

STATE OF MINNESOTA

IN SUPREME COURT

A21-0619

Tax Court

Hudson, J.

Perham Hospital District,

Respondent,

vs.

Filed: January 24, 2022
Office of Appellate Courts

County of Otter Tail,

Relator.

Masha M. Yevzelman, Lynn S. Linné, Fredrickson & Byron, P.A., Minneapolis, Minnesota, for respondent.

Michelle M. Eldien, Otter Tail County Attorney, Benjamin G.A. Olson, Assistant County Attorney, Fergus Falls, Minnesota, for relator.

S Y L L A B U S

The Tax Court did not commit clear error by finding that the Hospital District owned, used, or occupied its clinics to improve and run the district's hospital and, therefore, the clinics are exempt from tax under Minn. Stat. § 447.31, subd. 6 (2020).

Affirmed.

OPINION

HUDSON, Justice.

This appeal concerns the exemption from property tax provided for hospital districts. *See* Minn. Stat. § 447.31, subd. 6 (2020) (stating that certain property “acquired, owned, leased, controlled, used, or occupied” by a hospital district “for the purposes of sections 447.31 to 447.37” is exempt). At issue is whether to classify medical clinics that are owned and operated by respondent, Perham Hospital District (District), as taxable or exempt. The District owns and operates Perham Hospital (Hospital) and in 2011, acquired three clinics: Perham Clinic, Ottertail Clinic, and New York Mills Clinic (collectively, Clinics). Relator Otter Tail County classified the Clinics as commercial and thus subject to property tax, determining that the tax exemption provided in section 447.31 for hospital districts is available only to hospitals and not to clinics. The District filed refund claims, contending that the Clinics are properly classified as exempt property. The County denied those claims, and the District filed timely appeals with the tax court for each tax year at issue, challenging the County’s classification. Before the tax court, the District asserted that the Clinics are exempt under Minn. Stat. § 447.31, subd. 6.¹ The tax court agreed with the District, concluding that the District used the Clinics to improve and run Perham Hospital during the tax years at issue, and in the alternative, operated the Clinics as hospital

¹ The District also asserted that the clinics are exempt under either the public purpose or public hospital clauses in Article X, section 1 of the Minnesota Constitution. The tax court did not address the constitutional basis for an exemption and, thus, this separate claim is not before us.

facilities. The County sought review of the tax court's ruling by writ of certiorari. We affirm.

FACTS

The District was formed in 1976 as a public, nonprofit healthcare organization to provide health care to rural communities near Perham, Minnesota. The District is a municipal corporation and political subdivision of the State. Minn. Stat. § 447.31, subd. 6. Its mission is to promote health and wellness and to improve the health of the community it serves.

Since its formation, the District has owned and operated the Hospital, a 25-bed, critical access hospital that provides a full continuum of care on an annual basis for more than 900 inpatients, 6,500 emergency room patients, and 40,000 clinic visits. During the years at issue, the Hospital was organized into approximately 20 operational departments—including a department for the Clinics. Most of the departments provide patient care; only medical/surgical and obstetrics offer inpatient, overnight care.² The remaining departments offer outpatient services only. Although each department has a physical location in the Hospital or clinic facilities, each provides services in many different spaces throughout those facilities.

In 2011, the District acquired the business, assets, and real property of the Clinics to serve the needs of Perham Health and its surrounding communities, concluding that the

² The Hospital's 20 operational departments include non-patient care services such as maintenance and housekeeping. Out of 20 departments, 13 or 14 provide patient care, 2 of which provide inpatient care; the remaining 11-12 departments provide outpatient services only.

Clinics would be convenient or necessary to running and improving the Hospital. In 2012, the District completed construction of a new hospital facility in Perham, then relocated the Perham Clinic to a space within the Hospital. During the tax years at issue here (2014-2018), the District operated the Hospital and the three Clinics under the brand name, Perham Health. The District governs and controls Perham Health; neither Perham Health nor the individual clinics are separate entities, but instead operate under the Hospital's license.

