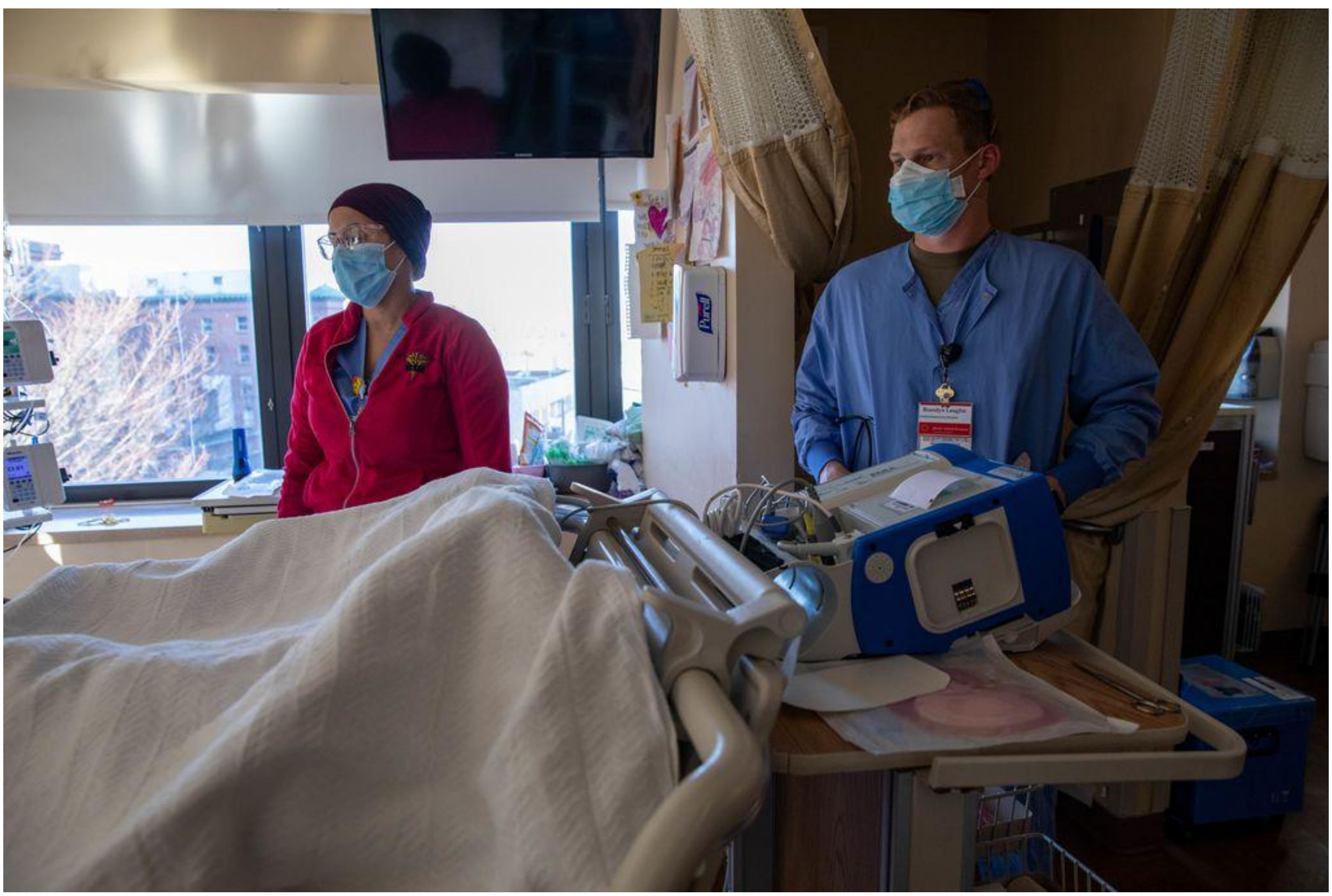
RI POLITICS

Hospitals in R.I. have tenants that are not exempt from real estate taxes. Lawmakers say it’s time for them to pay.

Providence legislators have proposed a bill that would require businesses and organizations that are not tax exempt to pay property taxes. Hospitals say this could impact physician groups.

By **Alexa Gagosz** Globe Staff, Updated May 31, 2023, 11:11 a.m.



U.S. Army Sgt. Brandyn Laughlin, right, a respiratory therapist assigned to 14th Field Hospital, shadows Marlyn Frias, left, a registered nurse at Lifespan Community Health Institute during the COVID response operations at the hospital in Providence on

Jan. 21, 2022. U.S. ARMY/ SGT. KADEN D. PITT

PROVIDENCE — In the midst of the city's negotiations with the biggest local tax-exempt institutions for their Payment in Lieu of Taxes agreements, a new bill has pitted some lawmakers against executives at nonprofit hospitals.

