

TESTIMONY OF THE MAINE HOSPITAL ASSOCIATION

In Opposition To

LD 438 - *An Act To Allow Municipalities To Limit Nonprofit Property Tax Exemptions*

LD 1795 - *An Act To Change The Calculation For Municipal Service Charges For Tax-exempt Organizations*

May 6, 2025

Senator Grohoski, Representative Cloutier and members of the Taxation Committee, my name is Jeffrey Austin and I am with the Maine Hospital Association. I am offering this testimony in opposition to LD 438 and LD 1795.

All but one of Maine's hospitals is non-profit and our membership is therefore directly impacted by this legislation.

Sick Tax

Hospitals oppose the imposition of a new property tax on hospitals.

We have not surveyed our membership on the assessed value of their exempt property in several years. So, we can not model for you a potential impact. Even if we were to survey our members, the assessed value of exempt property, particularly special use property like a hospital, is not particularly reliable.

Nevertheless, we believe it would be in the millions of dollars annually.

Hospitals operating margins, in the aggregate, for the fourth quarter of 2024 were 0.7%. Approximately 40% of hospitals were in the red. There is simply no cushion for additional expense.

As such, like any other business, a tax on hospitals is little more than a tax on our customers. Any significant new state-imposed cost would have to be passed on to patients. Maine people

will have to pay the tax when they get sick. Getting sick is not a discretionary event. A new sick tax is not in the interest of Maine people.

Hospitals Earn Their Exemption.

Uncompensated Care. A significant justification for the exemption enjoyed by hospitals is the charity care they provide to Maine people. Maine hospitals provide necessary medical care free of cost for Mainers with incomes, on average, up to 200% of the federal poverty limit. State law requires charity care up to 150%; several hospitals go beyond that amount.

Furthermore, for patients that have not paid their bills, hospitals generally do not chase patients into bankruptcy or seize their homes. As a result, our members experience bad debts – bills that simply go unpaid.

Hospitals provide uncompensated care worth \$200 million (priced “at cost”) each year.

Other Community Benefits. The contribution of hospitals goes beyond uncompensated care. Hospitals also provide public health education, support groups, wellness programs, smoking cessation, nutrition programs, exercise programs, cancer screenings, blood pressure screenings, flu vaccinations and unused medication collection efforts.

Hospitals Subsidize Government Medical Coverage Programs. Hospitals serve a public purpose in absorbing losses from the state Medicaid insurance program. In Maine, hospitals provide care to recipients of Medicaid at a loss totaling over \$150 million annually. (Hospitals also absorb a loss in the federal Medicare program.)

This is not simply an argument made by hospitals; the IRS requires hospitals to calculate the losses they sustain treating Medicaid patients and report that loss on their tax returns as a community benefit. Hospitals have to make-up the loss sustained in treating Medicaid patients by asking others to help fill the gap. Hospitals in essence function as a taxing authority for a state program.

Government Hospitals. Additionally, we believe there is a justifiable public policy for the exemption – if private hospitals didn’t exist, governments would have to take on the challenge of providing some of the services currently provided by private, non-profit hospitals.

Nationally, 20% of hospitals are owned by the government. These government hospitals, generally city or county-owned, are designed to care for the uninsured and Medicaid populations. Since we don’t have government hospitals, Maine’s private, non-profit hospitals absorb the challenge of caring for these needy communities. If non-profit hospitals didn’t exist, who would provide this care? Government, particularly local government, would have to step-in as it does in other states.

Hospitals Care for All. Unlike some medical care providers, hospitals accept all patients regardless of their ability to pay. Hospitals do not turn away anyone in need of medical care. To

the extent the hospitals own physician practices, those practices can not turn away patients either, unlike private physician practices.

Hospitals Work Closely with Municipalities

In many communities, it is the hospital or health system that helps subsidize ambulance services, which many view as a government service.

When the police are called to deal with a person on the street who is violent because they are under the influence of illicit drugs or because they suffer behavioral and mental health problems the police often bring the person to a hospital for temporary custody. We do not view that as a hospital consuming a municipal service, this is a hospital providing a service to the municipality – free of charge to that municipality.

Maine has a much thinner local public health infrastructure than exists in other states. Hospitals help provide that public health function.

Hospitals Pay Taxes to the State

Maine's non-profit hospitals will pay approximately \$180 million in taxes to the State of Maine. Hospitals are one of Maine's largest taxpayers. The tax is imposed as a tax on hospital income. This hospital tax paid to the state is in addition to the income and sales taxes paid by our employees. We estimate the aggregate hospital payroll contributes another \$100 million to the General Fund from income taxes alone.

No Other State Has a Property Tax on Non-profits Like This Proposed

To our knowledge, no other state has done what is being proposed in this budget. In fact, to the extent states have anything like a mandatory payment-in-lieu-of-tax program, it is the state government that is obligated to make a payment to municipalities for tax exempt government-owned property, not charities. The vast majority of tax exempt property in Maine (and nationally) is owned by the federal government, the state government and municipal and other quasi-governmental entities. Hospitals, churches, colleges and other non-profits are generally less than 3% of the total value of property in the state.

Non-Profits Need to Be Solvent

The decision to organize and operate as a non-profit is not a decision to be insolvent. All entities need to generate more revenue than they incur in costs or else they will not last very long. The challenge for non-profits is: *What will be done with that operating margin?* In Maine, hospitals give away their margins to the needy as charity care and bad debt. Maine's hospital margins are given to the state in the form of a tax payment. Maine's hospital margins are used to absorb the underpayment by government insurance programs like Medicaid. Maine's hospitals work very hard to have a positive margin, so that it can be given away.

Technical Issues With the Legislation

LD 438- This legislation may have constitutional issues. Our constitution prohibits the Legislature from giving-up control of taxation decisions. This legislation appears to give municipalities the right to determine the scope of exemption from property taxation. We're not sure if that is allowed.

LD 1795 – Our concerns with this legislation are more practical than theoretical. But there are theoretical challenges too.

First, it leaves the decision as to which “institutions and organizations” to impose a service fee to the municipality. It's unclear if a town could impose a fee on one hospital organization but not another; or one college but not another etc. and not run afoul of the constitution.

Second, our practical concern is with the entire structure of the service fee. Our members have always been open to a conversation about municipal fees. We pay fees now – such as water and sewer fees. We participated in a work group a decade ago on the development of municipal fees.

This is essentially current law and we have no real objection to paying service fees as long as the fee is imposed equitably on all recipients of that municipal service. This legislation does not require equity.

That is, for water & sewer fees all property owners pay those fees. Residential homeowners, commercial property owners, municipal government itself pays the fees.

In order for the non-profit community to feel comfortable with a fee structure, let's say for fire service, the cost of fire protection would need to be spread among all properties by some form of apportionment. Correspondingly, the cost of fire protection would need to be removed from the municipal property tax levy so that people were not paying twice.

Some may object that figuring out a way to “meter” services like fire protection is too difficult. Yet, that is what LD 1795 requires. Lines 6-7 require the municipality to only charge each institution for the “*actual cost of providing municipal services to the property.*” If the city or town can figure that out for exempt institutions, they can figure it out for everybody.

Conclusion

Given that our current aggregate operating margin is less than 1%; having to pay a new fee will jeopardize hospital operations.

Again, service fees that are fairly and equitably apportioned to all service recipients are not objectionable. They are hard to absorb in this current budgetary climate, but there is precedent supporting service fees and there is an appeal to equity.

Thank you for accepting the testimony of the Maine Hospital Association.