After the County denied the tax refund claims, the District appealed to the tax court. Before trial, the tax court construed the language in Minn. Stat. § 447.31, subd. 6, which provides an exemption for property that is used by the District “for the purposes of sections 447.31 to 447.37,” to mean property that is used “to acquire, improve, and run” the Hospital. *Perham Hosp. Dist. v. County of Otter Tail (Perham I)*, 2019 WL 3210638, at *3-5, (Minn. T.C. July 10, 2019). The tax court reached this conclusion by tracing the statutory language in 447.33, subdivision 1 that uses this phrase (“to acquire, improve, and run” a hospital) in describing a hospital district's purposes, and as further “supported by the text of related provisions in the specified statutory range that likewise refer to these same purposes.” *Id.* Thus, according to the tax court, the clause, “for the purposes of sections 447.31 to 447.37,” Minn. Stat. § 447.31, subd. 6, means that for the property to be exempt, the hospital district must own, use, or occupy that property “to acquire, improve and run” the district's hospital. *Perham I*, 2019 WL 3210638, at *5.

Based upon this statutory interpretation, the tax court denied the parties' respective motions for summary judgment, concluding that disputed factual issues existed regarding

the District’s use of the Clinics and whether that use was to improve and run the Hospital. *Id.* at *7; *Perham Hosp. Dist. v. County of Otter Tail (Perham II)*, 2020 WL 2517002, at *6-7 (Minn. T. C., May 12, 2020).

The evidence presented at trial addressed the organization and operations of the Hospital, the Clinics, and the District; the reasons for and the decision to acquire the Clinics; and relevant policies for the District, the Clinics, and the facilities. Because the District is entitled to an exemption only if the property is used for statutory purposes, the tax court began by “identify[ing] those purposes.” *Perham Hosp. Dist. v. Cnty. of Otter Tail (Perham III)*, 2021 WL 1099500, at *10 (Minn. T.C. Mar. 18, 2021). Based on the evidence presented at trial, the tax court concluded that the Clinics are exempt from tax under section 447.31, subdivision 6, because the District used the Clinics for a statutory purpose. *Id.* at *22–28. The tax court recognized that this determination rested, in the first instance, upon the meaning of the term “hospital,” and the extent to which a hospital is distinct from a clinic. *Id.* at *18. Drawing upon the analysis used in constitutional tax exemption cases, the tax court analyzed this threshold issue by focusing on the “empirical” question of “what hospitals actually did—and were required to do—during the tax periods in issue,” rather than on “dictionary definitions.” *Id.* at *19–20 (citing *Chisago Health Services v. Commissioner of Revenue*, 462 N.W.2d 386, 389-90 (Minn. 1990)). To the extent the Hospital and Clinics are distinct, the tax court framed the “critical question [a]s whether a district occupied and used (non-hospital) property to improve and run its hospital.” *Id.* *20. The tax court found that standard met, “finding that the District occupied and used the Clinic Properties to improve and run the Perham Hospital during the

tax years at issue.” *Id.* at *22-25. The tax court also alternatively concluded that the District’s clinics were exempt because they were not distinct from the Hospital, but rather were fully integrated with the Hospital, were used as mere arms of the Hospital, and thus were operated as “[h]ospital facilities” to improve and run Perham Hospital. *Id.* at *25 (concluding that “it is more accurate to say that the Hospital operated the Clinics as Hospital facilities”); *id.* at *28. The tax court therefore concluded that for both of these independent reasons, the Clinics are exempt from tax under Minn. Stat. § 447.31, subd. 6. *Perham III*, 2021 WL 1099500, at *28.

The County filed a timely petition for writ of certiorari, requesting review of the tax court’s decision.

ANALYSIS

Our review of the final order of the tax court is limited. *Hutchinson Tech., Inc. v. Comm’r of Revenue*, 698 N.W.2d 1, 6 (Minn. 2005). We review de novo whether the tax court committed an error of law, including with respect to the interpretation of a statute. *Marks v. Comm’r of Revenue*, 875 N.W.2d 321, 324 (Minn. 2016). We will not disturb the tax court’s factual findings unless they are clearly erroneous, that is, when “the evidence as a whole does not reasonably support the decision.” *Menard, Inc. v. County of Clay*, 886 N.W.2d 804, 811 (Minn. 2016) (quoting *Lewis v. County of Hennepin*, 623 N.W.2d 258, 261 (Minn. 2001)).

