Special Report

Tax-Exempt Properties

Report by the
Office of the County Controller and the
Office of City Controller

TRACY ROYSTON
ACTING COUNTY CONTROLLER

Lou Takacs, Communications Director
Rob Cullen, Policy Analyst

MICHAEL E. LAMB
CITY CONTROLLER

Rachael Heisler, Deputy Controller
Mark Ptak, Assistant Deputy Controller

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TAX EXEMPT PROPERTIES

Executive Summary

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Pennsylvania's constitution allows property tax exemptions for "institutions of purely public charity" if that property is regularly used for charitable purposes. The "HUP Test" laid out by the state Supreme Court sets the standards that an organization must meet to be considered a purely public charity. In Allegheny County, the five largest tax-exempt organizations are the University of Pittsburgh Medical Center (UPMC), Allegheny Health Network (AHN), the University of Pittsburgh (Pitt), Carnegie Mellon University (CMU), and Duquesne University.

In 2021, these "Big Five" owned nearly $5 billion in property exempt from Allegheny County taxes and $4.3 billion in property exempt from City of Pittsburgh taxes, which reduced their cumulative tax bill by 88.9% to the County and 92.7% to Pittsburgh. Of those five, UPMC by far benefits the most: in the most recent year, its exemptions reduced its tax liability by $9.8 million to the County, $13.9 million to Pittsburgh, and $58.3 million to all local governments and school districts.

If not exempt, these five nonprofits would contribute $127.5 million annually in taxes to local municipalities, school districts, and the county. Allegheny County would receive $23.5 million of this amount and Pittsburgh would receive $34.5 million.

Total Tax Loss (County, All Local Governments, and School Districts)

Nonprofit Name	Property Taxes Exempt	% of Property Exempt from Taxes
UPMC	$58.3 million	86.4%
Highmark/AHN	$16.9 million	80.1%
University of Pittsburgh	$33.1 million	95.3%
Carnegie Mellon University	$10.0 million	92.9%
Duquesne	$9.2 million	99.2%
Total	$127.5 million	89.0%

Exempt Property Owned by the Five Largest Nonprofits

	Allegheny County Alone		City of Pittsburgh Alone	
Nonprofit	Exempt Property	% of All Non-Government Exempt	Exempt Property	% of All Non-Government Exempt
UPMC	$2.1 billion	19.5%	$1.7 million	25.6%
Highmark/ AHN	$600 million	5.6%	$265 million	3.9%
University of Pittsburgh	$1.5 billion	13.6%	$1.4 billion	21.4%
Carnegie Mellon	$441 million	4.1%	$441 million	6.5%
Duquesne University	$405 million	3.8%	$405 million	6.0%
TOTALS	$5.0 billion	46.7%	$4.3 billion	63.4%

This joint report is a product of the offices of the City of Pittsburgh Controller and the Allegheny County Controller. We appreciate the cooperation we received from various city and county governments as well as the finance departments of the various municipalities listed in this report.

Tracy Royston
Acting Allegheny County Controller

Michael Lamb
City of Pittsburgh Controller

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To recover some lost revenue and ensure that all organizations contribute toward the public services they benefit from, local governments may enter into agreements for "payment in lieu of taxes," also known as PILOTs.

Without adequate, long-term PILOT agreements in place, this "tax loss" from the largest nonprofits means that the burden of financing public services like police, fire, and EMS falls solely on residents and local businesses.

The amount of property owned by nonprofits has grown in the last two decades, placing additional urgency on local officials to address the PILOT issue and avoid financial strain on taxpayers. The report shows that as of 2021, about 10 percent of all property in Allegheny County and about 20 percent in Pittsburgh was owned by nonprofits. This is heavily concentrated among the Big Five: cumulatively, they own 47% of non-government exempt property in the county and 63% in the City of Pittsburgh.

Yet current PILOT arrangements fall far short of both local governments' potential. In 2020, Pittsburgh raised only $325,309 and the County raised $569,499, a fraction of what adequate arrangements would yield. In neither case do any of the Big Five have substantial PILOT agreements in place, if any agreement at all. This report estimates that if Allegheny County and the City of Pittsburgh secured PILOTs with just the five largest nonprofits that recouped 25% of their tax loss, it would generate $5.9 million and $8.6 million in revenues each year, respectively.

