CALIFORNIA HOSPITAL ASSOCIATION

Providing Leadership in Health Policy and Advocacy

November 8, 2017

Dear Member of the California Delegation:

The California Hospital Association (CHA) — on behalf of its member hospitals representing more than 97 percent of all hospital beds in the state, including 220 not-for-profit hospitals and health systems — strongly urges House leaders to oppose provisions in the Tax Cuts and Jobs Act that would eliminate the tax exemption for private activity bonds.

Current provisions allow the issuance of tax-exempt private activity bonds, including by Internal Revenue Code §501(c)(3) organizations such as charitable hospitals and health systems. These bonds would be subject to higher borrowing rates, and interest income from newly issued bonds would be included in federal taxable income. **The annual increased cost to charitable hospitals and health systems in California would be more than $120 million a year, or $3.5 billion over the life of hospitals' 30-year bonds.**

Private activity bonds provide a critical source of funding that results in job creation and economic development beyond the hospitals' walls. **The sponsors of the Tax Cuts and Jobs Act claim that the bill is meant to strengthen the economy and provide jobs; however, it does the opposite. Hospitals are significant employers — often the largest — in communities across California.** These provisions threaten the financial stability of hospitals that provide more than 500,000 jobs in the communities they serve. In addition, the significant change in tax exemption of these bonds will directly impact hospitals' ability to access capital for mandated infrastructure projects, putting more than 25,000 construction jobs at risk. Excluding private activity bonds from tax exemption will shift the burden of added financing costs to taxpayers and will put communities' health at risk if securing funding to maintain and improve hospital facilities becomes prohibitively expensive.

Not only do these bonds play a critical role in helping not-for-profit hospitals access lower-cost capital so they can fulfill their mission to provide health care to the communities they serve, but they also are necessary to meet one of the state's most costly mandates. Until 1973, California hospitals — like most U.S. hospitals — were built to the national Uniform Building Code. A huge building boom from 1968-72 helped California meet the demands on services provided to Medicare and Medicaid beneficiaries, but the San Fernando Valley's 1971 Sylmar earthquake resulted in 50 hospital-related deaths. As a result, the state enacted the Alfred E. Alquist Hospital Facilities Seismic Safety Act (HFSSA) in 1973, which required that all new general acute care hospital inpatient buildings in California be able to remain standing after a major earthquake. The HFSSA was further strengthened by amendments enacted in 1983. However, since the building boom preceded the enactment of state legislation, few California hospitals were built in the 1970s and 1980s.

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Subsequent earthquakes in 1989, and the infamous 1994 Northridge earthquake — which resulted in over $3 billion in structural and non-structural damages to hospitals — raised significant concerns with the Federal Emergency Management Agency (FEMA). In response to those concerns, California amended the HFSSA in 1994 by enacting Senate Bill 1953 (Chapter 740, Statutes of 1994). **SB 1953 mandates that by 2030 all general acute care hospital inpatient buildings remain both standing and operational following major seismic activity, due to the fact that hospitals house patients who are immobile/non-ambulatory. All California licensed hospitals, as well as clinics (i.e., provider based outpatient departments), must also be built to at least the International Building Code Life Safety Code.** This code aims to keep buildings from collapsing in an earthquake.

More specifically, a study completed by RAND for the California HealthCare Foundation stated that the maximum pace for the design, regulatory and construction process for that magnitude of infrastructure would take more than three decades to complete. The study, performed in 2006, estimated the construction cost to be up to $110 billion, excluding the cost of financing, which could double estimated costs. The cost incurred by hospitals is only increasing as the expense of design and construction increases each year.

The Tax Cuts and Job Act would disproportionately harm California's not-for-profit hospitals that must meet the seismic mandate or risk revocation of their licenses. The loss of tax exemption for private activity bond interest would represent a major setback for health care at a time when most are struggling to secure funding for rebuilding, improving patient care areas, modernizing facilities and equipment to improve quality, and ensuring access to care and vital services in the communities they serve.

We urge you to oppose the elimination of the tax exemption for private activity bonds and protect access to quality health care services for all Californians.

We look forward to continuing our work with you as Congress moves forward on these issues and other important programs critical to hospitals. If you have questions, please contact Anne O'Rourke, CHA senior vice president, federal relations, in CHA's Washington, D.C. office at aorourke@calhospital.org or (202) 488-4494.

Sincerely,

Carmela Coyle

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President & CEO