At issue in this appeal is whether the Clinics are exempt from property tax. Real, personal, or mixed property that is “acquired, owned, leased, controlled, used, or occupied by” a hospital district “for the purposes of sections 447.31 to 447.37” is exempt from tax.

Minn. Stat. § 447.31, subd. 6. Section 447.33, subdivision 1, states that a hospital district “has the powers necessary and convenient to acquire, improve, and run the hospital . . . as the hospital board finds expedient.” Minn. Stat. § 447.33, subd. 1. The tax court construed these provisions to mean that the District must use the property at issue here—the Clinics—to improve and run a hospital. *Perham I*, 2019 WL 3210638, at *7. Then, based on this interpretation and the evidence in the record, the tax court concluded, as is relevant to this appeal, that the District used the Clinics in the years at issue to improve and run Perham Hospital. *Perham III*, 2021 WL 1099500, at *25.

A.

The County states in its appeal to our court that the parties’ dispute centers on what constitutes a hospital—what it is that a hospital does and whether a clinic can operate as a hospital. Before we turn to that specific dispute, it will be helpful to explain first what is *not* before us in this appeal.

First, the County does not challenge the Tax Court’s interpretation of the statutory language that provides the exemption from tax, in section 447.31, subdivision 6, that for the property to be exempt, the hospital district must own, use, or occupy that property “to acquire, improve and run” the district’s hospital. Thus, we will not review that interpretation.³

³ The tax court rejected the District’s argument, made at summary judgment and in its post-trial brief, that property is exempt under subdivision 6 if the district has the statutory power to acquire the property. *See Perham I*, 2019 WL 3210638, at *5–6 (rejecting the District’s “per se approach,” noting that it “wrongly infers” that the exercise of a statutory power “is automatically related to a legislatively authorized purpose,” which

Second, in its appeal to the tax court, the District relied on the exemptions in the Minnesota Constitution for “public hospitals” and “public property used exclusively for any public purpose” as separate, independent grounds for exemption. Minn. Const. art. X, § 1. The tax court declined to address the constitutional exemption claims, *see Perham III*, 2021 WL 1099500, at *4, even though these exemptions are also provided by statute, *see* Minn. Stat. § 272.02, subds. 4, 8 (2020). Thus, the separate constitutional exemptions for a public hospital and public property are not before us.

Third, because the constitutional exemptions are not before us, we need not consider the analysis we have previously applied when addressing claims for exemption brought under the constitution. Specifically, in *City of Springfield v. Commissioner of Revenue*, 380 N.W.2d 802 (Minn. 1986), and in *Chisago Health Services*, we considered the purposes served by hospitals and clinics in deciding whether auxiliary or clinic properties were exempt under the constitutional provision. *See City of Springfield*, 380 N.W.2d at 805–06 (concluding that a clinic was not exempt as a public hospital because it was not

would “render ineffectual” a portion of the statutory tax exemption); *Perham III*, 2021 WL 1099500, at *10 n.96 (rejecting the “District’s argument that all hospital district property is presumed exempt”).

In its brief to our court, the District argues that the tax court construed the language of subdivision 6 “too narrowly” and improperly limited the exemption by focusing on the purposes of the statutory scheme rather than the powers granted to the District. The District did not file a notice of related appeal under Minn. R. Civ. App. P. 106 and, thus, the tax court’s interpretation of the statutory exemption provided by subdivision 6 is not before us. *See Day Masonry v. Indep. Sch. Dist.* 347, 781 N.W.2d 321, 332 (Minn. 2010) (explaining that a respondent must seek review “to challenge an order that the district court entered that was adverse to” that party “even where the final judgment is entirely” in the party’s favor). In addition, because the District also defends the Tax Court’s interpretation, we need not consider the argument the District advances for a broader interpretation of the exemption language in Minn. Stat. § 447.31, subd. 6.

