



City Council Agenda Bill

20053

Bill Number

Subject: B&O Tax Exemption Discussion

Summary Statement: The City Council has requested a discussion regarding PeaceHealth Saint Joseph's Medical Center and its Business and Occupation (B&O) tax exempt status. Per BMC 6.04.090, certain exemptions apply including allowing religious, medical and health related organizations to be exempt from B&O taxes.

Previous Council Action: 3/25/2013 discussion request; Adoption of BMC 6.04.090

Fiscal Impact: Estimated at \$700,000 annually foregone revenues

Funding Source: Medical and health related organizations

Attachments: 6.04.090 Exemptions in B&O Tax Code
Letter from PeaceHealth Saint Joseph's

Meeting Activity	Meeting Date	Staff Recommendation	Presented By	Time
Committee Briefing Information Only	15-Jul-2013	Information Only	Brian Henshaw, Finance	5

Council Committee:
Finance and Personnel
Michael Lilliquist, Chair
Gene Knutson; Stan Snapp

Agenda Bill Contact:
Brian Heinrich, exec

Reviewed By	Initials	Date
Legal	<i>KL</i>	7-9-13
Mayor	<i>KL</i>	7.9.13

Committee Actions:

Council Action:

"Tax period" means the calendar year during which tax liability is accrued. If taxes are reported by a taxpayer on a basis more frequent than once per year, taxpayers shall calculate the factors for the previous calendar year for reporting in the current calendar year and correct the reporting for the previous year when the factors are calculated for that year, but not later than the end of the first quarter of the following year.

"Taxable in the customer location" means either that a taxpayer is subject to a gross receipts tax in the customer location for the privilege of doing business, or that the government where the customer is located has the authority to subject the taxpayer to gross receipts tax regardless of whether, in fact, the government does so.

E. Assignment or apportionment of revenue under this section shall be made in accordance with and in full compliance with the provisions of the interstate commerce clause of the United States Constitution where applicable. [Ord. 2012-12-054 § 3; Ord. 2007-12-099].

6.04.078 Allocation and apportionment of printing and publishing income when activities take place in more than one jurisdiction.

Notwithstanding RCW 35.102.130, effective January 1, 2008, gross income from the activities of printing, and of publishing newspapers, periodicals, or magazines, shall be allocated to the principal place in this state from which the taxpayer's business is directed or managed. As used in this section, the activities of printing, and of publishing newspapers, periodicals, or magazines, have the same meanings as attributed to those terms in RCW 82.04.280(1) by the Department of Revenue. [Ord. 2007-12-099].

6.04.090 Exemptions.

The provisions of this chapter shall not apply to the following:

- A. Adult Family Homes. This chapter does not apply to adult family homes which are licensed as such, or which are specifically exempt from licensing, under rules of the Washington State Department of Social and Health Services.
- B. Child Care. This chapter does not apply to persons providing day care for preschool or school children, whether in private homes or elsewhere; provided, that nothing herein shall relieve such persons of the responsibility from complying with all other applicable laws and regulations.
- C. Child Care Resource and Referral Services by Nonprofit Organizations. This chapter does not apply to nonprofit organizations in respect to amounts derived from the provision of child-care resource and referral services.
- D. Nonprofit Corporations or Organizations – Credit and Debt Services. This chapter does not apply to nonprofit corporations or organizations in respect to amounts derived from provision of the following services:
 - 1. Presenting individual and community credit education programs including credit and debt counseling;
 - 2. Obtaining creditor cooperation allowing a debtor to repay debt in an orderly manner;

3. Establishing and administering negotiated repayment programs for debtors; or
4. Providing advice or assistance to a debtor with regard to subsection (A), (B), or (C) of this section.

E. Certain Fraternal and Beneficiary Organizations. This chapter shall not apply to fraternal benefit societies or fraternal fire insurance associations, as described in RCW Title 48; nor to beneficiary corporations or societies organized under and existing by virtue of RCW Title 24, if such beneficiary corporations or societies provide in their bylaws for the payment of death benefits. This exemption is limited, however, to gross income from premiums, fees, assessments, dues or other charges directly attributable to the insurance or death benefits provided by such societies, associations, or corporations.

F. Credit Unions. This chapter shall not apply to the gross income of credit unions organized under the laws of this state, any other state, or the United States.

G. Health Maintenance Organization, Health Care Service Contractor, Certified Health Plan.

1. This chapter does not apply to any health maintenance organization, health care service contractor, or certified health plan in respect to premiums or prepayments that are taxable under RCW 48.14.0201. However, per RCW 48.14.0201(7), this exemption is not intended to, and shall not, impair the city's ability to impose a tax hereunder upon the health care services directly delivered by the employees of a health maintenance organization under Chapter 48.46 RCW.

