



THE HOSPITAL & HEALTHSYSTEM  
ASSOCIATION OF PENNSYLVANIA

## Testimony

Submitted on behalf of The Hospital &  
Healthsystem Association of Pennsylvania

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## **Tax Exempt Property and Municipal Fiscal Status**

Before the  
**Joint Legislative Budget and Finance  
Committee**

Presented by:

James M. Redmond  
Senior Vice President, Legislative Services  
The Hospital & Healthsystem Association of Pennsylvania

Harrisburg, PA  
Wednesday, May 6, 2009

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## Statement of The Hospital & Healthsystem Association of Pennsylvania

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Chairman Pippy and members of the Committee, I am Jim Redmond, Senior Vice President, Legislative Services, The Hospital & Healthsystem Association of Pennsylvania (HAP). HAP represents and advocates for the more than 250 acute and specialty care hospitals and health systems in the commonwealth, as well as for the patients and communities they serve.

I appreciate the invitation to present the hospital community's views on the committee's study of the impact of tax-exempt real property on the fiscal health of Pennsylvania municipalities. We commend the Legislative Budget and Finance Committee for undertaking this study, support the study's findings, and wish to comment on the study's recommendations.

### Overview

Pennsylvania's hospitals annually contribute approximately \$84 billion and 625,000 jobs to the state's economy. As noted in our report, *The Economic & Social Roles of Pennsylvania's Hospitals*, hospitals are economic anchors in their communities. The report also quantifies community benefit, which includes charity care and financial aid programs, public education, health screenings, and much more. HAP estimates the value of hospital community benefit to be nearly \$4 billion annually.

The concept of tax exemption has an ancient heritage and, in Pennsylvania, goes all the way back to the founding of our nation's first hospital, Pennsylvania Hospital in Philadelphia, in 1752. Pennsylvania hospitals have drawn upon this model, and with few exceptions, have been chartered as private, nonprofit, voluntary community hospitals. Pennsylvania, unlike other states, does not have any public acute care general hospitals.

Under its Constitution, the General Assembly may grant exemptions from taxation to "institutions of purely public charity." There are five judicially defined criteria that an organization must meet to be eligible as an "institution of purely public charity:"

1. Have a charitable purpose.
2. Operate absent a private profit motive.
3. Provide community service.
4. Provide charity to persons.
5. Relieve government of some of its burden.

Act 55 of 1997, provides further clarification of these criteria.

### **Study Findings and Recommendations**

For Pennsylvania to thrive, it requires strong regional economies and requires both municipalities and hospitals to be financially sustainable. Nonprofit hospitals and other nonprofit institutions and their host communities rely upon each other. This study is extremely valuable in examining the issue of tax exempt properties on the fiscal health of municipalities and in understanding the relationships between municipalities and nonprofit, tax-exempt institutions.

We note that the major findings of the study include the following:

1. Governments and religious organizations are the major holders of tax-exempt property.
2. Relatively few Pennsylvania municipalities host nonprofit acute care hospitals and public and private universities.
3. Of the Pennsylvania municipalities that host nonprofit acute care hospitals and public and private higher education institutions, only about 25 percent have high fiscal distress scores.
4. Only six municipalities with high fiscal distress scores (Easton, Erie, Lancaster, Philadelphia, Pittsburgh, and York) host one or more nonprofit hospitals or public and private universities that may be considered financially secure relative to their peers.
5. Host municipalities and hospitals and public and private colleges and universities have developed a variety of approaches to strengthen their community.
6. While many hospitals and universities, including those with thin operating margins, seek to assist their municipalities, some are better positioned financially than others. The report includes many examples of arrangements between municipalities and the hospitals and universities they host.
7. At least six states (Connecticut, Delaware, New York, Rhode Island, Vermont, and Wisconsin) provide state funding to local governments based on the presence of certain state or private tax-exempt institutions.
8. Pennsylvania provides significant tools and state financial support for local municipalities through a variety of programs and taxes.

The study also identifies proposals that have been offered to help stabilize financially distressed communities:

Mandating PILOTs From Public and Other Tax Exempt Organizations—Act 55 of 1997, known as the “Institutions of Purely Public Charity,” provides explicit criteria for the courts to determine if these institutions and their activities meet the tests set forth by the Pennsylvania Supreme Court, and thus qualify for local realty tax-exemption. The criteria make clear when property owned by a nonprofit does not qualify for the exemption; and nonprofit institutions,

therefore, place such property on the tax rolls. Act 55 also encourages large nonprofit institutions to provide voluntary contributions, though it does not mandate such contributions or require they be provided to all local governments, including school districts.