Many tax-exempt institutions rent out a portion of their buildings to businesses, such as coffee shops, restaurants, or other for-profits that have business ties to their nonprofit landlords. But in many cases, according to the bill's sponsors, these businesses are evading property tax payments.

The bill, according to its summary, would require businesses and organizations that are not tax exempt to pay property taxes to municipalities.

"This is not overreaching by any means," said Representative David Morales, a Providence Democrat and a cosponsor of the bill. "If you do not have tax-exempt status, then you cannot lease from a nonprofit and not pay property taxes.

"Yet, it's been happening for years, and for-profit [entities] have been using it as a loophole to hide behind nonprofits," he added.

But the Hospital Association of Rhode Island, a trade organization, said it has "significant concerns" about the impact of the bill and if it becomes law, its impact on the future of health care delivery in Rhode Island. The association supports Mayor Brett Smiley's initiative to tax commercial businesses housed in properties owned by hospitals, but hospital association senior vice president Lisa Tomasso said this legislation "goes far beyond the stated intent."

In Providence, tax-exempt properties account for 44 percent of the land within the city, equating to $8 billion in assessed value, which is "significantly more than any other city or town in the state," said City Council President Rachel Miller.

Miller, who testified in favor of the bill, said it would "promote fairness and equity in the state tax system."

In sharp contrast, Tomasso said the bill would authorize cities and towns to tax hospital-owned real estate occupied by not-for-profit physician groups directly connected to the hospital's mission.

The bill passed the House on May 25. On the Senate side, Senator Frank A. Ciccone, a Providence Democrat, introduced the legislation earlier this year, but it has been stuck in the Finance Committee since early April.

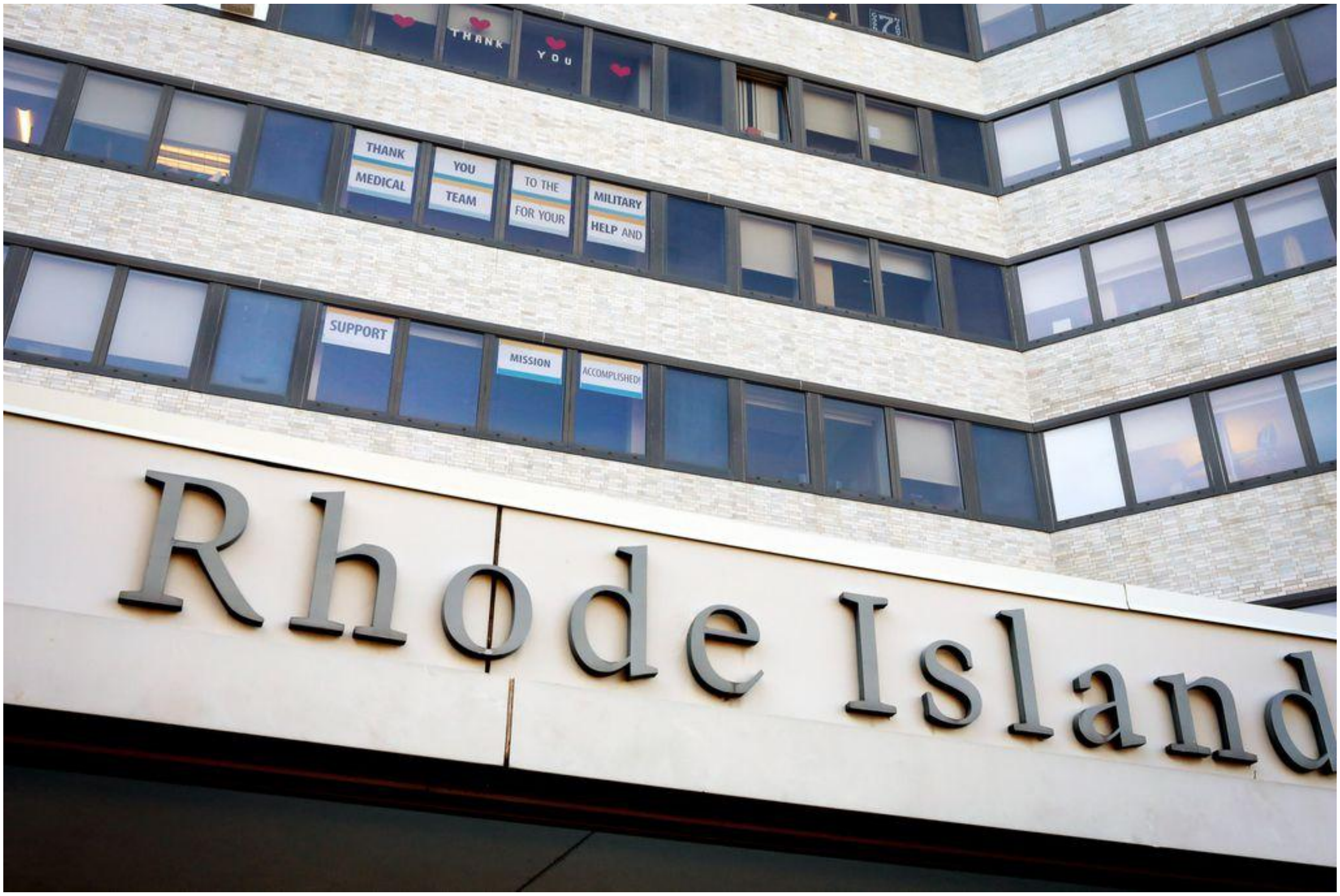
If it becomes law, Tomasso said it could allow Providence to create "an additional financial burden on our already struggling" hospitals and primary care physicians.