2. The gross income received by any religious society, religious association or religious corporation, through the operation of any hospital, clinic, resort or other institution devoted exclusively to the care of healing of human beings; provided, that no exemption is granted where the income therefor inures to the benefit of any physician, surgeon, stockholder, or individual by the virtue of ownership or control of such hospital, clinic, resort, or other institution.

H. Public Utilities. This chapter shall not apply to any person in respect to a business activity with respect to which tax liability is specifically imposed under the provisions of Chapter 6.06 BMC.

I. Investments – Dividends from Subsidiary Corporations. This chapter shall not apply to amounts derived by persons, other than those engaging in banking, loan, security, or other financial businesses, from investments or the use of money as such, and also amounts derived as dividends by a parent from its subsidiary corporations.

J. Insurance Business. This chapter shall not apply to amounts received by any person who is an insurer or their appointed insurance producer upon which a tax based on gross premiums is paid to the state pursuant to RCW 48.14.020; and provided further, that the provisions of this subsection shall not exempt any bonding company from tax with respect to gross income derived from the completion of any contract as to which it is a surety, or as to any liability as successor to the liability of the defaulting contractor.

K. Farmers – Agriculture. This chapter shall not apply to any farmer in respect to amounts received from selling fruits, vegetables, berries, butter, eggs, fish, milk, poultry, meats or any other agricultural product that is raised, caught, produced, or manufactured by such persons.

L. Boxing/Wrestling Exhibitions. This chapter shall not apply to any person in respect to the business of conducting boxing contests and sparring or wrestling matches and exhibitions for the conduct of which a license must be secured from the State Boxing Commission.

M. Racing. This chapter shall not apply to any person in respect to the business of conducting race meets for the conduct of which a license must be secured from the Washington State Horse Racing Commission.

N. Ride Sharing. This chapter does not apply to any funds received in the course of commuter ride sharing or ride sharing for persons with special transportation needs in accordance with RCW 46.74.010.

O. Employees.

1. This chapter shall not apply to any person in respect to the person's employment in the capacity as an employee or servant as distinguished from that of an independent contractor. For the purposes of this subsection, the definition of "employee" shall include those persons that are defined in the Internal Revenue Code, as may be amended hereafter.

2. A booth renter is an independent contractor for purposes of this chapter.

P. Amounts Derived from Sale, Lease or Rental of Real Estate. This chapter shall not apply to gross proceeds derived from the sale, lease or rental of real estate. This, however, shall not be construed to allow an exemption of amounts received as commissions from the sale of real estate, nor as fees, handling charges, discounts, interest or similar financial charges resulting from, or relating to, real estate transactions.

Q. Mortgage Brokers' Third-party Provider Services Trust Accounts. This chapter shall not apply to amounts received from trust accounts to mortgage brokers for the payment of third-party costs if the accounts are operated in a manner consistent with RCW 19.146.050 and any rules adopted by the director of financial institutions.

R. Amounts Derived from Manufacturing, Selling or Distributing Motor Vehicle Fuel. This chapter shall not apply to the manufacturing, selling, or distributing motor vehicle fuel, as the term "motor vehicle fuel" is defined in RCW 82.36.010 and exempt under RCW 82.36.440; provided, that any fuel not subjected to the state fuel excise tax, or any other applicable deduction or exemption, will be taxable under this chapter.

S. Amounts Derived from Liquor, and the Sale or Distribution of Liquor. This chapter shall not apply to liquor as defined in RCW 66.04.010 and exempt in RCW 66.08.120.

T. Casual and Isolated Sales. This chapter shall not apply to the gross proceeds derived from casual or isolated sales.

U. Short-Term Public Event. This chapter shall not apply to persons participating in a short-term public event such as a fair, whether indoors or outdoors, for which a single blanket license has been issued by the finance director in accordance with the rules applicable thereto, issued in policy form in accordance with the provisions of this chapter; provided, that such participants have written

authorization from the sponsor of the event, and the sponsor accepts responsibility for each participant. Businesses otherwise registered with the city but not approved by the event sponsor may not participate in that short-term public event.

