoebe Putney is a tax-exempt organization, they do not pay property taxes. Thus, Phoebe Putney’s continued land acquisition has prompted criticism that their expansion drains taxpayer resources and deprives Dougherty County of much-needed tax revenue.

Furthermore, there is no way to evaluate the value of their property, as it has not been appraised at least since Phoebe Putney received its tax-exempt nonprofit status in 1991.

“I do not have any true values. I know people have tried to make an educated guess. Obviously, it’s a lot of valuable property, and it represents a lot of land that should be taxable. By Georgia law, it is not taxable, so it’s a moot point.”

- Dougherty County Tax Department Director Denver Collins Hooten

Phoebe Putney only has one taxable property: a small tract of land on Beattie Road where their Morningside Assisted Living facility sits. In 2005, Phoebe Putney paid $44,950 in taxes on the property.

Phoebe Putney Financing
Phoebe Putney has provided many low-interest loans to its doctors and executives. CEO Joel Wernick, for example, received a loan of at least $100,000 the same year Phoebe Putney sued approximately 176 patients for debt amounts ranging from $100 to $5,000.
According to its IRS Form 990 filings, between 2002 and 2005 Phoebe Putney extended approximately $1,074,696 in low-interest loans to a number of key employees, including:

- A three-year loan of $265,690, at 5 percent interest, to a surgeon.
- A five-year loan of $237,500, at 5 percent interest, to an emergency medicine physician.
- A three-year loan of $150,000, at 5.75 percent interest, and another three-year loan of $90,778, at 5 percent interest, to a neurosurgeon.
- A four-year loan of $100,000, at 6.75 percent interest, to a neurosurgeon.

Loans by nonprofit hospital systems can be used to attract physicians to an area they might otherwise not be interested, or to help cover the initial costs of establishing a practice in a new area. Additionally, these loans are often forgiven by the hospital if the doctor spends a preset number of years in the area.

Last year’s IRS survey of 1,200 public charities and private foundations resulted in additional government scrutiny of 92 percent of the public charities making loans of $100K or more to officers, directors and key employees.

**CONCLUSION**

Elected officials, community leaders, employee representatives, patients, and other stakeholders must work to identify and confront the underlying problems preventing all Georgia citizens from accessing medical services and quality health care.

**Models for Legislative Change**

Effective Jan. 1, 2007, the Illinois Fair Patient Billing Act established the following standards to which Illinois’ tax-exempt nonprofit hospitals are held. Key provisions include:

- Hospitals are required to post conspicuously in the admission and registration areas of the hospital signage that notifies patients of the availability of financial assistance.
- Hospitals are required to make available financial assistance information in the form of a brochure or application in the hospital admission or registration area.
- Hospital bills must include:
  - A description of hospital services rendered and amounts owed by the patient;
  - Hospital contact information for billing inquiries;
  - Information on how uninsured patients can apply for financial assistance; and
  - A notice that a patient may request an itemized bill.
- Hospitals will not pursue legal action for non-payment of a hospital bill against uninsured patients who have demonstrated that they have insufficient income and assets to meet their financial obligations.
Hospitals and their agents may only pursue collection actions after the uninsured patient has been given the opportunity to assess the accuracy of the bill, apply for assistance under the hospital's financial assistance policy, and avail themselves of a reasonable payment plan.

**Policy Recommendations:**

**Level 1 Trauma Center:** Phoebe Putney Health System should utilize surplus funds to operate a Level 1 trauma center, which would save lives and serve an unmet need in southwest Georgia, where the closest trauma centers are located in Macon, Atlanta or Savannah.

**Affordability:** Patient care should be affordable to those who do not have private insurance or government insurance, such as PeachCare, Medicaid or Medicare. Charges to patients should be fair and clearly explained at the time of admission to the hospital, as should financial assistance options. Also, state lawmakers should act to extend tax-exempt status to free health care clinics.

**Transparency:** State lawmakers should create and enact definitions for the terms “indigent care,” “charity care” and “bad debt” that are based on cost instead of marked-up charges and inflated hospital pricing schedules. Any state regulatory body, including county taxing authorities and the state Department of Community Health, could utilize these definitions in determining and assessing the financial performance of Georgia’s tax-exempt nonprofit health care facilities.

**Oversight:** The state Department of Revenue should conduct annual audits and certifications of tax-exempt nonprofit entities in Georgia that meet a financial threshold based on the amount of funds the entity holds in reserve and expenditures related to executive compensation.

**Assessments to evaluate real value of tax-exempt status:** County taxing authorities should perform regular assessments of the property holdings of tax-exempt nonprofit health care facilities to ensure the community is receiving a comparable benefit for its loss of property tax revenue.

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i [http://www.hospitalvictims.org](http://www.hospitalvictims.org)

ii The Georgia Department of Community Health

iii According to the GHA, this law has not changed since 1969.


v [http://www.phoebeputney.com](http://www.phoebeputney.com)


vii Center on Budget and Policy Priorities. “The Number of Uninsured Americans Continued to Rise in 2004.” August 30, 2005

viii “Medical Bills Trigger Half of All Bankruptcies,” MSNBC, Feb 02, 2005


x [http://gahospitalpricecheck.org](http://gahospitalpricecheck.org)

Cleverly and Associates data, 2007

http://www.hospitalvictims.org

National Survey on the Uninsured, Kaiser Family Foundation, April 2000


CACH is comprised of several hundred individual members, and its president is Vince Falcione, who handles external affairs for Procter & Gamble's Albany branch. Other members include representatives from Cooper Tire, Miller Brewing and area physician offices.

Coalition of Affordable and Competitive Healthcare, 2004


Coalition of Affordable and Competitive Healthcare brochure, 2004

American Hospital Association

IRS Form 990 for years 2002 and 2003, available at http://www.guidestar.org


IRS Form 990, available on at http://www.guidestar.org


All figures from 990 forms filed with the IRS.

Detailed charts available upon request.

IRS Form 990, Line 20

IRS Form 990, Part IV, Line 56


Phoebe Among Property Giants," Albany Herald, Dec. 27, 2005

Phoebe Among Property Giants," Albany Herald, Dec. 27, 2005


As according to Phoebe Putney Health System 990 forms, available at http://www.guidestar.org