Modernizing Washington's Nonprofit Social Contract

Washington State and the Case for Performance-Conditioned Tax Exemption

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When "Nonprofit" Stops Meaning Charity

In theory, nonprofit hospitals exist to serve the public good. In practice, the reality is increasingly complicated.

Across the United States—and increasingly in Washington State—nonprofit hospitals operate as sophisticated healthcare corporations. They expand aggressively, acquire competitors, build new specialty facilities, and compete fiercely for privately insured patients.

Yet these same institutions enjoy extraordinary public privileges. Nonprofit hospitals are exempt from federal income taxes, state taxes, and local property taxes. They can issue tax-exempt bonds and receive tax-deductible charitable donations. They also receive billions of dollars annually through Medicare and Medicaid payments.

These benefits represent one of the largest indirect public subsidies in the American healthcare system. In exchange, nonprofit hospitals are expected to provide measurable benefits to the communities that support them—charity care for the poor, investments in community health, and services for underserved populations.

That arrangement—often called the **nonprofit hospital social contract**—has guided U.S. health policy for decades. But policymakers increasingly ask a simple question: *Are nonprofit hospitals still fulfilling their end of the bargain?*

Washington State offers a revealing case study. The state has some of the strongest patient protections and charity-care laws in the country. Yet its healthcare system is dominated by large nonprofit hospital networks whose financial practices increasingly resemble those of corporate healthcare conglomerates.

The tension between nonprofit mission and corporate behavior has become impossible to ignore. Restoring accountability does not require dismantling nonprofit medicine. But it does require reaffirming the principle that originally justified nonprofit status: *Public subsidy must produce measurable public benefit*.

The Real Value of Hospital Tax Exemption

The nonprofit hospital tax exemption is often framed as a charitable designation.
It is better understood as a **public investment**.

When governments exempt hospitals from taxes, they are not simply recognizing charitable status. They are choosing to forgo revenue that would otherwise support public services. Economists refer to such policies as **tax expenditures**—a form of public spending delivered through the tax code rather than through direct appropriations.

From a policy perspective, the implication is straightforward. If tax exemption functions as public spending, it should be evaluated like any other public program. Even some industry leaders acknowledge this transformation. Providence CEO Dr. Rod Hochman stated in a 2021 interview that the term "nonprofit health care" is misleading, explaining that it is better understood as "tax-exempt health care… [that] still makes profits."

Remarks like this highlight a fundamental policy question: if nonprofit hospitals operate as large revenue-generating enterprises, should their tax privileges remain automatic?

Does it deliver value to taxpayers?

For nonprofit hospitals, that value traditionally takes the form of:

- Charity care for patients unable to pay
- Investments in community health programs
- Services for underserved populations

When these benefits exceed the value of the tax subsidy, the system works as intended. But when the subsidy exceeds the measurable public return, the policy rationale for tax exemption weakens. This concern is not hypothetical.

Across the country, researchers have documented enormous variation in how nonprofit hospitals fulfill their community benefit obligations. Some institutions provide extensive

charity care and community investment. Others provide levels of charity care comparable to their for-profit competitors. Yet both groups receive the same tax privileges.
Without clear standards, accountability becomes inconsistent—and public trust erodes.

Washington's Charity-Care System

Washington State has taken more aggressive steps than most states to protect patients from hospital billing practices. State law requires hospitals to provide charity care to patients whose incomes fall below defined thresholds. Recent legislative reforms significantly expanded eligibility for financial assistance, making free or discounted hospital care available to millions of residents.

In fact, roughly **half of patients receiving hospital care in Washington qualify for charity-care assistance under current rules.**

Hospitals report their charity-care activity annually to the Washington Department of Health. According to the most recent statewide data, hospitals reported **$1.608 billion in charity-care charges in fiscal year 2024**, representing roughly **$544 million in actual costs after adjusting for hospital accounting practices.**

At first glance, these figures appear substantial. But the numbers look different when placed in context. Hospital revenues across Washington total tens of billions of dollars annually. Charity care therefore represents a relatively small fraction of total hospital spending.

Indeed, over the past decade charity care as a share of hospital revenue has declined—from **2.9 percent of patient revenue in 2013 to roughly 1.3 percent in 2022**.
This decline has occurred even as nonprofit hospital systems have expanded dramatically in size and financial scale.

Enforcement Exposes Systemic Gaps

Washington's strong charity-care laws did not prevent significant compliance problems. Investigations by the Washington Attorney General uncovered widespread failures by hospitals to inform eligible patients about charity-care programs. Thousands of patients who qualified for free or discounted care were billed full price.

Some were sued for medical debt. Others had wages garnished or credit ratings damaged. The most prominent case involved Providence Health System, one of the largest nonprofit hospital networks operating in Washington.

The Attorney General alleged that Providence hospitals aggressively pursued medical debt collections while failing to screen patients properly for charity-care eligibility.

The resulting settlement required Providence to **refund and forgive approximately $158 million in patient medical debt.**

Other hospital systems—including PeaceHealth and CHI Franciscan—also reached settlements related to charity-care compliance.
These actions improved transparency and patient protections. But they also revealed how fragile the nonprofit social contract had become. If nonprofit hospitals require major government investigations to ensure they are meeting their charitable obligations, the system is clearly under strain.