V. Accommodation Sales. This chapter shall not apply to sales for resale by persons regularly engaged in the business of making retail sales of the type of property so sold to other persons similarly engaged in the business of selling such property where (1) the amount paid by the buyer does not exceed the amount paid by the seller to the vendor in the acquisition of the article and (2) the sale is made as an accommodation to the buyer to enable the buyer to fill a bona fide existing order of a customer or is made within 14 days to reimburse in kind a previous accommodation sale by the buyer to the seller.

W. Taxes Collected as Trust Funds. This chapter shall not apply to amounts collected by the taxpayer from third parties to satisfy third party obligations to pay taxes such as the retail sales tax, use tax, and admission tax. [Ord. 2012-12-054 § 4; Ord. 2007-12-099; Ord. 2002-12-105].

6.04.100 Deductions.

In computing the license fee or tax, there may be deducted from the measure of tax the following items:

A. Membership Fees and Certain Service Fees by Nonprofit Youth Organization. For purposes of this subsection, "nonprofit youth organization" means a nonprofit organization engaged in character building of youth which is exempt from property tax under RCW 84.36.030. In computing tax due under this chapter, there may be deducted from the measure of tax all amounts received by a nonprofit youth organization:

1. As membership fees or dues, irrespective of the fact that the payment of the membership fees or dues to the organization may entitle its members, in addition to other rights or privileges, to receive services from the organization or to use the organization's facilities; or
2. From members of the organization for camping and recreational services provided by the organization or for the use of the organization's camping and recreational facilities.

B. Fees, Dues, Charges. In computing tax, there may be deducted from the measure of tax amounts derived from bona fide:

1. Initiation fees;
2. Dues;
3. Contributions;
4. Donations;
5. Tuition fees;
6. Charges made by a nonprofit trade or professional organization for attending or occupying space at a trade show, convention, or educational seminar sponsored by the nonprofit trade or



**PeaceHealth
St. Joseph Medical Center**

To: Mayor Kelli Linville
From: Nancy Steiger, CEO and Chief Mission Office
 PeaceHealth St. Joseph Medical Center
Date: June 21, 2013
RE: Business and Occupational Tax Exception

Thank you for the opportunity to outline the Medical Center's perspective regarding the Business and Occupational (B&O) tax exception for PeaceHealth St Joseph Medical Center, which includes PeaceHealth Medical Group (PHMG). As a non-profit, mission-driven health care institution, PH-SJMC provides many millions of dollars of free and uncompensated care, subsidized health services, and other community benefit activities.

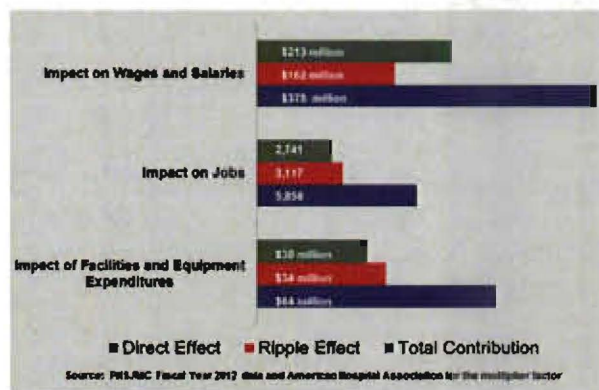
From the founding of St. Joseph Hospital more than 120 years ago, the Sisters of St Joseph of Peace and St. Joseph Hospital have been and remain an integral part of Bellingham history and daily life. As sometimes happens with close relationships, I am afraid that we (both the City and the Medical Center) have perhaps come to take each other for granted, and not engaged in proactive communication. So please consider this the beginning of my effort to shift that dynamic for the better.

Let me begin by recognizing the problem that the City faces. The combination of losses in revenue and revenues that have not kept pace with expenses, (even as the demand for services has increased), has left municipalities looking for solutions. I know in Bellingham the situation is complicated by the fact that the two largest employers – WWU and the PeaceHealth – are both non-profit entities.

PeaceHealth St Joseph Medical Center contributes to the community far beyond our core mission of delivering health care.

In fiscal year 2012 PeaceHealth paid \$213 million in wages to Whatcom County caregivers. It is estimated that another \$162 million in wages and salaries were paid to Whatcom County workers as part of the economic ripple associated with the hospital and PeaceHealth Medical Group.

