

Major Hospital Network Tax Planning For Large Energy Cost Savings as of January 1, 2014

By Charles R. Goulding, Jacob Goldman, & Jennifer Pariente

Analysts at Energy Tax Savers take a look at the EAct tax aspects of the Hospital Industry.

The nation's major hospital networks are consolidating and becoming much larger property owners in the new Obama healthcare era. Hospital owners are often the largest land owners, employers and energy users in the jurisdictions they operate in.

One of the prime anticipated beneficiaries of the expected extension and expansion of the Section 179D benefits potentially available as of January 1, 2014 is hospitals and, in particular, not-for-profit hospitals. The hospital sector has lagged in achieving building energy efficiency as compared to other property sectors and pre-January 1, 2014 the not-for-profit sector has not been able to benefit from building energy efficiency tax savings. Studies indicate that as a result of their 24/7 operation, patient comfort and other needs that hospitals utilize 2.5 times the amount of energy as similar sized commercial buildings which presents a tremendous cost savings opportunity¹.

With new legislative proposals the current EAct tax incentives is anticipated to increase and for the first time include not-for-profit hospitals.

Current Law

Pursuant to Energy Policy Act (EAct) Section 179D, warehouse and building owners or tenants making qualifying energy-reducing investments in their new or existing locations can obtain immediate tax deductions of up to \$1.80 per square foot.

If the building project doesn't qualify for the maximum EAct Section 179D \$1.80 per square foot immediate tax deduction, there are tax deductions of up to \$0.60 per square foot for each of the three major building subsystems: lighting, HVAC, and the building envelope. The building envelope is every item on the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

Proposed Law

Under the proposal to extend EAct the \$1.80 would increase to \$3.00, meaning \$1.00 each for lighting, HVAC and the building envelope. Most importantly, benefits would now be available for design teams working on not-for-profit hospitals.

¹ Charles R. Goulding, Robert Goulding, and Raymond Kumar. (2009) *The Energy Tax Aspects of Hospitals*. Corporate Business Taxation Monthly. November issue, pages 15-16 & 38.

Potential Savings for Largest Not-for-Profit Hospitals in the U.S.

The table below demonstrates the largest not-for-profit hospitals in the United States and their potential EAct tax benefits:

Largest Not-for-Profit Hospitals in USA
Potential Tax Deductions Available for Energy Efficient Building Improvements

