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Tax-Exempt Hospitals Face Payments to Host Towns in New Jersey.

New Jersey's nonprofit hospitals, which have long enjoyed a tax exemption, would have to make payments to their host communities to cover the cost of municipal services under a bipartisan measure making its way through the state legislature.

Lawmakers are responding to a June court ruling which found that the 40-acre Morristown Medical Center owed local property taxes because of "blurred lines" between its nonprofit and for-profit businesses. The 687-bed hospital's owner agreed in November to pay the town $15.5 million over the next decade.

The decision opened the door for other municipalities that host nonprofit businesses, including hospitals and universities, to challenge their tax-exempt status. Hospitals in Illinois, Pennsylvania and Iowa also have faced challenges as towns struggle to balance budgets.

"It's not a stretch to say that every nonprofit that owns property should be looking at this," Linda Czipo, executive director of the Center for Non-Profits, an organization based in Mercerville, New Jersey that advocates for the groups in Trenton and Washington. "We're concerned about how the whole property-tax issue might play out for the broader nonprofit community."

The judge who issued the Morristown ruling is also presiding over a lawsuit against Princeton University, New Jersey's only Ivy League school. Residents are challenging its exemption because it collects drug-patent royalties that it shares with faculty.

Tax Code

The Morristown hospital's tax-exemption challenge, like those in other states, arose in part from President Barack Obama's signature 2010 legislation designed to shrink the number of Americans without health insurance, and in large measure due to a wave of consolidations in the hospital industry. While the existence of a new generation of joint operations and profit-based services cropped up in order to trim costs, hospitals were still operating under a tax code put in place around the turn of the last century.

"The law as it was written in 1913 really didn't apply today," said Senator Joseph Vitale, a Democrat from Woodbridge. "It's a new day of doing business for hospitals."

Vitale is co-sponsoring a bill that would establish a payment formula for nonprofit hospitals that have for-profit businesses, such as doctor groups. The new payments would be less confusing for the governments who would have to decide how to assess the bills for the hospitals, and are designed to be lower than the full levies they might otherwise face, said Senator Robert Singer, a Republican from Lakewood who is also a co-sponsor.

"This is an opportunity for hospitals to keep their heads above water," Singer said. "As municipalities get cash-strapped, they are looking at every resource, and the Morristown case was a

’my ship has come in’ moment.”

The legislation would obligate the hospitals to make “community service contributions” of $2.50 per bed a day to host municipalities to defray costs such as police, fire and ambulance crews. Many poor, inner-city hospitals or those deemed money-losing by the state would be exempt under the bill, which passed a Senate committee this month.

Statewide Solution

Hospitals account for 140,000 jobs in the state and see more than 18 million patients a year, according to the New Jersey Hospital Association, the state-level trade group representing almost 400 health-care organizations. The association supports the measure.

“Clearly, the Morristown tax court decision has created a great deal of uncertainty, for hospitals and municipalities alike,” Betsy Ryan, NJHA’s president, said in a statement. “Our goal was to support a statewide solution that would strike a fair balance.”

In New Jersey, property taxes make up almost all of the local revenue used to fund town, county and school budgets. While hospitals can serve as a community’s economic anchor, the towns — and their residents — are footing the bill for the cost of services such as police and fire.

Nonprofits employ 314,000 people in New Jersey, nearly 10 percent of the state’s private workforce.

Nicole Sizemore, a spokeswoman for Governor Chris Christie, declined to comment on pending legislation.

“What folks forget is that for most non-profits the margin is razor thin,” said Andrew Dick, an Indianapolis attorney who represents hospitals in tax-exemption cases for Hall, Render, Killian, Heath & Lyman P.C. “If they had to pay the property taxes, that could be enough to push them into the red.”

Bloomberg News

by Terrence Dopp

December 28, 2015 — 4:57 AM PST

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