reasonably necessary to the hospital’s purposes, and stating that “[c]linics serve a slightly different purpose in the health service industry than the purpose served by hospitals”); *Chisago Health Servs.*, 462 N.W.2d at 388, 388–90 (noting that the exemption “is not limited to buildings actually used as hospitals,” but concluding that auxiliary facilities must be “devoted to what it is that a public hospital does” and “be reasonably necessary to accomplish that purpose” to be exempt). Neither decision considered, construed, or applied the exemption at issue here, for property that a *hospital district* uses to improve and run a hospital. See Minn. Stat. §§ 447.31, subd. 6 (providing an exemption for property “owned, . . . used, or occupied by a district for the purposes of sections 447.31 to 447.37”); 447.33, subd. 1 (describing a district’s power to “acquire, improve, and run [a] hospital”). Thus, in resolving the parties’ arguments on appeal, we will not consider the empirical approach that the tax court drew from these decisions.

Accordingly, the only issue we need to address is the tax court’s conclusion that the District owns, uses, or occupies the Clinics “for the purposes of sections 447.31 to 447.37,” that is, to improve and run the Hospital, and is thus exempt under Minn. Stat. § 447.31, subd. 6.⁴ See *Perham III*, 2021 WL 1099500, at *10.

⁴ Although the tax court alternatively concluded that the Clinics were exempt from tax because the District operated the Clinics themselves as hospital facilities, we need not review the factual support for that conclusion if we affirm the tax court’s independent conclusion that the District owns, uses, or occupies the Clinics to improve and run the Hospital. Nor do we address the County’s challenges to the findings supporting the tax court’s conclusions that the Clinics were part of a fully integrated hospital and were merely arms or agencies of the Hospital, and were operated on a non-profit basis and for the benefit of the public. These findings are more directly relevant to the constitutional exemptions that the tax court declined to address, and which are not at issue here.

B.

In addressing this issue, the County focuses its attention in the first instance on the question of what constitutes a “hospital,” and in turn, what it means to “improve” a hospital, for purposes of the statutory exemption. The County asserts that the parties’ dispute over what constitutes a hospital presents an issue of statutory interpretation and, thus, the tax court erred by glossing over what the County insists is the first and most important step in that analysis, namely, considering dictionary definitions. Relying on dictionary definitions and the licensing requirements for hospitals, *see* Minn. Stat. § 144.50, subd. 1 (2020), the County argues that hospitals and clinics are separate and distinct facilities based on the different healthcare services those facilities provide.⁵ Even if we conclude that hospitals and clinics are not necessarily distinct, the County further contends that the tax court erred in adopting a common meaning for the word “improve,” rather than the technical meaning of the word when used in a real estate context. When that technical meaning is applied,

⁵ In relying on licensing standards, the County asserts that the statutes and rules that govern hospital licensure and operation in Minnesota, Minn. Stat. §§ 144.50–.56 (2020), Minn. R. Ch. 4640 (2021), define “hospital” by delineating between physical spaces within a facility that offer required services and those offering optional services. The County expanded on this apportionment analysis at oral argument, contending that to determine the appropriate exemption, the portion being used for statutory purposes should be calculated based on a square-foot determination of the level of care provided by each physical space. The District rejects this apportionment analysis, arguing that it lacks support in the law and would require extensive factual inquiries into whether each square foot of a hospital offers the types of services contemplated by the meaning of “hospital.”

Because we find no clear error in the tax court’s findings that support its conclusion that the Clinics were used to run and improve the Hospital, we need not address the County’s apportionment argument.

the County argues, none of the Clinics improve the Hospital's operations because the Clinics did not increase the value of the District's real property, i.e., the Hospital.

“The touchstone for statutory interpretation is the plain meaning of a statute's language.” *ILHC of Eagan, LLC v. County of Dakota*, 693 N.W.2d 412, 419 (Minn. 2005) (citing Minn. Stat. § 645.16 (2020)). We construe the words of a statute “according to rules of grammar and according to their common and approved usage,” but technical terms and words that “have acquired a special meaning” are construed according to that meaning. Minn. Stat. § 645.08(1). We may “look to the dictionary definitions” to determine the plain and ordinary meaning of undefined words in a statute. *State v. Haywood*, 886 N.W.2d 485, 488 (Minn. 2016); *see STRIB IV, LLC v. County of Hennepin*, 886 N.W.2d 821, 824–25 (Minn. 2016) (relying on dictionary definitions to determine “the most common usage” of statutory language governing a tax classification). We construe statutory terms “according to their most natural and obvious usage unless it would be inconsistent with the manifest intent of the legislature.” *ILHC of Eagan*, 693 N.W.2d at 419 (citing Minn. Stat. § 645.08(1)).

