

November 6, 2017

The Honorable Kevin Brady
Chairman, Ways & Means Committee
1102 Longworth House Office Building
Washington D.C. 20515

The Honorable Richard Neal
Ranking Member, Ways & Means Committee
1139E Longworth House Office Building
Washington D.C. 20515

Dear Chairman Brady and Ranking Member Neal:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations, and our clinician partners – including more than 270,000 affiliated physicians, 2 million nurses and other caregivers – and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) wishes to express its opposition to two provisions of H.R 1, the Tax Cuts and Jobs Act.

The bill would eliminate the tax exemption for 501(c)(3) hospital bonds and advance refunding bonds. The ability to obtain tax-exempt financing is a key benefit of hospital tax-exemption that works to make access to vital hospital services available in communities large and small across America.

A Joint Committee on Taxation report on the Tax Reform Act of 1986 noted that Congress recognized that section 501(c)(3) organizations in many cases perform functions which governments would otherwise have to undertake. The use of the term “private activity bond” to classify obligations for section 501(c)(3) organizations in the Internal Revenue Code of 1986 in no way connotes any absence of public purpose associated with their issuance.

If government entities were the only alternative for providing these services, 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.

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



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patients. The lower cost of tax-exempt financing also makes possible necessary upgrades and modernizations that would not be possible for hospitals with weaker finances. More costly alternatives, such as taxable bonds and bank loans, are out of reach for many community hospitals.

Because The Tax Cuts and Jobs Act is focused on the goals of strengthening the economy and increasing jobs, it should be noted that hospitals are often the largest employers in the communities they serve. Hospitals directly employed nearly 5.7 million people in 2015 and are the second-largest source of private-sector jobs. The \$852 billion in goods and services hospitals purchased in 2015 from other businesses created additional economic value for their communities.

If hospital access to tax-exempt financing is eliminated, 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. Prices will rise, equipment will wear down without being replaced, and physicians will leave.

The AHA urges the Committee to drop these two harmful and unwarranted provisions, which we believe will work against the intended purpose of the bill, and severely hamper hospitals' ability to meet the health care needs of the future.

Sincerely,

Thomas P. Nickels
Executive Vice President