House Bill 1438

Submitted Testimony

Josh Wolsky, Minot Citizen

IN OPPOSITION

Senators:

My name is Josh Wolsky. I had intended to be in Bismarck for this hearing in person today; the weather dictated otherwise. I submit this testimony representing no one but myself and what I believe are the best interests of Minot and North Dakota. Thank you for the opportunity to share my thoughts on HB 1438.

I stand firmly against this bill. And while I understand the good intentions and rationale behind it, the consequences for both Minot and the state scare me.

In that position, I will structure my opposition around three concerns. First, the effects on market economy land prices that come from lowering costs for non-profit organizations. Second, the impacts non-profit tax exemptions are already having on Minot that will be extended and worsened by this bill. Third, the danger of rewriting state law based on what may be an outlier situation and the experience of a distressed non-profit entity.

So, let's begin with a rhetorical question. If you did not have to pay property taxes — which is to say ownership would carry no costs, how many of you would buy land as an investment if you had the resources to do so?

The answer is all of you. Why? Because it would be the smart thing to do. Land is a good investment because, as they say, we're not making any more of it.

It's a well-understood economic principle — scarcity, or limited supply, pushes the cost of things up. Anybody who bought eggs over the past few months understands supply, demand, and prices.

If passed, this law will slowly start to reshape our land supply, demand, and market prices. Why? Because non-profits are led by smart people. They'll recognize that owning land is a good investment.

Now, more non-profits investing in land ownership is just one outcome the principles of economics would predict. But we all know laws are not made in a vacuum. They are introduced into a dynamic environment where other laws and outside forces impact the outcomes.

So I invite you to consider how another recent law change reshaping North Dakota — the not-long-ago-passed legalization of e-Tab machines in gaming sites - will interplay with HB 1438. In a commentary published in January on Inforum.com, journalist Rob Port called attention to the considerable revenue growth many non-profits are experiencing from charitable gaming. Here's a quick review. In 2022, the ND Association for the Disabled had $86.8 million gross revenue, Minot Hockey Boosters had $41.7 million, Bismarck Hockey Boosters had $27.4 million, Minot Junior Golf had $26.6 million — these are just a few examples pulled from the article.

So, first, we have non-profits across the state with lots of new income from e-Tab gaming. Second, we have a new incentive for non-profits to park their income in low-risk, high-return, tax-free land ownership.

What will happen? Again, the principles of economics tell us that the price of land will increase. More non-profits will begin participating in land speculation and acquisitions because this bill will eliminate land ownership costs.

The outcome will be a double-edged sword that cuts the private sector twice. It will cut them first when they have to pay higher prices for land because they're competing against cash-laden non-profits with lower ownership costs. And it will cut a second time when they pay property taxes because assessed values are informed by sale prices. If sale prices go up, so do assessments. And with less land on the tax rolls, who will make up the difference? Everyone who doesn't qualify for an exemption.

And here's the part that scares me the most. These changes won't happen fast. They'll take place slowly. They'll take place so slowly that by the time we recognize that something is broken, we'll have forgotten what caused it. And in the odd chance we do remember the cause, we'll have to take something away from non-profits to fix it. How politically popular is that likely to be on that future day?

Now to my second concern. As we reshape our land markets and prices, we're going to reshape the physical construct of our communities, too. I do not believe the outcomes will be positive. As a resource and example, I've included an overhead view of downtown Minot (attached at the end) and all the land one single non-profit — Trinity Health -- owns and operates on.

On all this land – nearly 18 acres, Trinity currently does not pay property taxes. Why? Because the law already protects non-profits from paying taxes — so long as they meet the low threshold of using their real estate to serve their non-profit purpose. As you can see, that threshold is met with parking lots on several parcels unattached to their operations.

Let's note the location, too. These parcels are on or near one of the busiest intersections — Broadway and Burdick Expressway — in all of North Dakota. You know what they say about the value of real estate, right? Location, location, location. As you can see, much of the real estate in Minot's best and busiest location is currently held property-tax-free.

How much are the citizens of Minot losing in property tax revenue on their most valuable real estate because Trinity's current use is meeting the threshold of serving a non-profit purpose? The answer is we don't know. We don't know what this property might have become if the law — in its current form — hadn't incentivized Trinity to acquire land, demolish buildings, and convert them to parking.

And as you are all likely aware, Trinity is on the eve of moving to a new campus in Southwest Minot. Construction on the project started nearly five years ago, and the move-in date is scheduled for later this spring.

It's an exciting milestone for Trinity and Minot, but it does come with a few questions and concerns. Namely, what happens to their downtown real estate when they move to the new hospital? One of the few incentives to push Trinity to act is the fact that — under the current law — they're going to presumably lose their non-taxable status on at least some of these parcels. That means the cost of ownership won't be free; there will be a financial incentive to push the real estate into some new future. Hopefully, for the taxpayers and citizens of Minot, that new future use would be a tax-bearing or community-enhancing use. In the best-case scenario, it would deliver both.