Impact of PH-SJMC on the Whatcom County Economy, 2012

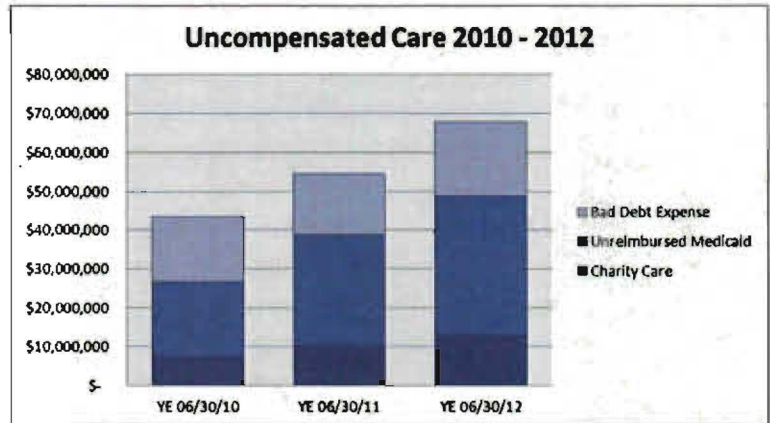


I recount the above not to suggest that the City should maintain our B and O tax exemption because we provide economic value. Every business contributes to the economy to one extent or another. The point is that the down-side for the City of hosting two large non-profit institutions is far outweighed by the contribution that we make to our regional economy.

No one is turned away because of an inability to pay.

The City code allows the Medical Center an exception to paying B and O taxes because we are a religious affiliated hospital or clinic. The PeaceHealth mission is obviously religious: *we carry on the healing mission of Jesus Christ by promoting personal and community health, relieving pain and suffering, and treating each person in a loving and caring way.* I believe the City Council should maintain our exemption because we fulfill that mission with actions – actions that are guided by the values of respect, stewardship, collaboration and social justice.

In FY 2012 PeaceHealth St Joseph Medical Center, (including the medical group) provided more than \$67.7 million in uncompensated care. This included \$12.9 million in Charity Care, \$35.9 in Unreimbursed Medicaid, (i.e. the difference between what it cost to provide care versus what Medicaid paid) and \$18.8 million in Bad Debt.



How reliable are these numbers?

There has been a lot of publicity regarding the difference between hospital charges and cost, and the extent to which uninsured people end up paying more than individuals who are covered by an insurance company that negotiates favorable rates with a provider based on volume. While I would certainly be open to talking with anyone about this overly complex and ultimately illogical industry-wide system, my intent here is to note the issue and assure you that the uncompensated care numbers noted above are being reported in accordance with Federal Community Benefit accounting requirements. These requirements are part of the Affordable Care Act.

One question you may have is why is the difference between what Medicaid pays and the cost of care allowed (by the federal government) as a community benefit? And, why is that number so big (\$35.9 million)? The answer is that the government recognizes that Medicaid does not pay anywhere near what it costs to provide care, and for this reason serving Medicaid patients is seen as a Community benefit. The reason our Medicaid number is so large is because we serve a lot of Medicaid patients. **Unlike a private medical group or other hospitals, we do not discriminate based on payor.** PeaceHealth will never turn anyone away.

I want to underscore this last point. One immediate result of PeaceHealth's acquisition of Madrona Medical Group and North Cascade cardiology was that both groups saw an increase in the numbers of people they served who were uninsured, or on Medicaid. That's because PeaceHealth is part of the medical safety net. While all private medical groups provide some level of charity and payment plan care, PHMG is part of the default safety net. Interfaith and Sea Mar Community Health Centers provide primary care and PHMG provides specialty care. And of course the hospital provides Emergency Department and Inpatient care. If not for us people would go without care.

It is worth noting that this whole issue was a part of the recent Regence negotiations. We held that part of the reason we needed the requested rate increase was because we provide care to the whole community, i.e. we are part of the safety net. Regence, along with many other third party payers across the country, are becoming less willing to support this recognized "cost shift". Insurance companies are focused on the bottom for their subscribers, and that is understandable. I do not however believe that this stance should be taken by the City. Your concern is our concern, and that is the well-being of all people -- particularly those who do not have the ability to pay for care.

Promoting community health is part of the PeaceHealth mission.

An example of how we operate as a mission-driven organization can be found in our recent decision to invest \$5 million in a brand new behavioral health unit on the Main Campus. At a time when most hospitals in the State and across the country are closing their mental health units, PeaceHealth increased our capacity and renewed our commitment to the community to serve the most vulnerable among us. Behavioral health is not a service line that pays for itself. We provide it because no one else can, and it is the right thing to do for our community.

