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BILL ANALYSIS

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Senate Bill 784 (Substitute S-1 as reported)
Sponsor: Senator Jason E. Allen
Committee: Finance

Date Completed: 4-11-06

RATIONALE

Federally-qualified health centers are operated by nonprofit organizations or government agencies to provide health care in underserved areas or to underserved populations (i.e., those that have high rates of poverty, infant mortality and elderly individuals, and insufficient primary care providers). To be designated as a Federally-qualified health center, a facility must provide primary health care and other specified services to the entire served population, except as limited by capacity. A center must be overseen by a board of directors, with a majority of the board members being patients of the center. Nationwide, there are over 5,000 facilities operated by Federally-qualified health centers, providing care for 15 million patients. In Michigan, 29 organizations operate at least 135 sites, reportedly serving about 10% of the Medicaid population in the State. The cost of care at health centers is covered through a variety of sources, including Medicare, Medicaid, Federal grants, private insurance, State and local funds, and patient fees. Fees for services are on a sliding scale, based on income and family size. With the rising cost of health care, an increasing number of people have come to rely on these organizations for medical services.

Federally-qualified health centers qualify as charitable organizations under Section 501(c)(3) of the Internal Revenue Code, and historically have been exempt from State property taxes, sales taxes, and use taxes in Michigan. In recent years, however, some local tax assessors have assessed some health centers for property taxes. The General Property Tax Act does not specifically mention health centers, and evidently this has led to confusion over their tax status in some cases. Some believe that the Code should specifically exempt these

health centers from State property taxes to eliminate any future confusion.

CONTENT

The bill would amend the General Property Tax Act to exempt the real and personal property of a Federally-qualified health center from the collection of taxes under the Act beginning December 31, 2004. The bill would be retroactive and effective for taxes levied in December 2004 and thereafter.

"Federally-qualified health center" would mean that term as defined in the Social Security Act, i.e., as an entity that meets one of the following criteria:

- Is receiving a grant under Section 254b of Title 42 of the U.S. Code (which provides for grants to health centers serving medically underserved populations).
- Is receiving funding from such a grant under a contract with the recipient of such a grant and meets the requirements to receive a grant under Section 254b.
- Based on the recommendation of the Health Resources and Services Administration within the Public Health Service, is determined by the Secretary of Health and Human Services to meet the requirements for receiving such a grant, including requirements of the Secretary that an entity may not be owned, controlled, or operated by another entity.
- Was treated by the Secretary for purposes of Part B of Subchapter XVIII of the Social Security Act (Medicare) as a comprehensive Federally-funded health center as of January 1, 1990.

The term includes an outpatient health program or facility operated by a tribe or

tribal organization under the Indian Self-Determination Act or by an urban Indian organization receiving funds under Title V of the Indian Health Care Improvement Act (health services for urban Indians) for the provision of primary health services.

Proposed MCL 211.7jj

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Although Federally-qualified health centers historically have been exempt from property taxes in Michigan, the General Property Tax Act does not specifically mention health centers. In recent years, at least two separate health centers have been assessed taxes on property that was thought to be tax-exempt. The East Jordan Health Center, which serves Charlevoix and Antrim Counties, was established in 1976 and operated since that time as a tax-exempt charitable organization. In 2001, the health center was assessed property taxes when it purchased a clinic in the Village of Bellaire. When its application for a tax exemption was denied, the health center appealed to the Michigan Tax Tribunal, and the parties later filed a consent judgment agreeing to the facility's tax-exempt status. In 2003, however, the assessor notified the health center that the exemption had been revoked.

The East Jordan Health Center faced similar difficulties when it acquired a facility in Central Lake. The tax assessor initially denied the center's request for tax-exempt status, but that decision was overturned by the board of review. Nevertheless, the center still was assessed property taxes that year. The organization also received tax assessments on its East Jordan location, which previously had been tax-exempt. During the period from 2003 to the present, the East Jordan Health Center reportedly has paid tax bills for almost \$100,000 for its three facilities combined. Diverting funds to pay local property taxes and legal costs directly affects the center's ability to serve its patients, many of whom are without other treatment options. If patients were unable to receive care at the health center, they could end up going without care

altogether, or getting treatment at the emergency room of the local hospital, at a higher cost.

Thunder Bay Community Health Services (TBCHS) has had a similar experience, and currently faces property taxes of about \$40,000 at its Rogers City location. In addition, the organization has two other facilities in Montmorency County, and, according to testimony before the Senate Finance Committee by the chairman of the TBCHS board, if those buildings were assessed property taxes, the total cost to the center could be over \$80,000, or the equivalent of about 1,500 patient services. To date, those facilities have been considered to be tax-exempt. The uncertainty over whether property taxes will be assessed, and the amount of the taxes, hampers the health center's ability to provide optimum service to as many patients as possible.

The conflicting decisions of the local tax assessors, the boards of review, and others indicate that the law should be clarified to specify that Federally-qualified health centers are exempt from property taxes. The bill would resolve the issue, so assessors could be certain of the tax status of these health centers, preventing them from receiving large unexpected tax bills, and allowing them to focus their resources on providing health care to underserved populations.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would have little to no impact on State or local government. Approximately 135 Michigan facilities meet the definition of a Federally-qualified health center and most, if not all, are exempt under existing property tax provisions.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.