This level of support should be considered a reasonable baseline rather than a ceiling on contributions achievable. Each of the five largest nonprofits maintains vast financial resources showing they are more than capable of meeting this target. Both UPMC and AHN reported net income of over $1 billion in 2020, while Pitt and CMU ended fiscal year 2019 with well over $200 million in net income in addition to combined endowment assets of over $7 billion. Outside analyses have detailed UPMC's "fair share deficit" and greater scrutiny of the organization's tax-exempt status based on its business practices may be warranted.

Potential PILOT Revenue

Percent of Liability Paid	Allegheny County	City of Pittsburgh
100% (Baseline)	$23.5 million	$34.5 million
50%	$11.5 million	$17.3 million
25%	$5.9 million	$8.6 million

The current financial relationship between the region's local governments and large nonprofits is untenable, and the examples of other cities show that a more equitable system is well within our means to achieve. Boston, for example, convened a task force to examine the city's PILOT system and issued recommendations that increased nonprofits' participation and set target contributions based on the level of public services they enjoy. The new system succeeded in delivering non-government community benefits in addition to cash payments that help finance the cost of public services.

Erie, Pa. has also secured PILOT agreements that provide the county, city, and school district with 50% of the property tax loss from some large nonprofits; and both UPMC and AHN have agreed to these 50% PILOTs on their hospitals located there. Compared to municipalities in western Pennsylvania with a large nonprofit presence, Pittsburgh's per-capita value of PILOT revenue in 2020 was just $1.07, while Altoona's was $5.37 and Erie's was $13.39. These examples illustrate that the city and county can achieve better deals, but incumbent administrations must first prioritize it as an issue.

“Purely Public Charities” Under State Law

Pennsylvania’s history of providing tax-exempt status to qualified organizations dates to at least 1874, when the state’s Constitution gave the legislature the authority to exempt “purely public charities” from taxation, which in the case of property taxes must be on property “actually and regularly used for the purposes of the institution.” At that time, churches were the primary source of charitable activities, which included running hospitals and schools, to the benefit of residents.

Over time, the number of organizations receiving tax exemptions grew, but application was not uniform across municipalities and the court system was routinely forced to determine whether an entity should be classified as a purely public charity. In 1985, the Pennsylvania Supreme Court attempted to unify previous judicial precedents in *Hospital Utilization Project v. Commonwealth*. The court’s decision established a five-part test, now commonly known as the “HUP test,” for any institution seeking the purely public charity classification. The HUP test requires an organization to meet all five criteria:

1. Advances a charitable purpose;
2. Donates or renders gratuitously a substantial portion of its services;
3. Benefits a substantial and indefinite class of persons who are legitimate subjects of charity;
4. Relieves the government of some of its burden, and
5. Operates entirely free from private profit motive.

Despite this decision, litigation and inconsistent application by the courts continued. Which activities could be considered to “advance a charitable purpose,” for example, were not clearly specified. The state legislature sought to finally end these ambiguities in 1997 by passing the Institutions of Purely Public Charity Act (IPPCA), also known as Act 55. The bill incorporated the HUP test but clearly specified which activities fulfilled its requirements. Crucially, Act 55 was clearly written to be more favorable to the organizations seeking a tax-exempt designation than to local governments that often challenged those attempts.

As noted in the Pittsburgh City Controller’s 2007 performance audit, the result was “a chilling effect that effectively killed most attempts by political subdivisions to challenge exemption requests. By making it easier for nonprofit organizations to meet the purely public charity (PPC) standard, the State Legislature also removed the incentive for non-profits to enter into voluntary P.I.L.O.T. agreements with the City.”

Under Act 55, municipalities are permitted to enter into contracts with nonprofit entities in which the latter agrees to provide payments to the tax-collecting body in lieu of taxes they would otherwise pay if they were not tax-exempt. These are known as payment-in-lieu-of-taxes (PILOT) agreements. However, PILOT agreements are entirely voluntary, and nonprofits cannot be compelled to enter into them.

