



**American Hospital
Association**

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February 26, 2008

Honorable Mike Crapo
United States Senate
Washington, DC 20510

Dear Senator Crapo:

On behalf of the American Hospital Association's (AHA) nearly 5,000 member hospitals, health systems and other health care organizations, and our 37,000 individual members, I am writing in support of your legislation, S.1963, to allow bonds with credit enhancement by the Federal Home Loan Banks to be treated as tax-exempt bonds. This important legislation would provide tax-exempt hospitals with an alternative credit enhancement opportunity at a time when capital markets are under pressure and hospital capital costs are soaring.

Healthcare construction project starts doubled from 2004 to 2006, and are expected to continue at a rapid pace. At the end of 2005, renovations, a \$6 billion market with 1,000 projects underway, accounted for one third of all acute-care hospital construction. Square-foot costs of construction jumped 8 percent nationwide in 2006, and considerably higher in some states. The rising cost of oil, growing global demand for materials, and a potential labor shortage drive these cost increases. Hospitals are unable to control such market forces. The situation becomes particularly acute as inpatient needs increase due to the aging of the U.S. population. Further, the Bush Administration's 2009 budget calls for a reduction of \$3 billion in Medicare's share of hospital capital costs, as part of an overall proposed reduction in Medicare hospital payments of \$135 billion over 5 years.

Tax-exempt hospitals need every tool available to reduce their capital costs in light of their increasing needs for necessary construction and modernization. As hospitals lower their capital costs, the cost to the government health care programs is also reduced. Your legislation would provide hospitals with an important tool for lowering capital costs and enhance their ability to meet the construction and modernization needs of the future.

Sincerely,

Rick Pollack
Executive Vice President