Corporate-Scale Nonprofit Health Systems

Perhaps the clearest example of the transformation of nonprofit medicine is the rise of massive regional hospital systems.

Providence Health & Services—headquartered in Renton, Washington—is among the largest nonprofit healthcare organizations in the United States. The system operates **51 hospitals and more than 800 non-acute facilities across the western United States**, employing roughly **120,000 workers** and generating approximately **$28.7 billion in annual revenue.** Financial filings show that Providence's Washington-based entities alone generate nearly **$10 billion in annual revenue**.

These figures illustrate the enormous scale of modern nonprofit hospital systems.
Such organizations are no longer small community institutions. They are complex regional enterprises operating across multiple states and healthcare markets. They pursue mergers, acquisitions, and expansion strategies like those used by large corporate healthcare providers.

Providence's acquisition of Seattle-based Swedish Health Services illustrates this trend. Swedish operates five major hospital campuses and a network of more than 100 clinics throughout the Seattle metropolitan region.

Together, these systems form one of the largest healthcare networks in the Pacific Northwest.

Executive Compensation and Institutional Incentives

The transformation of nonprofit hospitals is also reflected in executive compensation. Large hospital systems increasingly offer compensation packages comparable to those found in major corporations.

Public tax filings show that Providence executives receive multi-million-dollar compensation packages.

For example, Providence CEO Erik Wexler received compensation exceeding **$8.5 million**, while other senior executives received multi-million-dollar packages as well. Supporters argue that complex healthcare organizations require talented executives capable of managing large institutions.

Critics counter that compensation levels comparable to those found in major corporations raise questions about nonprofit governance. More importantly, executive incentives shape institutional behavior.

When executive performance is evaluated primarily on financial metrics—revenue growth, expansion, and market share—those priorities naturally dominate organizational strategy. Charity care rarely drives those metrics.

Hybrid Systems Blur the Line

The nonprofit healthcare landscape is further complicated by hybrid organizational structures. Kaiser Permanente provides a prominent example.

The Kaiser Foundation Health Plan and Kaiser Foundation Hospitals operate as tax-exempt nonprofit organizations. However, the physicians delivering medical care operate through Permanente Medical Groups, which are structured as for-profit professional corporations. Together, these entities function as a unified healthcare delivery system. Such arrangements blur the traditional line between nonprofit and for-profit medicine. They also complicate regulatory oversight.

If nonprofit hospitals operate within integrated systems that include for-profit entities, policymakers must consider whether current tax policies adequately reflect the economic reality of these arrangements.

The Nonprofit Insurance Surplus Debate

Questions about nonprofit accountability in Washington extend beyond hospitals. Nonprofit health insurers in the state have accumulated rapidly growing financial reserves. Between 2012 and 2020, surplus levels among Washington's nonprofit insurance carriers increased from roughly **$2.4 billion to approximately $4.4 billion**.

These growing reserves prompted lawmakers to question whether nonprofit insurers were accumulating funds beyond what was necessary for financial stability. In response, legislators introduced **House Bill 2073** during the 2025-2026 legislative session to address concerns about excessive surplus accumulation. The debate highlights a broader policy principle: Organizations receiving public privileges—whether tax exemptions or regulatory advantages—should provide proportional public value.

A Better Policy Model

What would a modern accountability framework for nonprofit hospitals look like?
One promising approach is **performance-conditioned tax exemption**. Under this model, nonprofit hospitals would retain their tax privileges only if they demonstrate measurable community benefit. Such standards could include:

- Charity care equal to a defined percentage of net patient revenue
- Investments in community health programs targeted at underserved populations
- Transparent reporting of community benefit spending
- Independent audits verifying compliance

Hospitals that meet these standards would retain their tax exemptions.
Hospitals that fall short would be required to increase community investment—or risk losing tax privileges. This approach does not punish nonprofit hospitals.
It simply restores the reciprocity that originally justified tax exemption.

Washington Can Lead the Way

Washington already possesses the regulatory infrastructure necessary to implement such reforms. Hospitals report detailed financial and operational data to the Washington Department of Health. Charity-care programs are monitored under state law. The Attorney General has demonstrated the ability to investigate hospital practices and enforce compliance. In other words, the oversight framework already exists. What is missing is a clear link between **tax privilege and measurable public benefit**. By adopting performance-conditioned exemption standards, Washington could become a national leader in modernizing nonprofit healthcare accountability.

Conclusion: Restoring the Social Contract

The nonprofit hospital model reflects an important principle: *Healthcare institutions should serve not only markets but communities.* For decades, the nonprofit model succeeded because it balanced financial sustainability with charitable mission.

Healthcare economics have changed dramatically. Hospitals have grown larger. Markets have consolidated. Financial incentives have evolved. Public policy must evolve as well.

Tax exemption should remain available to nonprofit hospitals—but it should be tied to measurable public benefit. That principle does not weaken nonprofit medicine. It strengthens it. Because in the end, nonprofit status is not an entitlement. It is a privilege—one that must be earned through service to the public.