In 2012, the Pennsylvania Supreme Court ruled in *Eitz Chaim of Bobov, Inc. v. Pike County Board of Assessment Appeals* that if an organization does not qualify under the HUP test, it is not eligible for exemption under Act 55. As a report from the Allegheny County Controller’s office noted at the time, “The decision enables counties, school districts, and municipalities to more aggressively challenge the tax-exempt status” of properties owned by nonprofit organizations. However, despite this ruling, the largest nonprofits in Pittsburgh and Allegheny County now own more property that is exempt from property taxes than they did a decade ago.

While nonprofits often provide valuable services that generate economic activity and improve the wellbeing of residents, they also benefit from police, fire, and other public services. PILOT agreements ensure that those nonprofits contribute a fair share toward the funding of services that all residents, businesses, and nonprofits benefit from.

Revenue from Past PILOT Agreements

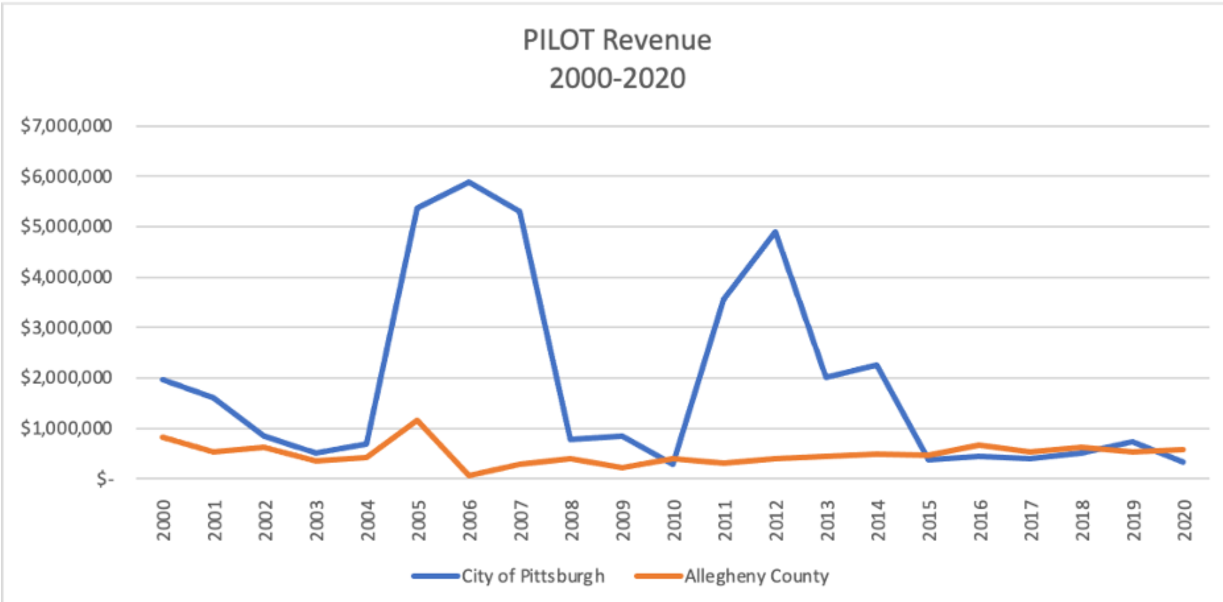
As noted in the City Controller’s 2007 performance audit of PILOT programs, many of the City of Pittsburgh’s agreements with tax-exempt institutions were not renewed after the passage of Act 55. Even while those agreements were in place, they amounted to much less than the city’s total tax loss: from 1973 to 2006, payments from the University of Pittsburgh Medical Center (UPMC) only recouped 8% of revenue lost to its tax exemption, 10% from Allegheny General Hospital and West Penn Health Systems, and 1.6% from Mercy Hospital. The University of Pittsburgh, Duquesne University, and Carnegie Mellon University’s payments amounted to 1% or less.