This bill destroys the one small incentive Trinity has to act on their real estate. And who will pay for it? Minot taxpayers will pay for it.

We'll pay for it when we fix the streets and plow the snow in front of their tax-free land investment. We'll pay for it in lost time and tax revenue while Trinity speculates on the future or waits for the best deal for them. And if we're in a hurry to see our downtown improve, we'll pay for it while we're held over the barrel and forced to put up public dollars to realize a new future.

This law removes the one small piece of leverage we the public have in seeing acres and acres of land in our downtown redeveloped into more productive uses.

And to my last concern, this bill seems to have been born from the fact Trinity Health has been paying taxes on their undeveloped and under-construction hospital for the duration of their construction project. The bill's sponsor Representative Bellew points out in submitted testimony that those taxes add up to more than $5 million over the past five years.

That's true — because that is the practice called for by the current interpretation of the law. And while that has led to considerable taxes paid, it should be noted that other hospitals have been built in North Dakota, and concerns on this issue did not arise. It should also be noted that the number is high because of the manner in which the construction project has been delivered.

The new Trinity Hospital construction project is on its third general contractor and construction management firm. The hospital was originally said cost $370 million and take a little over two years to complete. We’re now approaching 5 years and more than $500 million. The taxes paid by Trinity are not the result of unjust practices by political subdivisions; they’re the result of a construction project that has not gone well.

It should also be noted that we, the public, have borne significant costs from Trinity’s desire to relocate out of downtown Minot.

We, the public, built the road and infrastructure serving this portion of Minot at no small cost. There is one very recent special assessment put in the area for a traffic light, but other than that, the infrastructure costs in this area have been borne by the public, not Trinity or other land developers.

We, the public, chose to begin the process of relocating our landfill in part due to the concerns Trinity brought, suggesting that the birds attracted by the landfill would create dangers for helicopter life flights. The expense of relocating our landfill will fall to the public and ratepayers and cost tens of millions of dollars.

More recently, Trinity, through their foundation, requested a $3 million MAGIC Fund Grant to support the project's construction. The MAGIC Fund is Minot’s economic development fund; our local elected leaders did not judge this as a wise investment of public dollars. However, they did offer support through a loan of the same amount with favorable terms. Trinity did not accept the loan.

As a member of the public, I was grateful for the decision of our City Council. It’s a matter of easily discoverable public documents that Trinity is in a distressed financial position. Their credit rating and outlook were both recently downgraded by S&P Global Ratings. Their rating was downgraded from BBB- to BB+; their outlook was revised from ‘stable’ to ‘negative.’ The report is attached for your review.

Senators, I know all of Minot's legislators. I know many on Trinity's Executive team. And while I don't agree with them on every issue, I know they're good people who are serving Trinity, Minot, and our state with their best judgment and intentions.

And while I know this bill was brought in the spirit of those good intentions, I also believe this is a blind spot for us in Minot. Trinity is a hometown business; health care is important, and we want to do everything possible to support their important role and success. But I'm concerned — on this issue in Minot — we've lost sight of the forest for the sake of a single tree. Rewriting our state law to try and save it won't be good for Minot, and it won't be good for North Dakota.

I strongly encourage you to recommend a DO NOT PASS on this House Bill 1438. Thank you for the opportunity to provide this testimony.

