



March 6, 2017

House Committee on Revenue

Re: Support for House Bill 2047

Chair Barnhart and Members of the Committee:

Good afternoon, my name is Felisa Hagins, and I am Political Director for the Service Employees International Union, Local 49. On behalf of our 12,000 members in Oregon, I am pleased to provide testimony in support of House Bill 2047. We believe the clarity provided by this bill will save precious resources for not only the state but also our non-profit healthcare providers.

House Bill 2047 tackles the challenging area of health clinics and ancillary, hospital-owned properties. The current system for assessing whether such properties qualify for a property tax exemption is unclear, leading to multiple legal battles and lost revenue. With an increasing number of non-profit health systems opening or acquiring physician practices across the state, it is time for the Oregon legislature to provide clear guidance on what should be exempt from taxes. That clarity will prevent precious resources from both counties and healthcare non-profits from being wasted in legal battles.

Increasing number of for-profit doctor's clinics are being acquired by non-profit organizations. Physician practices, often formed as for-profit businesses, used to drive much of the primary care received by patients. Uninsured or impoverished patients sought care through county systems or clinics aimed specifically at such underserved populations. While much of this market segmentation remains today, there is a growing wave of consolidation among physician practices. While some are merging with one another, others are being acquired by larger, hospital-anchored health systems. These larger health systems tend to be non-profit organizations. When a previously for-profit clinic comes under the umbrella of a non-profit hospital organization, there is a question about how to handle the tax exemption of the clinic property going forward.

Ambiguity in the current system leads to expensive legal battles. Our current property tax exemption system places the burden on county assessors to determine the charitable nature of individual properties. This has resulted in a mix of exemptions, expensive legal battles and the impression that one can claim tax exemption based on being "charitable by association." We present three examples below of how the current system has resulted in courtroom showdowns:

- Josephine County, Asante Physician Partners: A medical group practice owned by the hospital-system Asante, requested exemption from property taxes and was denied by the Josephine County Assessor. Asante appealed the county's decision to

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the Oregon Tax Court. Both parties presented evidence and testimony. The court eventually ruled in agreement with the county in early 2015.

- Clackamas County, Providence: Clackamas County assessor attempted to tax \$2 million worth of diagnostic equipment that was located in a Providence Health imaging center, arguing that it was not used for the poor by instead by private physicians (the land was already exempt from taxes). A state tax magistrate overruled the, and the property was removed from the tax rolls.¹
- Douglas County, Centennial Medical Group: A physician clinic owned by Catholic Health Initiatives (the same organization that owns Mercy Medical Center in Douglas County) applied for property tax exemption and was denied by the County. CMG filed five related appeals to the Oregon Tax Court for three separate clinic locations. The court ruled in favor of the County and dismissed the case in 2014.

Having a clear policy will save resources, for all parties. The unfortunate part about using the legal system to determine policy is that it is expensive. Both parties must have lawyers, experts are contracted and staff time is spent preparing and responding to arguments. We believe that staff time and resources from both the counties and non-profit hospital systems should be focused on other things. Clear policy from the state can put an end to this waste.

The policy should make it clear that exemptions are granted only as a reflection of serving the most needy. House Bill 2047 sets a clear metric under which a health clinic can be offered property tax exemption. Setting a clear threshold is necessary not only for the reasons highlighted above, but also because current clinics have questionable track records when it comes to serving needy populations. Evidence disclosed in court proceedings revealed that one of Asante's family medical practices in Southern Oregon had a ratio of charity expenses to gross revenue of 0.17 percent for the first five months of 2014. Over an eight-month period the clinic had just eight patients who received free or discounted services and over 5,500 office visits in the same period.² In 2013 when Legacy Health Systems opened two medical clinics in Washington County, a publication of the local medical society commented, "The locations for the new clinics are in high-income areas, so they will attract many insurance patients..."³ The health system clinic boasts services such as bicycle fittings and running and golf-swing analyses.

In order to assure that our tax expenditures are being used to promote charitable care for the most needy, and to keep precious resources from being wasted in court battles, we urge the passage of House Bill 2047. Thank you for this opportunity to testify.

Sincerely,

Felisa Hagins
Political Director, SEIU Local 49

¹ Budnick, Nick. "Oregon's county assessors challenge hospital acquisitions' new tax breaks, murky law." Oregonian, November 3, 2012.

² Office visits are the total number of individual visits, not the number of unique patients. Reported in the Statemen of Facts in the final decision of Asante Physician Partners v. Josephine County Assessor, 2015.

³ The Portland Physician Scribe, June 2013.