As Pittsburgh entered Act 47 state oversight, a consortium of 102 tax-exempt institutions formed the Pittsburgh Public Service Fund in 2004, pledging $13.5 million in contributions to the city each year. Membership details, like organization names and donation totals, were kept from public knowledge, but total payments never came close to delivering the pledged annual amounts. According to the Acting Treasurer, payments were sporadic and the city was left unsure when the next payments would come. This was at a time when the city was in severe financial distress and running significant revenue shortfalls. After 2013, when the fund expired, city revenue from PILOTs declined significantly and has not recovered since. Using internal data from the City Controller’s Office, the *total* amount collected from the fund’s creation through 2013 was $18.2 million, far short of the $121.5 million that should have been received from 2005-2013 had the consortium met its pledge.

Meanwhile at the county level, PILOT payments have made up an even smaller fraction of the budget. The county was not a part of agreements like the Pittsburgh Public Service Fund (or later PILOT alternatives like OnePGH). Allegheny County does receive a small amount of PILOT revenue from a handful of nonprofits each year: in 2021 these payments amounted to $605,352, or 0.15% of total property tax revenue. However, almost none of these PILOT payments come from the five largest nonprofits (of the 16 currently active PILOT agreements, just one is with a Big 5 nonprofit, a UPMC-affiliated nursing home); and the revenue falls far short of what large nonprofit institutions would have paid if their properties were fully taxable.

PILOTs 2000-2020

	City of Pittsburgh		*Allegheny County*	
Year	**PILOT Amounts Collected**	**Per-Capita Amount**	**PILOT Amounts Collected**	**Per-Capita Amount**
2000	$1,966,156	$5.88	$830,201	$0.68
2001	$1,612,230	$4.82	$538,005	$0.44
2002	$836,733	$2.50	$622,528	$0.51
2003	$509,773	$1.52	$363,121	$0.30
2004	$688,144	$2.06	$417,118	$0.34
2005	$5,373,497	$16.06	$1,149,522	$0.94
2006	$5,874,000	$17.56	$66,208	$0.05
2007	$5,311,595	$15.88	$296,192	$0.24
2008	$778,417	$2.33	$388,800	$0.32
2009	$849,978	$2.54	$222,375	$0.18
2010	$294,268	$0.96	$396,657	$0.32
2011	$3,555,369	$11.63	$311,127	$0.25
2012	$4,894,760	$16.01	$405,527	$0.32
2013	$2,010,873	$6.58	$451,479	$0.36
2014	$2,267,059	$7.42	$486,582	$0.39
2015	$378,932	$1.24	$458,886	$0.37
2016	$433,714	$1.42	$664,483	$0.53
2017	$391,491	$1.28	$531,810	$0.43
2018	$503,416	$1.65	$624,459	$0.50
2019	$738,735	$2.42	$541,159	$0.43
2020	$325,309	$1.07	$569,499	$0.46
Total	***$39,594,449***		***$10,335,738***	



Source: City of Pittsburgh and Allegheny County Comprehensive Annual Financial Reports
Note 1: City of Pittsburgh amounts include housing-related PILOTs
Note 2: "Per-Capita Amounts" are calculated using Census Bureau population numbers, which reflect decennial rather than annual changes

From 2000-2020, Pittsburgh collected an estimated $39.6 million in PILOTs, but year-to-year amounts varied substantially and have declined in recent years. Allegheny County collected $10.3 million during the same period. Municipalities in western Pennsylvania with a large nonprofit presence have had mixed success raising revenue from PILOT agreements. Three of the municipalities contacted did not have any PILOT agreements in place, but both Erie and Altoona raised far more than Pittsburgh when adjusted per-capita despite being much smaller in population size. Their examples should emphasize the reality that the city and county can achieve better deals.

