

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2253

2007 SENATE FINANCE AND TAXATION

SB 2253

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2253**

Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 12, 2007

Recorder Job Number: # 3377

Committee Clerk Signature

Sharon Penjron

Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2253

Sen. Klein prime sponsor of the bill appeared in support stating this came about after a discussion with something from St. Aloisius Medical Center and when they buy a piece of equipment the sales tax is exempt but when they have to hire someone to install that piece of equipment they wind up having to pick up the sales tax.

Gary Kennedy: St. Aloisius Medical Center appeared in support with written testimony. (See attached)

Sen. Oehlke: so if I am a contractor and want to do work on your facility and you are a non-profit organization, I have to pay the sales tax on the materials I buy and use on your facility, I still have to pay that, correct?

Gary: yes, anything installed to our facility has to pay tax on.

Arnold Thomas - Pres. Of the ND Healthcare Assoc. appeared in support of this bill and the reason this bill was brought to you was because of a particular set of circumstances involving a hospital. The FN extends beyond those tax exempt facilities that are licensed by the State of ND as hospitals. I don't believe that sales tax is limited exclusively to the hospital community

in terms of the volume of activity that's on-going both in terms of internal construction and/or expansion or modification of existing fiscal plans.

About 50% of the hospitals revenues in ND comes from Washington DC in terms of Medicare payments, those are fixed, non-negotiable including in that payment amount the facility must make decisions relative to capital expenditures. The interest end of the revenue stream in ND comes from the state of ND in terms of Medicaid payments. Similarly those are set by the State of ND's Dept. of Human Services, those are non-negotiable. The additional major revenue stream in ND is Blue Cross/Blue Shield, 24% thereabouts, those are also non-negotiated, those are unilaterally set, they are not contracted, you either accept them or you don't. You don't have any other alternative other than being a non-participating provider with BC/BS and attend to collect the money directly from the patient. That puts the patient at a very difficult position and consequently or basically accept whatever it is that BC/BS puts on the table for payment. The remaining money that is available to the institutions comes from people who pay out of their pocket or who have other kinds of coverage. What we have here is an inability to pass the tax that we currently pay for things. What you have here today is to close an exemption or permit an exemption for hospitals which they enjoy in every other purchase but for capital acquisitions and I don't understand how the 14 million would be reduced if it was limited to hospitals which is what triggered the request for this bill for Sen. Klein.

Sen. Cook: the bill talks about a refund that the hospital can apply for when the sales tax is applied to the hospital, why is the repealer in there?

Arnold: we're just supporting the bill we did not draft it

Sen. Cook: we have two solutions to the problem in this bill, there is no need for section 1, the refund part of it, I believe if you're going to repeal the lot.

Arnold: our interest would be that as licensed by the State were allowed to be exempt from the tax we're talking about. This is much broader than the issue that created it.

Sen. Horne: what other organizations will this help?

Miles Vosberg: Tax Dept. states that this is much broader than hospitals, it's all ____ of government so you've got federal, state, local, schools, hospitals, and nursing homes those would be the major entities that are exempt under here.

Sen. Cook: could the hospital solve this problem themselves by somehow, once they pick their contractor, the hospital purchases the actual supplies that are going to be needed and then just pays the contractor the labor.

Miles: right now they cannot with the exception of certain medical equipment. What you don't see in this bill, section 2 where it's the repeal. That section says that the contractor is liable to pay tax regardless of who owns it. Then there's an exception to that for hospitals where if the hospital purchases the equipment and it's installed, they don't have to pay the tax but it doesn't apply to your basic building materials, that applies only to medical equipment itself.

Closed the hearing.

Sen. Horne: I think its too bigot, the hospitals are the ones who have the concern and we adjust it down benefit only hospitals, is that unfair favoritism to other non-profit organizations who might have contract issues like this? I think it's too broad the way it is.

Sen. Cook: I think to remodel this bill so that I would just deal with that more narrow just hospitals only like the intent of the sponsor, that would require a hog house and some time. I would want to see what that FN would be then. The other point is consideration of time, I think maybe the best is to put a DNP on this bill and encourage Sen. Klein to work with Council to remodel to come up with an amendment that would be needed.

Sen. Cook: made a Motion for **DO NOT PASS**, seconded by Sen. Tollefson.

Sen. Triplett: to answer Sen. Horne's question, I think the most obvious next group that would be affected is probably nursing homes and they would be able to make exactly the same argument.

Roll call vote: 7-0-0 Sen. Oehlke will carry the bill.

FISCAL NOTE

Requested by Legislative Council

01/16/2007

Bill/Resolution No.: SB 2253

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			(\$14,208,000)	(\$1,236,000)		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2253 provides a refund of sales and use taxes paid by contractors for goods to be installed for tax exempt entities. The bill also repeals the requirement that use tax be paid by contractors.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

SB 2253 is expected to reduce state general fund and state aid distribution fund revenues by an estimated \$15.444 million in the 2007-09 biennium.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/12/2007

Date: 2-13-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2253

Senate Finance & Tax Committee

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Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sen. Cook Seconded By Sen. Tollefson

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook	✓		Sen. Triplett	✓	
Sen. Oehlke	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Oehlke

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2253: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends DO NOT PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2253 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

SB 2253

St. Aloisius Medical Center is a not for profit organization. Every dollar we make goes back into the organization. Because we are a small rural hospital, our profit margin is very small, if we make a profit at all.

Since we are not for profit, we are sales tax exempt. However if we hire a contractor to do work for us, like a plumber or electrician, and they install some item that is normally taxed, they have to pay the tax on it and then charge us a "contractor's fee" for the amount of what the tax was. So basically we are paying tax on those items that the contractor installed, even though we are tax exempt.

If we were a large facility like St. A's here in Bismarck, we could have electricians and plumbers on staff. Then we wouldn't have to worry about the contractor's fee. But that is not feasible for our facility.

I believe Senate Bill 2253 would save our facility thousands of dollars every year. And our facility needs to save every dollar we can to survive.