Hospital	State	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
			Minimum Deduction	Maximum Deduction			
NY Presbyterian/Weill Cornell Medical Center	NY	447,200	\$ 134,160	\$ 447,200	\$ 447,200	\$ 447,200	\$ 1,341,600
Florida Hospital Orlando	FL	394,400	\$ 118,320	\$ 394,400	\$ 394,400	\$ 394,400	\$ 1,183,200
Jackson Memorial Hospital	FL	351,200	\$ 105,360	\$ 351,200	\$ 351,200	\$ 351,200	\$ 1,053,600
Univ. of Pittsburgh Medical Center Presbyterian	PA	320,400	\$ 96,120	\$ 320,400	\$ 320,400	\$ 320,400	\$ 961,200
Montefiore Medical Center – Moses Division Hospital	NY	285,400	\$ 85,620	\$ 285,400	\$ 285,400	\$ 285,400	\$ 856,200
Baptist Medical Center	TX	280,400	\$ 84,120	\$ 280,400	\$ 280,400	\$ 280,400	\$ 841,200
Orlando Regional Medical Center	FL	273,400	\$ 82,020	\$ 273,400	\$ 273,400	\$ 273,400	\$ 820,200
Methodist University Hospital	TN	254,600	\$ 76,380	\$ 254,600	\$ 254,600	\$ 254,600	\$ 763,800
The Cleveland Clinic	OH	254,000	\$ 76,200	\$ 254,000	\$ 254,000	\$ 254,000	\$ 762,000
Barnes-Jewish Hospital	MO	251,600	\$ 75,480	\$ 251,600	\$ 251,600	\$ 251,600	\$ 754,800
Buffalo General Hospital	NY	248,200	\$ 74,460	\$ 248,200	\$ 248,200	\$ 248,200	\$ 744,600
The Mount Sinai Medical Center	NY	244,600	\$ 73,380	\$ 244,600	\$ 244,600	\$ 244,600	\$ 733,800
Norton Hospital	KY	230,000	\$ 69,000	\$ 230,000	\$ 230,000	\$ 230,000	\$ 690,000
Erie County Medical Center	NY	227,400	\$ 68,220	\$ 227,400	\$ 227,400	\$ 227,400	\$ 682,200
Memorial Hermann Southwest Hospital	TX	227,200	\$ 68,160	\$ 227,200	\$ 227,200	\$ 227,200	\$ 681,600
UAB Hospital	AL	224,200	\$ 67,260	\$ 224,200	\$ 224,200	\$ 224,200	\$ 672,600
North Shore University Hospital	NY	216,400	\$ 64,920	\$ 216,400	\$ 216,400	\$ 216,400	\$ 649,200
Christiana Hospital	DE	216,200	\$ 64,860	\$ 216,200	\$ 216,200	\$ 216,200	\$ 648,600
Beaumont Hospital, Royal Oak	MI	212,200	\$ 63,660	\$ 212,200	\$ 212,200	\$ 212,200	\$ 636,600
Spectrum Health Butterworth Hospital	MI	206,600	\$ 61,980	\$ 206,600	\$ 206,600	\$ 206,600	\$ 619,800
Jewish Hospital	KY	205,000	\$ 61,500	\$ 205,000	\$ 205,000	\$ 205,000	\$ 615,000
Albert Einstein Medical Center	PA	203,600	\$ 61,080	\$ 203,600	\$ 203,600	\$ 203,600	\$ 610,800
Bergen Regional Medical Center	NJ	201,200	\$ 60,360	\$ 201,200	\$ 201,200	\$ 201,200	\$ 603,600
Beth Israel Medical Center – Petrie Division	NY	200,800	\$ 60,240	\$ 200,800	\$ 200,800	\$ 200,800	\$ 602,400
Brookdale University Hospital and Medical Center	NY	191,000	\$ 57,300	\$ 191,000	\$ 191,000	\$ 191,000	\$ 573,000

Potential Savings for Largest Health Systems in US

The table below demonstrates the largest health systems by hospital ownership in the United States and their corresponding potential EAct benefits:

Largest Health Systems by Hospital Ownership

Potential Tax Deductions Available for Energy Efficient Building Improvements

Healthcare System	Total Square Footage	Lighting		HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
		Minimum Deduction	Maximum Deduction			
Department of Veteran Affairs	8,150,800	\$ 2,445,240	\$ 8,150,800	\$ 8,150,800	\$ 8,150,800	\$ 24,452,400
HCA Inc.	6,966,400	\$ 2,089,920	\$ 6,966,400	\$ 6,966,400	\$ 6,966,400	\$ 20,899,200
Universal Health Services Inc.	4,087,200	\$ 1,226,160	\$ 4,087,200	\$ 4,087,200	\$ 4,087,200	\$ 12,261,600
Community Health Systems	3,585,800	\$ 1,075,740	\$ 3,585,800	\$ 3,585,800	\$ 3,585,800	\$ 10,757,400
Tenet Healthcare Corporation	2,443,000	\$ 732,900	\$ 2,443,000	\$ 2,443,000	\$ 2,443,000	\$ 7,329,000
Kindred Healthcare Inc.	1,496,000	\$ 448,800	\$ 1,496,000	\$ 1,496,000	\$ 1,496,000	\$ 4,488,000
Catholic Health Initiatives	1,364,200	\$ 409,260	\$ 1,364,200	\$ 1,364,200	\$ 1,364,200	\$ 4,092,600
LifePoint Hospitals Inc.	1,187,600	\$ 356,280	\$ 1,187,600	\$ 1,187,600	\$ 1,187,600	\$ 3,562,800
Select Medical Corporation	1,026,400	\$ 307,920	\$ 1,026,400	\$ 1,026,400	\$ 1,026,400	\$ 3,079,200
HealthSouth Corporation	1,026,200	\$ 307,860	\$ 1,026,200	\$ 1,026,200	\$ 1,026,200	\$ 3,078,600

