

## Testimony of City Council President Douglas Shields

According to Section 6 of Act 55, institutions are required to have a voluntary agreement under Act 55 of 1997, if they do not want to have their status challenged by the host municipality.

Since the passage of Act 55 the medical industry has foregone a transformation that has negatively affected tax revenue and operations in Pennsylvania host municipalities – like Pittsburgh.

The city was once home to hundreds of physicians and dentists operating private practices. These private practices provided neighborhood medical services and also a source of city tax revenue. The City received three primary taxes from these practices: business privilege tax, real estate tax and wage tax.

Through the late 1990's and continuing to this day, private medical practices were absorbed into the mega-hospital complex. Doctors closed their smaller taxable practices and became part of a much larger tax exempt organization. That has cost cities across the Commonwealth, including Pittsburgh, millions of dollars in tax revenue. This new business model in the health care industry has allowed the formation of a conglomeration of medical staff acting as a business organization that avoids paying taxes – this should not be permissible by the act and needs to be clarified.

The Act states in Section 7, that fiscally sound organizations are encouraged to set-up agreements for payments. Furthermore, Section 5 requires that organizations of revenue exceeding \$10 million that wish not to have their status challenged *must* have a “voluntary agreement”, but what amount is appropriate? The Act is silent.

The best and fairest way to determine the fiscal health of a non-profit organization is based on two things; profit margin and employee compensation. Therefore, I would suggest that the amount for the voluntary agreement be based on a percentage of employee compensation.

The healthcare industry has seen annual increases in employee compensation topping seven percent. An institution could afford to contribute a small fractional percentage of that increase such as .0035%. (35 cents on \$100 of salary)

This guideline needs to be uniformly applied state-wide so as not to disadvantage urban job centers where the majority of these non-profit organizations are located.

As for universities, Pittsburgh residents are taxed with providing services for 40,000 students. The city should receive some reimbursement from the state for the many

services provided to these students – perhaps through a “Student Host community fee” or a “student security fee” charged to the student as part of the college fees \$50 per semester would yield \$4 million per year for the various services provided including public safety, medical.