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Working Group on Charitable and Exempt Organizations
Committee on Ways and Means
U. S. House of Representatives
Washington, D.C. 20515

Subject: **Hospital Tax-Exempt Financing**

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, and our 42,000 individual members, the American Hospital Association (AHA) appreciates this opportunity to provide input on the importance of the tax-exempt bond financing for America's 2,903 non-profit hospitals.

As the Committee reviews various tax reform proposals, we ask you to consider that current tax code incentives for the provision of health care have worked to provide access to hospital services in communities large and small across the country. The ability to obtain tax-exempt financing and to accept tax-deductible charitable contributions are two key benefits of hospital tax-exemption that work to make access to hospital services available where needed.

Hospitals do more to assist the poor, sick, elderly and infirm than any other entity in health care. Since 2000, hospitals of all types have provided more than $367 billion in uncompensated care to their patients. In 2011 alone, hospitals delivered more than $41.4 billion (in costs) in uncompensated care to patients, and uncounted billions more in value to their communities through services, programs and other activities designed to promote and protect their health and well-being. This broad array of benefits includes basic research, medical education, labor and delivery services, and emergency stand-by services such as disaster response readiness, burn units and high-level trauma care.

America's communities receive a positive return on their investment from the tax-exemption of non-profit hospitals. Federal revenue forgone because of non-profit hospital tax-exemption represents an estimated 2.3 percent of hospital expenses; in contrast, non-profit hospitals spend 9.3 percent of expenses on benefits to their communities. These communities are the ultimate beneficiaries of the health care infrastructure and capital improvements made possible by tax-exempt hospital bond financing.

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HOSPITAL FINANCIAL CONDITION

Moody's Investors Service is maintaining its negative outlook for the U.S. not-for-profit health care sector for 2013. The negative outlook reflects Moody's view that revenue growth will remain positive, but will continue to decelerate as a result of federal cuts to health care spending, limited reimbursement increases from commercial health insurers, and a tepid economy that dampens demand for health care services. Moody's outlook has been negative since 2008, as the recession has left a lasting impact on patient volumes, and hospitals confront significant challenges stemming from changes in how they are paid. The sector faces heightened pressure from all levels of government, as well as businesses, to lower the cost of health care services.

Since 2010, hospitals have faced $250 billion in cuts to federal health programs, including more than $14 billion in reductions included in the recent *American Taxpayer Relief Act*. These cuts are increasing losses on services to Medicare patients and threatening the overall financial health of hospitals. In its March 2013 Report to Congress, the Medicare Payment Advisory Commission (MedPAC) indicated that hospital Medicare margins fell to negative 4.0 percent for inpatient services, negative 11.0 percent for outpatient services, and negative 5.8 percent for overall Medicare services in 2011.

Even under this financial pressure, hospitals continue to be an economic mainstay for their communities. Hospitals directly employed nearly 5.5 million people in 2011 and are the second-largest source of private-sector jobs. The $702 billion in goods and services hospitals purchased in 2011 from other businesses created additional economic value for their communities.

A hospital's ability to finance projects through tax-exempt bonds depends primarily on its credit rating, which is shorthand for its ability to access capital and the price at which it can borrow money. A higher bond rating indicates a lower investment risk, which allows hospitals to pay a lower interest rate on the bonds. Even the slightest drop in bond rating – resulting in a slightly higher interest rate – may cost a hospital significantly more over the lifetime of a bond issue.

The health care sector is becoming increasingly bifurcated into "haves" and "have nots." In 2009, 88 percent of hospitals reported that it was "more difficult or impossible to access capital from tax-exempt bonds" since the 2008 recession. Without capital expenditures, hospitals are unable to invest in new technology and equipment that benefits patients. They also may find it more difficult to recruit top physicians and other staff.

HEALTHCARE DELIVERY AND DEMOGRAPHICS

Aging baby boomers and an increasingly diverse population create demand for new and different services. *The Patient Protection and Affordable Care Act's* promise of expanded health insurance coverage will add to demand. Clinical procedures continue to evolve, as do diagnostic techniques and communication technologies.

Americans rely heavily on hospitals to provide 24/7 access to care for all types of patients, to serve as a safety-net provider for vulnerable populations and to have the resources and skills needed to respond to disasters. Emergency department visit volume has increased by nearly 26 percent since 2000, and will continue to grow.

Over the past 15 years, market, economic and regulatory forces have led hospitals and physicians to explore new ways to better align their interests and achieve greater integration in order to both reduce costs and improve the quality of care. With an eye on the future, hospitals across the country are in constant state of renovation and improvement in order to provide the latest treatments and services to meet the increasing and changing needs of their communities.

Yet even with these increasing demands, the growth in spending on hospital care is at historic lows. This leveling of growth is evident across Medicare, Medicaid and private payers. The Congressional Budget Office recently revised its future projection of Medicare spending downward by $169 billion for the next decade. Growth in premium levels for employee health benefits are half of what they were in 2011, as new benefit care models begin to take hold.

TAX-EXEMPT FINANCING INSURES ACCESS TO HEALTH SERVICES

Meeting the health care demands of the future will require significant capital investment. Raising capital at a reasonable cost is more difficult than ever for the majority of America's hospitals. Capital markets for non-profit hospitals still have not fully recovered from the 2008 financial meltdown. Three temporary federal financing options that helped ease the credit crunch expired in 2010.

For many communities, tax-exempt financing has been the key to keeping vital hospital services. Governments would otherwise be called upon to provide these necessary services. If that were the only alternative, the resulting increased borrowing cost to state and local governments would be borne by taxpayers and ratepayers in every local jurisdiction through the imposition of increased taxes and fees (e.g., *ad valorem* property taxes, special assessments, sales taxes, toll charges and utility rates) or through service cuts. These taxes or fees, including especially sales taxes, tolls or user fees, would fall disproportionately on lower- and middle-income households, as would service cuts.

If hospital access to tax-exempt financing is limited or eliminated entirely, the result could be devastating for both patients and their communities. The financial unraveling of a hospital has the potential to impact a community more profoundly than the unplanned closure of nearly any other institution. Patients will suffer as hospitals struggle to survive and slowly deteriorate. Prices will rise, equipment will wear down without being replaced, and physicians will leave for greener pastures. Ultimately, the health of the community will suffer. Furthermore, closure may result in reduced specialty services and overcrowding in other hospital emergency departments, while patients may delay treatment if services aren't readily available.

TAX-EXEMPTION REDUCES BORROWING COSTS

Tax-exempt bonds reduce hospitals' borrowing costs because they normally can be sold at a lower rate of interest than can taxable debt of comparable risk and maturity. Non-profit hospital borrowers save, on average, an estimated two percentage points on their borrowing compared to taxable bonds or bank financing. Lower borrowing costs translate into lower health care costs for patients.

The lower cost of tax-exempt financing also makes possible necessary upgrades and modernizations that would not be possible for hospitals with weaker balance sheets. More costly

alternatives, such as taxable bonds and bank loans are out of reach for many community hospitals.

CONCLUSION

At a time when hospital revenues are already strained, hospitals must respond to rapidly changing market and government forces, including: (1) reimbursement reductions and changes, (2) an increasing necessity to provide access to a broad range of health services to a growing population, and (3) limited access to capital. These market forces are driving an urgent need for hospitals to make significant capital investments while reducing costs, both of which require continued access to low-cost capital through tax-exempt financing.

As Congress works toward tax code reform, the AHA strongly recommends retention of the current law exemption from income for tax-exempt bond interest.