Comparison to Western PA Municipalities with Large Nonprofit Presence

Municipality	PILOT Amounts in 2020	Population	Per-Capita Amount
Pittsburgh	$325,309	302,971	$1.07
Cranberry Township	$31,800	33,096	$0.96
Altoona	$236,108	43,963	$5.37
Monroeville	n/a	n/a	n/a
McCandless	n/a	n/a	n/a
Aspinwall	$2,000	2,679	$0.75
Erie	$1,269,684	94,831	$13.39
Brentwood	n/a	n/a	n/a

Source: Chief financial officers of each municipality listed

Past city administrations have made attempts to hold the large nonprofits accountable for their charitable giving by negotiating PILOT alternatives. In 2021, then-Mayor William Peduto announced a framework for OnePGH, a newly formed 501(c)(3) nonprofit that would act as an intermediary between the city and some of the region's largest nonprofits, including UPMC, Highmark Health, Pitt, and CMU, along with support from the Heinz Endowments, Hillman Family Foundations, and the Richard King Mellon Foundation. Under the proposal, these organizations would contribute $115 million over the next five years for programs that address inequities in the city.

Similarly, in 2006, then-Mayor Luke Ravenstahl announced the creation of the Pittsburgh Promise, and a year later, his administration announced a $100 million financial commitment from UPMC. The hospital system has rebutted the notion that it does not provide financial assistance to the region by specifically highlighting its contributions to the Pittsburgh Promise fund.

While both OnePGH and Pittsburgh Promise are valuable investments, it is important to stress that neither relieve residents of the burden of financing local government nor do taxpayers have input or oversight as to how funds are spent. These arrangements also mean that large nonprofits would still not be contributing directly to the city, county, or school districts, allowing the burden of financing government and education to fall on residents and local businesses alone.

The amount pledged with either program also falls far short of what they would be paying if not tax-exempt. If the five largest nonprofits were not tax-exempt, they would contribute $127 million *each year* in taxes to the county, local governments, and school districts, or nearly $635 million over five years. If they agreed to PILOTs for 50% of what they would owe in property taxes, which is what UPMC and AHN already contribute to Erie's local governments, the Big 5 nonprofits would contribute over $300 million during the same period. Local leaders should also learn from the broken promises of the Pittsburgh Public Service Fund and be weary of optimistically high initial projections. In the absence of secure PILOT agreements, there is no obligation for large nonprofits to meet their pledged contributions.

Profitable Nonprofits

Despite their designation as "nonprofits," many of the county's largest tax-exempt institutions maintain vast financial resources. UPMC and AHN both reported net income in excess of $1 billion during 2020, with UPMC experiencing a 36% jump in profits during the pandemic. According to ProPublica, the University of Pittsburgh (Pitt) ended fiscal year 2019 with $232,535,019 in net income. Carnegie Mellon University (CMU) ended the same fiscal year with $249,490,744 in net income. As of 2020, the combined endowment assets of both organizations exceeded $7 billion.

In 2007, a performance audit by the City Controller's Office reported that UPMC and AHN had net revenues of about $512 million and $342 million in 2015, respectively. This strong growth over the course of 13 years highlights the capacity of the city's largest nonprofits to contribute more to the operation of city services.

The Lown Institute Hospitals Index is a ranking that examines community benefit spending for nonprofit hospital systems nationwide. Their methodology compares amounts spent on charity care and community investment to the value of their tax breaks, yielding either a f*air share deficit* or *fair share surplus*. Their 2022 report found that UPMC had the fifth largest fair share deficit in the country, amounting to $611 million. The Allegheny Health Network was ranked 21st with a deficit of $182 million. According to their methodology, a hospital could achieve their fair share by devoting at least 5.9% of expenditures to qualifying investments like free clinics, addiction treatments, community health education classes, or contributions to initiatives that address the social determinants of health. In addition, UPMC's "excess revenue" after accounting for CARES Act grants in 2020 was $1.1 billion, the second highest on the list.

Scrutinizing "Purely Public Charity" Status of Large Nonprofits

In 2019, Pennsylvania Attorney General Josh Shapiro filed a petition against UPMC, in part alleging that its practices were in violation of the state's charities law by pursuing anti-competitive practices. This included refusing to contract with AHN to allow its members to access AHN facilities for in-network care. In the petition, he states that "UPMC also employs practices that increase its revenue without apparent regard for the increase on the costs of the region's health care, including, but not limited to:

a. Transferring medical procedures to its higher cost specialty providers;
b. Utilizing 'provider based', 'facilities based', and/or 'hospital based' billing practices that permit increased service charges in facilities where they had not been before;
c. Balance billing out-of-network patients even when the insurance payments UPMC receives generally exceed the actual costs of UPMC's care; and
d. Insisting upon full 'up front' payments from out-of-network insureds before rendering any medical services."

