American Hospital Association®

800 10th Street, NW
Two CityCenter, Suite 400
Washington, DC 20001-4956
(202) 638-1100 Phone
www.aha.org

November 13, 2017

The Honorable Orrin Hatch
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch:

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 commend you for maintaining the tax exemption for private activity bonds, including qualified 501(c)(3) hospital bonds, in your Chairman's Mark of the Tax Cuts and Jobs Act.

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. The Chairman's Mark recognizes that 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, as was noted by the Joint Committee on Taxation in its report on the Tax Reform Act of 1986.

At the same time, however, we oppose the proposal to eliminate the ability of hospitals to execute advance refundings of outstanding tax-exempt bonds and urge you to restore that ability during the Committee process. 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. Lower borrowing costs translate into lower health care costs for patients. The lower cost of tax-exempt financing also makes possible necessary upgrades and modernizations. More costly alternatives, such as taxable bonds and bank loans, are out of reach for many community hospitals.

Advance refunding bonds are an essential and important financing tool that allow 501(c)(3) hospitals to respond to credit market conditions to reduce the cost of capital. Hospitals are able to lower their debt costs, resulting in reduced health care costs overall, and free up borrowing capacity for new investment in needed and necessary health facilities. They have resulted in many billions of dollars of savings for the health care system. Advance refundings are already highly regulated to prevent abuse, and eliminating them would result in billions of dollars of unnecessarily high borrowing costs for hospitals and their communities.

At a time when hospital revenues are already strained, hospitals must respond to rapidly changing market and government forces, including: (1) reimbursement reductions and changes; (2) an increasing necessity to provide access to a broad range of health services to a growing population; and (3) limited access to capital. These market forces are driving an urgent need for hospitals to make significant capital investments while reducing costs. Again, we appreciate your willingness to maintain the tax exemption for private activity bonds and strongly urge you to maintain access to advance refunding bonds in the final proposal by eliminating its repeal in the legislation.

Sincerely,

/s/

Thomas P. Nickels
Executive Vice President