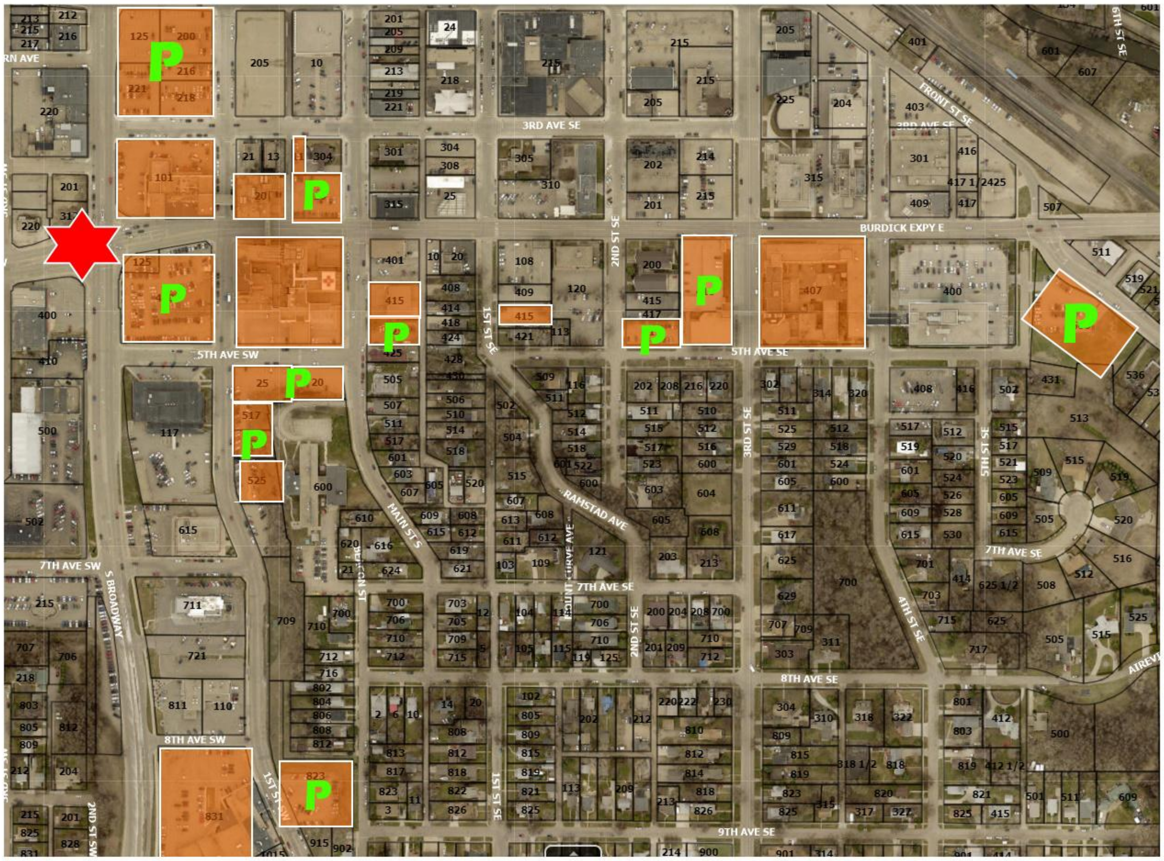
Respectfully Submitted,

Josh Wolsky, Minot Citizen

Attachments:

Minot Downtown Overhead View

S&P Ratings: U.S. Not-For-Profit Health Care Rating Actions, August 2022



Trinity Tax Free Real Estate in Downtown Minot (~ 18 Acres) P Parking Broadway & Burdick Expressway

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U.S. Not-For-Profit Health Care Rating Actions, August 2022

Primary Credit Analyst: **John Magers**

Secondary Contacts: **Cynthia S Keller, Suzie R Desai, Blake C Fundingsland**

Sector **U.S. Public Finance, Health Care, Not For Profit**

Tags **Americas**

View Analyst Contact Information

S&P Global Ratings affirmed 23 ratings without revising the outlooks, took eight rating actions, and revised six outlooks without changing the ratings in the U.S. not-for-profit health care sector in August 2022. We also placed ProMedica Healthcare Obligated Group on CreditWatch with negative implications in addition to lowering the rating and revised the outlook on Princeton Community Hospital in West Virginia from negative to developing. There was one new sale in August. The 14 rating and outlook actions consist of the following:

- Seven downgrades, on six stand-alone hospitals and one system;
- One upgrade, on one standalone hospital;
- Five unfavorable outlook revisions on one standalone hospital, three systems, and one long-term care provider (all to negative from stable); and
- One favorable outlook revision on one standalone hospital (from stable to positive).

The table below summarizes S&P Global Ratings' monthly bond rating actions for U.S. not-for-profit health care providers in August. We based the credit rating affirmations and rating actions on several factors within enterprise and financial profiles, including business position, utilization, financial performance, debt levels, bond-issuance activity, physician relationships, and the external regulatory and reimbursement environment. This also incorporates our stable sector view but we are incorporating the changing dynamics of the sector including the increased inflationary pressures, economic developments, and investment market volatility.

August 2022 Not-For-Profit Health Care Ratings Actions

Hospitals	State	Rating	Outlook	Action	Description
AnMed Health System and Affiliates	SC	A+	Stable	Rating maintained	Credit quality consistent with existing rating
Bexar County Hospital District	TX	AA	Stable	Rating maintained	Credit quality consistent with existing rating

Boston Medical Center	MA	BBB	Positive	Rating maintained; outlook revised from stable	Strengthened balance sheet, coupled with projections that operating margins will stabilize during the outlook period
Children's Hospital Los Angeles	CA	BBB+	Negative	Rating maintained; outlook revised from stable	Elevated operating losses coupled with lighter balance sheet metrics and potential capital spending
Comanche County Memorial Hospital	OK	BB+	Stable	Rating maintained	Credit quality consistent with existing rating
Good Shepherd Group	PA	BBB+	Negative	Rating lowered from A-; previous outlook negative	Ongoing operating losses and weakening debt metrics
Grand River Hosp Dist	CO	BB+	Negative	Rating maintained	Credit quality consistent with existing rating
Grand View Hospital	PA	BB	Stable	Rating lowered from BB+; previous outlook stable	Magnitude of unaudited operating losses in 2022 expected to continue in 2023 along with higher debt-related metrics