An earlier legal review, prepared for the City of Pittsburgh before it filed a lawsuit challenging UPMC's tax-exempt status in 2013, found that UPMC "fails at least three [HUP test] requirements, and arguably, fails all of them." Activities of UPMC that it found violated the HUP test included "closure of facilities in locations with relatively high numbers of Medicare, Medicaid or uninsured patients; more than 20 UPMC employees receiving at least $1 million in pay in 2011; and global business financial activities that 'appear to have little to do with…UPMC's charitable mission…and more to do with trying to attract wealthy patients.'" The letter also cites UPMC's practice of limiting charity care to only the poorest patients and its aggressive debt collection practices. There's little evidence that these activities have changed since 2013: the hospital continues to open sites in predominantly wealthy areas and focus on high reimbursement specialties, while limiting full charity care to those making less than 250% of the poverty line (many of whom are already covered by Medicaid). A 2019 survey of UPMC's own employees by the SEIU found that 60% of them owed money to UPMC for health care costs.

While Allegheny Health Network appears not to have faced the same level of legal scrutiny from government bodies as UPMC has due to its aggressive business practices, some of UPMC's activities that violate the HUP test may apply to AHN as well. And a similar comprehensive review of large universities might demonstrate that they have high tuition relative to costs, low percentages of students attending on scholarship, or the presence of commercial enterprises, in which case they could fail the HUP test too.

In a 2012 report, the County Controller published a report recommending that organizations apply annually for tax-exempt status by submitting a "Charitable Purpose Affidavit" detailing how they meet the exemption requirements. Working collaboratively with local municipalities and school districts, it recommended that the county conduct a parcel-by-parcel examination of exempt property to identify organizations whose exemptions could be challenged. In addition, a 2007 County Council ordinance required the Office of Property Assessment to review all exempt properties and evaluate whether they meet the qualifications under the Institutions of Purely Public Charity Act every three years. While the county began a review in 2013, in March 2019, *TribLive* reported that the county administration said "it lacks the resources to scrutinize hundreds of tax-exempt properties owned by the region's so-called 'Big 4' charities, further delaying an oversight probe that was supposed to be completed years ago."

Also, in 2013, a six-member steering committee for County Executive Rich Fitzgerald's transition put forward a report making recommendations for the county's future under his incoming administration. On the topic of PILOT agreements, the committee recommended the following:

> Rather than challenging an organization's non-profit tax liability status in court, Allegheny County should consider the implementation of Payment in Lieu of Taxes agreements with non-profits within a defined, collaborative, and consensual process; it is strongly within the County's interest to pursue such a program. The County should be the leader in convening and County of Allegheny facilitating such a collaborative process with key non-profits (serving both the city and the County) to reach agreement on a comprehensive PILOT policy as it is in its interest to do so, and the County Executive has the broader leadership platform. Additionally, consider establishing a task force with an independent facilitator to take this charge and pull together non-profit, City, and state leaders in an intentional conversation that will result in meaningful commitments.

However, while the county opted not to challenge the tax-exempt status of any of the larger nonprofits in court, it also has not negotiated PILOT agreements with them in the years since. And while the City of Pittsburgh dropped its lawsuit challenging UPMC's tax-exempt status in 2014, it has also not negotiated PILOT agreements with the larger nonprofits since then, instead opting for contributions to the OnePGH nonprofit in 2021.

Assessed Property Values in Allegheny County and the City of Pittsburgh

The total assessed value of all property in 2021 was $106.9 billion in Allegheny County and nearly $32.7 billion in the City of Pittsburgh. At the county level, nonprofits own $10.2 billion of assessed property that is exempt from taxes; they own 9.5% of *all* property and 10.9% of *non-government property* within the county. In Pittsburgh, nonprofits own $6.4 billion of assessed property that is exempt; they own 19.5% of *all* property and 23.9% of *non-government property* within the city.

