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Economic Analysis of Proposals to Limit the Municipal Bond Market: 501(c)(3) Issuance



National Association of Health and Educational Facilities Finance Authorities

Conducted for the National Association of Health
and Educational Facilities Finance Authorities

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Executive Summary

- Proposals to limit or eliminate 501(c)(3) tax exempt financing would be felt across the US economy
- A 28% cap on interest exemption would, based on average spending in the past decade, reduce US gross domestic product by \$8.3-billion per year. It would cost the nation 104,652 jobs and \$5.5-billion in labor income annually
- A complete elimination would reduce gross domestic product by \$23.6-billion and lose 299,003 jobs generating \$15.6-billion in labor income
- Higher interest expenses limits nonprofits ability to fund important capital projects for hospitals and schools that create long-term economic value for communities across the nation



501(c)(3) tax exempt financing

- Additional interest costs from pending tax exempt bond “reform” proposals would limit nonprofits ability to fund new projects resulting in significant direct and indirect job losses which would be felt across the US economy.
- Nonprofit organizations relied on 501(c)(3) tax exempt financing to raise \$554-billion for capital projects from 2003-2012
- Proposals to reduce or eliminate the interest tax exemption would cost nonprofits billions more in interest expenses:
 - A 28-percent benefit cap on tax exempt interest would have increased total interest expenses by \$58.2-billion from 2003-2012
 - A complete elimination would have cost nonprofits an additional \$166.3-billion



Types of projects funded

- General acute care hospitals
- Critical access hospitals
- Children's hospitals
- General medical and surgical facilities
- Single specialty hospitals
- Higher education and private school facilities
- Libraries, museums, cultural and performing arts centers
- Senior and assisted living and nursing homes
- Behavioral health care centers



Examples of hospitals and healthcare

- Children's, Single Specialty, General Acute Care Hospitals:
 - Detect, prevent, control, and cure disease
 - Employ workers at every skill level
 - Over 17 million employed in healthcare services industry in US
 - Provides stability and growth in economic downturns
 - Industry historically immune to business cycle fluctuations
 - Demographic changes and technological advances drives investment demand
 - Positive socio-economic externalities
 - New hospitals lure other businesses and provide for healthier communities
- Hospital equipment loans-provide needed capital equipment
- Provide needed capital equipment for electronic medical systems to comply with HIPAA



Project examples: health care

- Rehabilitation Institute of Chicago: \$450 million tax exempt bond financing constructing a 242 bed rehabilitation Hospital in Chicago, Illinois creating 330 new jobs and 1460 construction jobs
- Memorial Sloan – Kettering Cancer Center: \$89.5 million in bonds to pay a portion of the costs of constructing, improving and equipping a new outpatient care facility in Harrison New York
- Palmetto Health in Columbia ,South Carolina: \$215 million financing for the construction and equipping of a new hospital, creating 270 new jobs and retaining 7562 existing jobs
- Lifespan Hospital Network in Providence, Rhode Island: \$50 million funding to acquire state-of-the-art integrated electronic medical record systems to improve patient care in four hospital network
- Western Montana Mental Health Center : \$1.7 million construction of 16 bed adult patient addiction treatment facility, resulting in 19 permanent new jobs and 250 construction jobs



Education, cultural and art museums

- Higher and private education:
 - Supports and attracts a more productive workforce, center for research and innovation, helps spur new business ventures
 - Directly employs and supports millions of US jobs
- Libraries, museums, and performing arts:
 - Rich source of information, promotes culture and community
 - Serves as a major draw for tourism and recreation
- Examples of projects funded:
 - Providence College: \$38 million funding for construction of an academic building, new 200 bed dormitory and renovation to other campus facilities in Providence Rhode Island
 - Wolcott School in Chicago, Illinois: \$3 million tax-exempt financing for acquiring and equipping a new high school for students with learning challenges and disabilities (20 new jobs, 20 construction jobs)



Using IMPLAN to model 501(c)(3) impacts

- National inter-industry purchasing relationships derives the full effects on regional economic activity resulting from direct project expenditures on goods and services.
- Multiplier effect: a decrease of \$1-million in final demand spending leads to a loss of 18 total jobs throughout the economy
- Two types of economic impacts generated through the supply chain linkages:
 - *Indirect effects* are generated when a business directly involved in the change in spending purchases inputs from its suppliers located in the region. This spending supports suppliers as well as the business supporting those firms etc.
 - *Induced effects* are produced by the change in local spending of disposable income by all the workers involved in the event being studied, including both the direct workers supported by the initial changes in final demand (e.g., the construction workers) and by workers in the supplying industries (e.g., firms that sell concrete to the contractor).



Potential annual economic impacts

	28% Cap		Full Repeal	
Interest cost increase, mil. \$	5,819		16,627	
	Direct	Total	Direct	Total
Employment, number of jobs	41,134	104,651	117,526	299,003
Labor income, mil. \$	2,154	5,483	6,153	15,664
Gross domestic product, mil. \$	2,650	8,256	7,570	23,590
Output, mil. \$	5,819	16,060	16,627	45,885
State/local taxes, mil. \$		603		1,723
Federal taxes, mil. \$		1,146		3,275



Employment Impacts By Industry (Jobs)

INDUSTRY	28% Cap	Full Repeal
TOTAL	104,651	299,003
Construction	41,758	119,309
Professional & Business Services	12,131	34,661
Trade, Transportation, & Utilities	11,919	34,055
Manufacturing	8,395	23,986
Education & Health Services	8,144	23,268
Financial Services	7,895	22,558
Leisure & Hospitality Services	6,475	18,500
Other Services	4,308	12,309
Information Services	1,229	3,512
Agriculture, Forestry, Fishing	1,173	3,353
Government	729	2,084
Natural Resources & Mining	493	1,409



28% Exemption Cap

Industry	Total	Direct	Indirect	Induced
Construction	41,758	41,134	279	345
Professional & Business Services	12,131	-	7,696	4,435
Trade, Transportation, & Utilities	11,919	-	3,119	8,800
Manufacturing	8,395	-	6,547	1,848
Education & Health Services	8,144	-	12	8,132
Financial Services	7,895	-	2,170	5,725
Leisure & Hospitality Services	6,475	-	1,219	5,255
Other Services	4,308	-	1,002	3,306
Information Services	1,229	-	484	745
Agriculture, Forestry, Fishing	1,173	-	327	846
Government	729	-	195	534
Natural Resources & Mining	493	-	299	194



Full Repeal

Industry	Total	Direct	Indirect	Induced
Construction	119,309	117,526	798	985
Professional & Business Services	34,661	-	21,989	12,673
Trade, Transportation, & Utilities	34,055	-	8,912	25,143
Manufacturing	23,986	-	18,705	5,281
Education & Health Services	23,268	-	34	23,234
Financial Services	22,558	-	6,199	16,358
Leisure & Hospitality Services	18,500	-	3,484	15,016
Other Services	12,309	-	2,863	9,446
Information Services	3,512	-	1,384	2,129
Agriculture, Forestry, Fishing	3,353	-	935	2,418
Government	2,084	-	557	1,527
Natural Resources & Mining	1,409	-	854	555



Conclusion

- Proposals to limit or eliminate 501(c)(3) tax exempt financing would be felt across the US economy
- A 28% cap on interest exemption would, based on average spending in the past decade, reduce US gross domestic product by \$8.3-billion per year. It would cost the nation 104,652 jobs and \$5.5-billion in labor income annually
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