Halifax Hospital Medical Center Obligated Group	FL	A-	Stable	Rating maintained	Credit quality consistent with existing rating
Holy Redeemer Health System	PA	BB+	Stable	Rating lowered from BBB-; previous outlook negative	Persistent operating losses that have accelerated and limited balance-sheet growth
Jackson Hospital and Clinic	AL	BB	Negative	Rating lowered from BBB-; previous outlook negative	Unexpected, significant, and persistent operating losses and diminished unrestricted reserves
Jennie Stuart Medical Center	KY	BBB-	Stable	Rating maintained	Credit quality consistent with existing rating
Lake Regional Health System	MO	BBB+	Stable	Rating maintained	Credit quality consistent with existing rating
Lawrence Mem Hosp	KS	A-	Stable	Rating lowered from A; previous outlook stable	Expected continued decline in days' cash on hand and weaker operating performance
MetroHealth System	OH	BBB	Stable	Rating raised from BBB-; previous outlook positive	Sustained positive financial profile metrics and near completion of its new hospital

Nicholas H. Noyes Memorial Hospital (Livingston Health System)	NY	BB-	Stable	Rating maintained	Credit quality consistent with existing rating
Oroville Hosp	CA	B+	Negative	Rating maintained	Credit quality consistent with existing rating
Phoenix Children's Hospital	AZ	A+	Stable	Rating maintained	Credit quality consistent with existing rating
Princeton Community Hospital	WV	BBB	Developing	Rating maintained; outlook revised from negative	Upside potential from PCH's definitive agreement to be acquired by West Virginia University Health System
Scotland Memorial Hospital	NC	A-	Stable	Rating maintained	Credit quality consistent with existing rating
Sky Lakes Medical Center	OR	A-	Stable	Rating maintained	Credit quality consistent with existing rating
SouthEast Alaska Regional Health Consortium	AK	A-	Stable	Rating maintained	Credit quality consistent with existing rating
SoutheastHEALTH	MO	BBB-	Stable	Rating maintained	Credit quality consistent with existing rating

Trinity Health	ND	BB+	Negative	Rating lowered from BBB-; outlook revised from stable	Expected near-term decline of unrestricted reserves leading to very thin days' cash on hand and cash to long-term debt
UAB Health System	AL	AA-	Stable	Rating maintained	Credit quality consistent with existing rating
University Health System, Inc.	TN	BBB	Stable	Rating maintained	Credit quality consistent with existing rating
Yuma Regional Medical Center	AZ	A	Stable	Rating maintained	Credit quality consistent with existing rating
Health Systems					
Bon Secours Health System Inc.	MD	A+	Positive	New sale; rating maintained	Credit quality consistent with existing rating
CHRISTUS Health	TX	A+	Negative	Rating maintained; outlook revised from stable	Diminished unrestricted reserves and a weaker overall financial profile
Dartmouth-Hitchcock Obligated Group	NH	A	Stable	Rating maintained	Credit quality consistent with existing rating

Methodist Le Bonheur Healthcare and Affiliates	TN	AA-	Negative	Rating maintained; outlook revised from stable	Trend of weakening year to date operating performance and expectations of continued strain on unrestricted reserves
Northeast Georgia Health System	GA	A	Stable	Rating maintained	Credit quality consistent with existing rating
ProMedica Healthcare Obligated Group	OH	BB	Not meaningful	Rating lowered from BBB-; Rating placed on CreditWatch negative	Operating losses spurred by labor cost pressures, particularly in the skilled nursing side of the business.
Texas Health Resources	TX	AA	Stable	Rating maintained	Credit quality consistent with existing rating
Tufts Medicine	MA	BBB+	Negative	Rating maintained; outlook revised from stable	Heightened and unexpected operating losses in 2022
Long term care and human service providers					
Henry County Health Care Authority	AL	BB+	Negative	Rating maintained; outlook revised from stable	Multiyear trend of weak operating performance
Noland Health Services	AL	A	Stable	Rating maintained	Credit quality consistent with existing rating

Westhills Village Retirement Community	SD	A+	Stable	Rating maintained	Credit quality consistent with existing rating

This report does not constitute a rating action.

Primary Credit Analyst:	John Magers, New York + 1 (212) 438 1151; **john.magers@spglobal.com**
Secondary Contacts:	Cynthia S Keller, Augusta + 1 (212) 438 2035; **cynthia.keller@spglobal.com**
	Suzie R Desai, Chicago + 1 (312) 233 7046; **suzie.desai@spglobal.com**
	Blake C Fundingsland, Centennial + 1 (303) 721 4703; **blake.fundingsland@spglobal.com**

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