Thus, we first consider the plain, ordinary meaning of the term “hospital,” a term undefined in the statute.⁶ Dictionaries define a “hospital” as “an institution or place where

⁶ The District argues that “hospital” does not appear in the plain language of Minn. Stat. § 447.31, subd. 6 and, thus, it is unnecessary to define the term. As noted above, it is undisputed in this appeal that the exemption provided by Minn. Stat. § 447.31, subd. 6, extends to property owned, used, or occupied “to improve and run a *hospital*,” which is language expressly used elsewhere in the statute. *See* Minn. Stat. §§ 447.31, subd. 3; 447.33, subd. 1. Thus, defining the word “hospital” is necessary because the exemption rests on the existence of, and relationship to, such a facility.

sick or injured persons are given medical or surgical care.” *Webster’s Third New International Dictionary Unabridged* 1093 (3d. ed. 2002). Another definition for a “hospital” is “an institution providing medical and surgical treatment and nursing care for sick or injured people.” *New Oxford American Dictionary* 822 (1st ed. 2001). From these definitions, we can conclude that the plain meaning of a hospital is broad: it is a facility that provides patient care. The plain meaning of this term is not so rigid as to rule out the possibility of a hospital providing all types of care, including outpatient care, nor does this plain meaning suggest that a hospital by definition focuses exclusively on inpatient care over outpatient care. Indeed, the County’s first proffered definition for “hospital” includes a facility that “provides emergency, inpatient, and *usually outpatient* medical care for sick or injured people.” *American Heritage Dictionary of The English Language* 850 (5th ed. 2020). (emphasis added).⁷

Nor can we conclude that the term “hospital” has a special or technical meaning, or that we should resort to extrinsic aids, such as the historical evolution of the healthcare industry, congressional actions, and administrative regulations, to construe this term. *See City of Brainerd v. Brainerd Invs. P’ship.*, 827 N.W.2d 752, 757 (Minn. 2013) (“We do not resort to extrinsic sources when interpreting a statute unless the statute is ambiguous”). Given the plain meaning of “hospital,” we need not delve into the specific operational and

⁷ As the District notes, the term “clinic” does not appear at all in Minn. Stat. §§ 447.31–.37. Thus, we have no need to define this term, particularly if doing so effectively adds words to the otherwise plain language of the statute. *General Mills, Inc. v. Comm’r of Revenue*, 931 N.W.2d 791, 800 (Minn. 2019) (noting that we cannot add words or meaning to a statute that were intentionally or inadvertently omitted).

regulatory details of what a hospital *does* to understand whether, in this case, the Clinics are used to improve and run a hospital.

The County also contends that the tax court implicitly defined “improve,” in the context of “improve, and run the hospital,” Minn. Stat. § 447.33, subd. 1, to mean “to make better.” The County concedes that this meaning of “improve” is reasonable because it is consistent with the plain and ordinary meaning of the term. However, the County asserts that the term “improve,” as used in the context of the exemption available to hospital districts, is ambiguous because another meaning—a technical definition used to describe improvements to real property—is also reasonable. The County argues that a technical definition is particularly reasonable in this case because it is narrow and consistent with the real property context that is part of sections 447.31 to 447.37. *See Improve, Black’s Law Dictionary* (11th ed. 2019) (“1. To increase the value or enhance the appearance of (something). 2. To develop (land), whether or not the development results in an increase or a decrease in value”); Minn. Stat. §§ 447.31, subd. 6, 447.33, subd. 2 (authorizing a district to, *inter alia*, acquire, hold, and otherwise dispose of real property). The County cautions that the broad scope of the plain and ordinary meaning of the term would extend to an infinite number of other types of healthcare facilities, thus providing an exemption for any property that produces revenue, whether or not that property actually contributes to a hospital’s operations.