One recommendation included in the study is to amend Act 55 of 1997 to mandate payments-in-lieu-of-taxes (PILOT) agreements. We note that the study concludes that “Opportunities for local governments to obtain revenue from tax-exempt property are limited as most tax-exempt property is held by governments, in particular local governments. After governments, religious organizations are among the largest holders of such property. As a consequence, for both constitutional and practical reasons, local municipalities are not able to gain local tax revenues from such institutions.” Also the study concludes “If Act 55 was amended to require formal PILOT agreements between all purely public charities and local governments, however, it is likely that the school districts, rather than municipalities, would be the primary beneficiaries.”

*HAP does not support mandating payments-in-lieu-of-taxes (PILOT).*

Distributing state tax revenues to municipalities that host a disproportionate share of tax-exempt property—The study notes that targeting aid to fiscally distressed municipalities that host public and private universities and nonprofit acute care hospitals would appear feasible. However, that requires obtaining General Fund revenues that have many competing uses, and given the economic health of the commonwealth, would not appear to be a viable option at this time. Another challenge to successful implementation of such an approach is the absence of standard county assessment data systems. Any proposal to allocate state revenues based on tax-exempt assessed property values would require that counties develop compatible assessment systems. The study notes that other distribution methodologies could be developed.

*HAP supports further investigation of this recommendation.*

Requiring Payment of Service Fees From Tax-Exempt Institutions—Some have proposed requiring nonprofit institutions that are exempt from realty taxes to pay an essential service fee for police and fire services provided by the municipality. The study notes that variation in how such services are currently provided by Pennsylvania’s municipalities would present challenges in implementing such a proposal. Most distressed cities provide police and fire services, and such services account for the largest share of their expenditures. A great number of boroughs and townships, however, do not. For example, fire services in many municipalities, including those that host many hospitals and colleges and universities, are often provided by volunteer fire companies that are themselves nonprofit organizations. Further complicating the development of essential service fees for nonprofit organizations is that many of these institutions, particularly many major medical and education institutions, provide their own security and police services, and in some cases, contract with their local municipality for police service. Many municipalities, in particular, those that are fiscally distressed, now receive a variety of contributions from their major institutions. In several municipalities, the local arrangements provide financial support in excess of what the municipality would have received from property tax payments, and in all likelihood, a service fee. Therefore, while a state defined system might benefit some municipalities, others may be disadvantaged by a uniform system.

*HAP does not support mandating that “institutions of purely public charities” pay service fees for municipal services.*

Regional Revenue Sharing—The General Assembly has allowed local governments to adopt regional revenue sharing approaches that distribute revenues to municipalities in ways that assist, in particular, severely distressed municipalities. For example, the formula used to distribute Allegheny's one percent sales tax to municipalities takes into account the ability of a municipality to generate tax revenue relative to other municipalities, thereby providing additional assistance to the region's severely distressed municipalities. Recently, the governor endorsed the option of a voluntary county sales tax.

*HAP supports further investigation of this recommendation.*

## **Conclusion**

Pennsylvanians have benefited from the public policy of tax exemption for institutions of purely public charity. In cities and towns throughout Pennsylvania, hospitals are the cornerstone of the health care delivery system. Hospitals are there when Pennsylvanians give birth or die, are injured, or live with a chronic illness. Hospitals respond to the health care challenges in their communities. Hospitals provide care to the rich and poor, the well insured and the uninsured. Communities have been well served when such institutions invest in the development of facilities, services, and the provisions of charity care. The Pennsylvania Hospital formula of a private legal entity, private community governance, and voluntary philanthropic support that is exempt from property and sales taxes is still as viable today as it was in 1752.

However, lawmakers must consider that the deepening recession is taking its toll on hospitals, putting entire communities at risk through reduced access to health care and job losses. Critical funding for essential hospital services, including more than \$78 million in Medicaid hospital funds that were cut from the Governor's proposed 2009-2010 state budget, must be preserved. It is imperative for policymakers to consider the health of hospitals and their communities as they make decisions about critical health care issues, including economic development funding, reimbursements for care, medical liability reform, physician availability, and health care workforce retention and recruitment.

Thank you for this opportunity to testify and to provide the hospital perspective on this issue. I welcome your questions.

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