Representative Nathan W. Biah, the bill's House sponsor, could not be reached by the Globe. But Morales said he does "not interpret the bill to say at all" what the hospital association claims.

Tomasso, in response, said she is "very concerned that the full implications of the legislation have not been realized" by its sponsors.

Rhode Island allows certain kinds of organizations to be exempt from property taxes, which typically includes nonprofit hospitals and private universities. But not all not-for-profit groups are exempt from paying property taxes.

Coastal Medical, which is a nonprofit primary care group owned by Lifespan Corporation, is one example of a group that is not exempt, Tomasso said. Coastal Medical "is providing care for Lifespan. Their bills are paid for by Lifespan," she said. "Lifespan is the one who would be on the hook if the bill passes."



Signs posted in the windows of Rhode Island Hospital in Providence. BILL MURPHY / LIFESPAN

In 2022, hospitals in Rhode Island had "their worst financial year" since the beginning of the pandemic, according to executives. Collectively, they lost $90 million.

Statewide, hospitals paid $176 million in provider taxes — a tax charged at a percentage of net patient revenue — in 2022, and provided more than $200 million in uncompensated care. Hospitals paid more than $2.5 million in local property taxes, Tomasso said, and made $1 million in "volunteer payments" to host cities.

Josh Estrella, a spokesman for Smiley, said Providence did not receive any of these "volunteer payments" in 2022 or so far this year.

This additional tax, Tomasso said, would "place additional burdens and restrictions on nonprofit hospitals, which will weaken their already fragile financial positions, and have a direct impact on their ability to deliver high-quality care to the greatest number of people in a community."

By comparison, hospitals in Massachusetts are asked to voluntarily report spending on programs to address health issues that are considered a "community benefit." Boston has a voluntary Payment in Lieu of Taxes, or PILOT, payments system that asks major nonprofits — like hospitals and universities — to pay a stipend meant to cover costs for the city services they use, such as sewage, police, and other emergency services. State legislators have proposed extending the PILOT payments statewide. The bill has remained in the Joint Committee on Revenue.

According to a study by the Lincoln Institute, property tax rates for residents and businesses are significantly higher because of nonprofits' tax-exempt status. In Rhode Island, municipal leaders, including the advocacy group that represents them, have supported the proposed tax bill's changes.

Jordan Day, the associate director of the Rhode Island League of Cities and Towns, shared in testimony in support of the legislation that it could help prevent any new buildings that are bought by large nonprofits from immediately coming off the tax rolls.

"As an example, a medical building in the City of East Providence was recently purchased by a nonprofit hospital, and it came off the municipal tax roll," said Day. "The purpose and use of the building has not changed — only the owner has."

The news comes as Providence's PILOT agreements between hospitals and universities are set to expire at the end of June. Estrella said the Smiley administration is in the process of negotiating new agreements that "best supports the needs of the Providence community." He said the city expects to come to an agreement "in the coming months."

Morales acknowledged that the proposed bill "should not be seen as progress" when it comes to the city's PILOT agreements. Instead, he said he hopes the PILOT agreements negotiated by Smiley's administration can keep up with both inflation and property growth.

"At a minimum, any PILOT agreement moving forward should have large nonprofits pay one-third in what they would otherwise owe in property taxes," said Morales. "Right now, it calculates to just 12 percent of what they would owe. And it's hurting Providence residents."

This story has been updated to reflect passage of the legislation in the R.I. House.

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