On an annual basis PeaceHealth publishes a Mission Report to the community. We share ways that we have fulfilled the mission and lived our values in service to the community. The 2012 report will soon be released and in it we list "Community Health Improvement Activities". These are discretionary expenditures, as defined by the IRS. Last year PeaceHealth St. Joseph Medical Center provided more than \$2.5 million of community building activities, including:

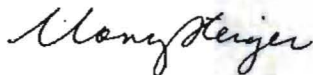
- Support for the **St Luke's Health Education Center** where many non-profit and governmental organizations and agencies in our community use the free conference facilities on a regular basis.
- **In-kind donations and cash grants totaling more than \$1 million** (e.g. \$100,000 each for the Whatcom Alliance for Health Advancement and Interfaith Community Health Center; smaller grants of between \$5000, and \$20,000 for organizations such as the Lummi Native Foods Project, Bridge Collins Center and the United Way Homeless Connect Project; and free rent for the Arthritis Foundation, the Health Resource Network and WAHA).
- Operation of **HInet**, the secure intranet that allows area health care providers to electronically exchange information at an affordable rate.
- Investments in **recycling and award winning conservation programs**.
- Financial support and technical assistance for the development of the **Community Health Improvement Plan** in collaboration with the Whatcom County Health Department. This assessment and resulting plan will serve as a blue print for collaborative community health improvement strategies over the next 2 – 5 years that will hopefully focus cross organizational efforts, leverage resources, and measurably reduce health disparities.

Collaboration is a PeaceHealth core value. A lot of people are surprised when I tell them that PeaceHealth helped start the Brigid Collins Center and the Whatcom Alliance for Health Care Access, or that the Interfaith Clinic was at one time located in the Medical Center South Campus. All of these organizations have become absolutely essential to the well-being of our community. Children are safer, more people have health care insurance, and lower income people have access to quality medical and dental care because of the work we do with our community partners. But I'm afraid we have been too reserved in sharing our role.

In taking more credit however we run the risk of diminishing our community partnerships. PeaceHealth has developed strong relationships with the County Health Department, the Funders Alliance (which includes the United Way, and St Luke's and Whatcom Community Foundations) and area social service and safety-net health care providers. There is little doubt that what we have accomplished would not have been possible without key community organizations. And I suspect that they will tell you how the converse is also true. PeaceHealth is an absolutely essential community partner.

In closing, I would like to thank the City for the support that allows us to maintain our active engagement in the community. If you have any questions or members of the Council Finance Committee would like to talk more about any of what I have outlined above please do not hesitate to contact me.

Thank you,



Nancy Steiger, CEO & Chief Mission Officer



City of Bellingham

City Hall, 210 Lottie Street
Bellingham, Washington 98225

Telephone: (360) 778-8010 Fax: (360) 778-8001

DATE: JULY 9, 2013
TO: MAYOR KELLI LINVILLE
FROM: BRIAN HENSHAW
SUBJECT: HOSPITAL B&O TAX EXEMPTION

Most hospitals in the United States are operated as not-for-profit tax exempt institutions. To qualify hospitals must maintain an emergency room open to all regardless of ability to pay, accept Medicare & Medicaid patients, and utilize an independent governing body comprised of community leaders.

In addition, the Bellingham Municipal Code 6.04.090 paragraph 2, provides a Business & Occupation tax exemption for religious affiliation hospitals.

2. The gross income received by any religious society, religious association or religious corporation, through the operation of any hospital, clinic, resort or other institution devoted exclusively to the care of healing of human beings; provided, that no exemption is granted where the income therefor inures to the benefit of any physician, surgeon, stockholder, or individual by the virtue of ownership or control of such hospital, clinic, resort, or other institution.

More and more, policymakers and the public are questioning the decades old justification of providing hospital's with a tax-exempt status with all of the extraordinary changes in the healthcare industry. The following are some of the concerns raised: fairness issue when competing against for profit hospitals, hospital expansion / acquisition into services or providers previously paid B&O tax, and what are the true community benefits provided by hospitals. Under the Affordable Care Act, the idea is to hold hospitals accountable for the tax breaks they receive by providing a formal assessment on the health needs of their communities and adopt strategies to meet those needs.

The Medical Services industry is a very important part of our local economy. It provides thousands of direct and indirect jobs that are a stable and large influence on our economy. The Medical Services sector is by far the largest in the city generating \$1,800,000 annually, or 17% of city's Business & Occupation Tax revenue. Acquisitions and mergers of medical service providers in Bellingham have reduced City tax revenues by hundreds of thousands of dollars annually.

Just this year, the City of Tacoma determined that that their hospital tax exemption was no-longer justified and began collecting the standard retail service rate from hospitals. This is consistent with the State of Washington, which also does not exempt hospitals from paying Business & Occupation Tax.