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An Overlooked Hospital Performance Metric: Bond Ratings

In October 2021, a Pennsylvania judge [denied](#) the property tax exemption for three hospitals owned by a Pennsylvania hospital system, claiming that operations at the hospitals in question had become too similar to for-profit facilities to warrant tax-exempt status. The judge's ruling found that the hospitals in question met only the first prong of the five-prong test that qualifies organizations as tax exempt: They must advance a charitable purpose; donate a substantial portion of their service; benefit a substantial or indefinite class of persons; relieve the government of some of its burden; and operate entirely free from profit motive. This was one of several cases in recent years in which courts denied nonprofit hospitals their local property tax exemption on the grounds that they behaved too similarly to taxable organizations to [warrant public subsidies](#).

Whether nonprofit hospitals deserve their tax-exempt status has been the subject of [debate](#) in recent years in both the academic and lay press. As an August 2022 [Wall Street Journal article](#) proclaimed: "Nonprofit medical institutions get federal benefits in exchange for providing support to their communities but often lag behind their for-profit peers." Part of this debate centers on the fact that it is difficult to distinguish between nonprofit and for-profit hospitals in terms of financial performance and quality. They report [similar profit margins](#), patient mix, and burden of bad debt, while offering services that are seemingly [quite similar in quality](#) and only modestly different in scope. In addition, [mounting evidence](#) shows [minimal differences](#) in charity care spending between nonprofit and for-profit hospitals. These findings have led some to label nonprofit hospitals as "[for-profits in disguise](#)."

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