

Grantmakers In Health

1998 SURVEY OF FOUNDATIONS CREATED BY HEALTH CARE CONVERSIONS **Sheds New Light**

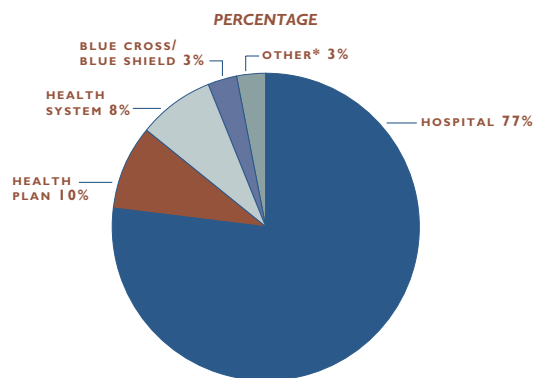
Health care conversion foundations are born out of uncharted, complex transactions.¹ As newcomers to both the health industry and philanthropic sector they are not well understood. In 1996 GIH began its first annual survey to collect information about their creation, operations, grantmaking, and finances, in part, to help demystify this new territory. The survey also helps GIH inform and assist grantmakers, policymakers, community leaders, researchers, and others. This article presents a summary of some preliminary findings from the 1998 Survey. A full report will be available in February.

A BOOMING INDUSTRY?

GIH estimates that 119 health conversion foundations exist and has collected data for 109.² They held assets of some \$13 billion and made grants estimated at \$700 million in 1997. Their grantmaking could comprise as much as one-third of the more than \$2 billion that foundations fund in health annually.³ These figures seem less impressive, however, when compared with the estimated \$268 billion in assets that all foundations hold. Still, since conversion foundations primarily fund locally, they can have a noticeable impact on their city, state, or region.

Three-quarters of these foundations have resulted from hospital sales; the origins of the rest are about evenly split between health plan and health system conversions. While the trend toward sales and mergers of nonprofit hospitals is likely to continue, many will not result in foundations because they are in debt or have little asset value. Also, declining profitability in the managed-care industry dampens the likelihood of future health plan sales. Finally, Blue Cross/Blue Shield insurance plans seeking to convert to for-profit status have run into considerable snags, belying the notion that they would precipitate the creation of many foundations.

**HEALTH CARE CONVERSION FOUNDATIONS:
TYPE OF CONVERTED ORGANIZATION**



*Includes a blood bank, a rehabilitation hospital, and a nursing home

TAX STATUS TANGO

Over half the foundations—mostly those formed in the 1990s—have the Internal Revenue Service (IRS) classification of public charity. They expect the IRS to reclassify them as private foundations eventually because their large endowments make it difficult for them to fundraise at the required level. Still, it is to their advantage to remain public charities for as long as possible. Since they do not have to meet the private foundation payout and excise tax requirements.

About 20 percent are *supporting organizations*, that is, they legally affiliate with an existing public charity such as a community foundation but operate largely like a private foundation. Most of the supporting organizations formed from health care conversions are attached to religious orders and have resulted from the sale of a religious hospital. While the parent organization technically governs the supporting organization, the supporting organization operates independently. It usually has its own board of directors and has the added benefit of not having to meet the public support test or the payout requirement.

Tax Status of Health Care Conversion Foundations

	NUMBER OF FOUNDATIONS	PERCENT
Private.....	49	44%
Social Welfare Organizations.....	3	3%
Public Charities*.....	57	53%
Total	109	100%

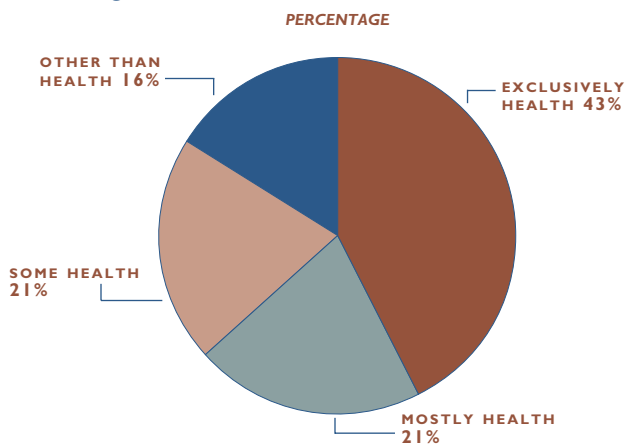
***Types of Public Charities**

Traditional	30	53%
Gross Receipts.....	6	11%
Support Organizations.....	21	37%
Total	57	100%

MISSION POSSIBLE

Most health conversion foundations have a mission to promote health and well-being in a geographic region. In contrast to other foundations, many conversion foundations have involved the public in developing their mission and grant guidelines. The most common method for doing this includes consulting public officials and community leaders. Other methods include town meetings and conducting community needs assessments.

Some conversion foundations define health in its broadest sense, making grants in areas including jobs, education, and housing. Others fund in more traditional health areas such as disease prevention, medical education, and health services for the uninsured. As the foundations mature, they become more interested in funding foundation-initiated programs as opposed to responding solely to grant requests. Over one-third reported undertaking strategic initiatives—sustained foundation funding in areas such as healthy communities, anti-smoking or violence prevention initiatives, access to health care, and consumer education, among others.



LOOMING QUESTIONS

Public debate about health conversion foundations has been prolonged and heated. In part, it reflects the spillover from

the controversy surrounding the conversion. The particularly acrimonious debates about the conversion of various Blue Cross/Blue Shield plans has raised the visibility of health conversions from a local to a national level. Questions about the roles and impact of these foundations abound: What is their effect on health and health philanthropy? Have traditional foundations reduced their health grants because of the perceived influx of new health funds? Are health conversion foundations picking up the services to the indigent that the former nonprofit hospital handled? If not, should the community ensure that for-profit hospitals serve the poor? If so, how? Can the foundation play a role in this? Should policymakers and community representatives play a role in ensuring that health conversion dollars are spent appropriately? GIH is tracking how these questions are answered in practice as well as providing forums for exploring them further.

Some believe that the origins of conversion foundations call for them to be more open and accountable to the public than other foundations. Others argue that after the initial start-up phase, these foundations, both legally and in practice, are like most other foundations and should be treated as such. Calls for greater accountability, in fact, are not unique to conversion foundations. The debate surrounding the creation of these foundations has helped raise the visibility of the issue. How they approach it will provide lessons for the larger grantmaking community.

The addition of over 100 foundations to the field in just 15 years is changing the profile of health grantmaking. The resources they add enhance the ability of all grantmakers to improve the nation's health. Whether their origins suggest a distinct role for conversion foundations will be answered over time. Through its surveys and analyses, GIH will share these answers with health grantmakers.

¹ The IRS classifies foundations created from assets from the sale of nonprofit hospitals, health plans, and health systems, as private foundations or public charities. However, GIH and others use the term *health conversion foundations*, which is not a legal term, for simplicity.

² Most of the remaining 10 may still be under formation, and we anticipate they will become active by the year 2000.

³ Foundation Center estimate.