Federal Government Should Reward Energy Efficiency

The Federal government is already the largest healthcare system customer and is about to get much bigger with the addition of 30 million more insured. The federal government may want to take the Wal-Mart supply chain approach² where suppliers are financially rewarded if they

make their facilities more energy efficient or increase their percentage of self generated energy.

Hospital Energy Efficiency

Due to their 24/7 operating requirements and large human occupancy levels from combined patient and staff levels, hospitals consume tremendous amounts of energy. The 24 hour operation provides a 200 to a 300 improvement in economic payback from the same efficiency percentage available in a building only used

² Charles R. Goulding, Jacob Goldman, & Christopher Winslow. (2011). *The EAct and Alternative Energy Tax Aspects of Walmart's Supplier Sustainability Program*. June issue, pages 13-16 & 42 -43.

5 days a week and for normal business hours.

Hospitals and LED Lighting

Energy use constitutes as one of the largest costs in hospitals, but it is also one of the most controllable costs. LED lighting is exceptionally efficient, which pays particular dividends in hospitals where lights operate day and night. LEDs boast life-spans in excess of twice the average span of a conventional bulb, and require far less maintenance. As sticker prices continue to fall for LEDs, the cost-benefit analysis has shifted markedly in favor of LEDs.

In addition to their efficiency, LEDs are also noted for meaningful contributions to quality of care itself. Below are some such advantages:

- LED lighting is favorable for MRI diagnostic areas due to its light quality and its endurance within such an environment due to filaments unaffected by magnetic fields.
- LEDs conform to AIA Guidelines for Design and Construction of Hospital and Health Care Facilities by eliminating mercury³.
- LED lighting is being used as a healing agent to help ameliorate the side-effects of chemotherapy and improve infant skin diseases.
- CT and Ultrasound scan rooms have adapted dimmable LED bulbs and tubes for improved examination and patient comfort.
- The higher lumen output of LEDs helps reduce errors made by medical

³ “The Best Lighting Choice for Hospitals.” My LED Lighting Guide.
<http://www.myledlightingguide.com/Article.aspx?ArticleID=22>

practitioners in examination and surgical rooms.

Hospitals and Energy Efficient HVAC

Since hospitals are human-occupied, 24/7 facilities, HVAC is the largest building energy cost item. However, the role of HVAC in hospital care cannot be understated. Hospital HVAC systems are responsible for heating, cooling and ventilation, but also infection control, removal of harmful toxins, and providing environments conducive for medical procedures and patient recovery. Energy efficient ventilation allows hospitals to maintain low pressures for highly contaminated rooms to reduce the spread of infection and maintain high pressure in operating rooms to increase airflow. Hospital HVAC systems can also detect fires and eliminate smoke from exits and enclosures. Energy efficient chillers and energy efficient air changeover ventilation systems are often eligible for EAct tax incentives⁴.

HVAC technology therefore presents a major opportunity to help hospitals both cut costs and improve quality of care. Specific HVAC controls include heat recovery (to recover 40% of all heat energy used), in-room environment tempering, vacancy air control, geothermal, and thermal energy storage systems.

Conclusion

Not-for-profit hospitals make up the largest ownership percentage of all hospitals and should not be treated

⁴ Charles R. Goulding, Jacob Goldman, & Joseph Most. (2010). *The Energy Tax Aspects of Chillers*. Corporate Business Taxation Monthly. October issue, page 15 -16, 41-42.

differently for tax purposes than for profit hospitals and government hospitals. Our entire country would benefit from a material reduction in hospital related energy costs.

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