The plain meaning of the word, “improve,” means “make or become better.” *New Oxford American Dictionary* 855 (1st ed. 2001). The exemption provided by subdivision 6 is broad; it extends to real property as well as other types of property, such as personal

or mixed property. Minn. Stat. § 447.31, subd. 6. For this reason, we cannot agree that the County’s narrower, technical meaning of the word is reasonable. Even if the County is correct that the established meaning of “improve” in the context of *real property* generally has a narrow, technical meaning, in the context of the mix of properties to which the exemption in section 447.31 extends, the , plain meaning of “improve” is the only reasonable meaning.

Thus, based on the plain meaning of these statutory terms, the factual question before the tax court was whether the District owned, used, or occupied the Clinics to improve, i.e., make better, and run the Hospital—a facility that provides medical care for sick and injured persons. We turn next to that question.

C.

We must decide whether the tax court erred in finding that the Clinics are exempt because the District owns, uses, or occupies the Clinics to improve and run the Hospital.

We do not weigh or reweigh the evidence when reviewing the tax court’s decision for clear error; that task is best suited to, and therefore is reserved for, the factfinder. *See Medline Indus., Inc. v. County of Hennepin*, 941 N.W.2d 127, 131 (Minn. 2020) (stating that a factfinder is in the best position to “weigh the evidence and assess the credibility of the witnesses”) (internal quotations omitted); *Dreyling v. Comm’r of Revenue*, 711 N.W.2d 491, 494 (Minn. 2006) (affording due regard to the tax court being in the “best position to evaluate the credibility of witnesses”). Instead, we “fully and fairly consider [the] evidence, but so far only as is necessary to determine beyond question that it reasonably tends to support the findings” of the factfinder. *Carver v. Bagley*, 81 N.W. 757, 758 (Minn. 1900). “[I]t is

immaterial that the record might also provide a reasonable basis for inferences and findings to the contrary.” *Don Kral Inc. v. Lindstrom*, 173 N.W.2d 921, 924 (Minn. 1970). We will not conclude that the tax court clearly erred unless, “upon reviewing the entire evidence,” we are left with a definite and “firm conviction that a mistake has been made.” *Krech v. Comm’r of Revenue*, 557 N.W.2d 335, 338 (Minn. 1997) (internal citation omitted).

The tax court decided that the Clinics were used to “improve and run” the Hospital because they helped attract physicians and patients, improved the Hospital’s overall operations and service delivery, increased patient follow-up, and provided physical space for use by other Hospital departments. There was no clear error in this finding. The tax court credited the testimony by the Hospital’s CEO, who explained that the Clinics were essential to the Hospital’s ability to attract and retain physicians to provide patient care and services, and to attract patients. The CEO testified that prior to acquiring the Clinics, the District had difficulty recruiting doctors, and the Board was concerned that without the Clinics, the Hospital might not stay open. It was undisputed at trial that Perham has been designated under federal law as a “medically underserved area” without enough local providers to serve the population’s medical needs. Additionally, at least one other District representative, a Board member, testified that acquiring the Clinics was necessary to maintain a patient base that would support keeping the Hospital doors open.

The Hospital’s CEO further testified that the Clinics allowed the Hospital to provide important services and add new services such as dietary aides, diabetes education, and obstetrics health coaching, and improve service delivery by providing more convenient access to patients. In addition, Hospital departments are now able to use space within the

Clinics, providing necessary and convenient access to providers, which helps to improve patient outcomes.

The record establishes that the Clinics were operated to improve and run Perham Hospital. The tax court's factual determinations are due deference. *Dreyling*, 711 N.W.2d at 494 (stating that "[t]he tax court is in the best position to evaluate the credibility of witnesses"). And all the County's arguments challenging these factual determinations depend upon the narrower definitions of "hospital" and "improve" that the County proffered, and that we have already rejected. Because there is sufficient evidence in the record to support the tax court's findings and conclusions, and in light of our deferential standard of review, we conclude that the tax court did not clearly err in finding that the District used the Clinics to improve and run Perham Hospital.

CONCLUSION

For the foregoing reasons, we affirm the decision of the Tax Court.

Affirmed.