

Just say no to UPMC: Its 'donation' has too many strings

Monday, December 24, 2007

By Martin Gaynor

The University of Pittsburgh Medical Center has made a seemingly generous offer to the city of Pittsburgh. UPMC has offered to pay up to \$10 million guaranteed, with up to another \$90 million possible, to the Pittsburgh Promise to fund college scholarships for students graduating from Pittsburgh Public Schools. That offer, however, is not nearly as charitable as it appears.

Martin Gaynor is the E.J. Barone professor of economics and health policy at Carnegie Mellon University's H. John Heinz III School of Public Policy and Management (mgaynor@cmu.edu).

First, there is a very large string attached. UPMC will donate the money only in exchange for the end of its voluntary \$1.5 million annual payments to the city and a guarantee that if the city is ever required to tax UPMC that UPMC's tax bill will be reduced by the amount of its Pittsburgh Promise contributions. UPMC's offer should be understood for what it is -- a quid pro quo exchange. It is not a charitable donation.

UPMC wants to avoid current payments to the city, and any possible future taxes should it lose its tax-exempt status. UPMC's annual report shows \$2.6 billion in buildings and land. That translates into approximately \$28 million in property taxes per year if UPMC were to lose its tax-exempt status. That means UPMC would stand to gain in tax relief, in a short time, as much or more than it proposes to contribute to the Pittsburgh Promise.

Second, in large part UPMC is spending other people's money. UPMC has repeatedly acquired hospitals in the region, giving it a dominant market position. With its recent acquisition of Mercy Hospital, UPMC now has 59 percent of the hospital market in Allegheny County. The only other hospital that can provide substantial competition is the West Penn Allegheny Health System, which is less than half the size, at 24 percent. A report from the Pennsylvania Health Care Cost Containment Council showed that UPMC has the highest prices for cardiac surgery in the region, without providing measurably better care. UPMC also has the highest price for a standard inpatient discharge in the region. Not surprisingly, UPMC is very profitable, reporting \$321 million in profits from operations last year.

Who pays for these high prices and high profits? Not insurers. Insurers simply charge premiums that are (at least) sufficient to cover their costs. Not employers. Employers who provide health insurance to their workers pass on the costs of health care to the workers in the form of reduced pay or lower benefits. Not surprisingly, higher health-care costs also lead to increases in the number of uninsured. As a consequence, the "charitable donation" that UPMC is offering has been paid for by workers in Pittsburgh and the rest of southwestern Pennsylvania -- in short, by us, the residents of this region.

UPMC has the legal status of a nonprofit. Nonprofits are expected to have a charitable, community mission. Generating large profits, charging high prices and acquiring a dominant market position hardly seem consistent with a charitable community mission. There are many hard-working doctors, nurses and other employees at UPMC who dedicate themselves to helping patients and providing the best care they can offer. Unfortunately the organization itself seems to be more focused on profits than community service.

UPMC is not offering a donation to the citizens of Pittsburgh. It is making a deal designed to benefit itself. It's a good deal for UPMC, but a bad deal for Pittsburgh. City leaders should realize, however, that they are not simply faced with the choice of accepting or rejecting the deal. UPMC's tax-exempt status as a nonprofit is far from assured. Fear of losing this status is clearly part of the motivation behind the offer that has been made. Were UPMC's tax-exempt status to be successfully challenged, the city would gain far more over the years than UPMC has offered to "donate."

UPMC is not acting like a charitable, community-oriented institution. The city has to look out for the welfare of its citizens and obtain a much better deal than has been offered. The mayor, City Council and business and civic leadership should stand up and say no to UPMC.

First published on December 24, 2007 at 12:00 am