



AN ASSOCIATION OF  
MONTANA HEALTH  
CARE PROVIDERS

Testimony on HB 305  
January 28, 2011  
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MHA appreciates this opportunity to provide our comment on the proposal to substantially amend the exemption from property tax for Montana nonprofit health care facilities. MHA opposes adoption of HB 305.

**The bill**

Section 1 eliminates the property tax exemption for all but a handful of nonprofit health care facilities. The bill deletes the reference to health care facilities defined in 50-5-101, and further limits the exemption to certain critical access hospitals.

The definition of health care facilities in 50-5-101 states, "(23) (a) "Health care facility" or "facility" means all or a portion of an institution, building, or agency, private or public, excluding federal facilities, whether organized for profit or not, that is used, operated, or designed to provide health services, medical treatment, or nursing, rehabilitative, or preventive care to any individual. The term includes chemical dependency facilities, critical access hospitals, end-stage renal dialysis facilities, home health agencies, home infusion therapy agencies, hospices, hospitals, infirmaries, long-term care facilities, intermediate care facilities for the developmentally disabled, medical assistance facilities, mental health centers, outpatient centers for primary care, outpatient centers for surgical services, rehabilitation facilities, residential care facilities, and residential treatment facilities.

(b) The term does not include offices of private physicians, dentists, or other physical or mental health care workers regulated under Title 37, including licensed addiction counselors."

We believe the bill eliminates property tax exemptions for all nonprofit facilities included in the definition.

The bill appears to continue the property tax exemption to certain critical access hospitals, while eliminating the exemption for others. The 35 road mile requirement means hospitals in Polson, Whitefish, Ronan, Anaconda, Deer Lodge, Hardin, Poplar, Conrad and Wolf Point would lose the exemption.

In some cases, the hospital is co-located with the nursing home. Each is separately licensed. Would the bill require property tax be imposed on the nursing home portion of the facility, but allow an exemption for the hospital?

### **Nonprofit Status**

Charitable hospitals are organized under Section 501(c)(3) of the Federal Internal Revenue Code. This statute was enacted to encourage development of community-based services that perhaps otherwise would not have been possible. This means that the hospital is a community asset.

Tax exempt organizations do not share their profits with owners and stockholders. Rather, these assets belong to the community and are re-invested in the community a variety of ways. In addition, federal rules require the hospital to limit executive and physician pay to fair market amounts, another protection of the community asset.

Under tax exempt designation, hospitals are obligated to provide tangible benefits to the community in exchange for the exemption from income and property taxes. Every hospital has to report their community benefits to the IRS on the Form 990.

In addition, Montana's Office of the Attorney General conducts annual studies to measure the value of community benefits provided by hospitals and compares these benefits to the tax obligations they would face if they weren't tax-exempt.

Each year this study has demonstrated that Montana's hospitals provide community benefits far greater than the

amount of taxes they would pay if they were not tax exempt. Communities all over Montana enjoy the benefits of this way of organizing health care.

Among the community benefits hospitals provide are medical services that lose money, like maintaining an emergency room and providing mental health care. Hospitals also provide medical care at discounted rates or for free to low-income patients,, They conduct local health screening and education programs, provide funding and volunteers to support community functions - the ambulance staged at the local high school sports event - among other things.

### **The Financial Impact**

All but three hospitals in Montana are either nonprofit, charitable hospitals or owned by county, state or the federal government. The three for-profit hospitals are Great Falls Clinic Medical Center, Health Center Northwest in Kalispell and Advanced Care in Billings. As you will hear from other witnesses, requiring non-profit hospitals to pay property taxes will have an enormous impact on communities all over the state.

First, the cost of property taxes will become another cost of health care and ultimately will be passed on to patients and private insurers. This means that HB 305 will raise health care costs, especially the cost of private health insurance and the prices paid by self-pay patients. Medicare and other federal insurers won't adjust their payments to pick up their share of the cost. The Medicaid budget would have to be increased to cover their share.

Second, as drafted, this bill will not prevent many critical access hospitals from having to pay property taxes. A number of CAHs are located closer than 35 miles from another hospital. In addition, the requirement that voters approve the tax exemption adds another hurdle.

Many of Montana's smaller hospitals already lose money or barely break even on operations; some are forced to ask local taxpayers for help. Adding new costs to those hospitals could force them to reduce their services or even close their doors.

Montana's nonprofit hospitals must compete in today's health care system. Some times that means competing with

local doctors and with other hospitals. But property tax status is not the defining difference that decides competition.

Community-based not-for-profit hospitals provide services that no one else is willing to provide - usually at a financial loss. That's their mission. HB 305 makes that task even harder.

Thank you for your consideration.