This highlights the growing challenge faced by both Allegheny County and the City of Pittsburgh. As nonprofit institutions acquire more property, the property tax base available to local governments narrows. This means less available to residents in the form of basic services, an eventual need to raise taxes to meet demands, or both. The status quo is clear: city residents bear most of the burden of providing services for our largest employers.

Breakdown of Property in Allegheny County

Classification	Assessed Values	% of All County Property	Tax Liability (collected or exempt)
Taxable Property	$83,010,103,202	77.6%	$392,637,788
Exempt Property (including gov't owned)	$23,905,085,093	22.4%	$113,071,052
Exempt Property Owned by Nonprofits	*$10,195,735,466*	*9.5% (10.9% of non-gov't property)*	*$48,225,829*
Total Property	***$106,915,188,295***		***$505,708,841***

Breakdown of Property in Pittsburgh

Classification	Assessed Values	% of All City Property	Property Tax Liability (Collected or Exempt)
Taxable Property	$19,940,614,286	61.0%	$160,721,351
Exempt Property (incl. gov't owned)	$12,729,375,853	39.0%	$93,268,849
Exempt Property Owned by Nonprofits	*$6,367,854,856*	*19.5% (23.9% of non-gov't property)*	*$51,324,910*
Total Property	***$32,669,990,139***		***$263,320,121***

Source: Allegheny County assessment data from November 2021.
Note 1: Tax liabilities calculated using Pittsburgh property tax rate of 8.06 mills, and Allegheny County property tax rate of 4.73 mills
Note 2: The "Exempt Property (incl. gov't owned)" row in both charts contains some property (about $0.4 billion) owned by for-profits that receive LERTA abatements on Allegheny County taxes.

Tax Exemptions for the "Big Five"

Although property tax exemptions are claimed by thousands of nonprofits throughout Allegheny County, the most valuable property is concentrated among the five largest: UPMC, Highmark/Allegheny Health Network, the University of Pittsburgh, Carnegie Mellon University, and Duquesne University. Of all exempt or abated property (not including that owned by government entities), these five accounted for 46.7% of the county's "tax loss" and 63.4% of the City of Pittsburgh's "tax loss."

In 2022, the five largest nonprofits owned nearly $5 billion in property exempt from county taxes and nearly $4.3 billion in property exempt from City of Pittsburgh taxes. Of the five, UPMC held the most. It owned over $2 billion in property exempt or abated from county taxes and over $1.7 billion exempt or abated from City of Pittsburgh taxes. Collectively, these five nonprofits owned 46.7% of all non-government exempt or abated property in the county and 63.4% in the City of Pittsburgh.

Property Owned by the Five Largest Nonprofits

	Allegheny County		*City of Pittsburgh Alone*	
Nonprofit Name	**Taxed**	**Exempt**	**Taxed**	**Exempt**
UPMC	$352,913,402	$2,070,164,900 (19.5%)	$176,802,866	$1,728,979,500 (25.6%)
Highmark/ AHN	$160,655,970	$598,984,560 (5.6%)	$65,751,920	$265,379,760 (3.9%)
University of Pittsburgh	$68,153,910	$1,451,544,530 (13.6%)	$56,137,510	$1,443,395,230 (21.4%)
Carnegie Mellon	$33,511,740	$440,672,570 (4.1%)	$33,511,740	$440,672,570 (6.5%)
Duquesne University	$3,184,980	$405,139,110 (3.8%)	$3,184,980	$405,139,110 (6.0%)
Total	***$618,420,002***	***$4,966,505,670 (46.7%)***	***$335,389,016***	***$4,283,566,170 (63.4%)***

Source: Calculations based on Allegheny County assessment data from November 2021.
Note: Numbers in parentheses show the percentage of all non-government-owned property in that geography (city or county) owned by that nonprofit. For example, UPMC owns 19.5% of all tax-exempt non-government property in Allegheny County based on its $2.07 billion in assessed property values.

Properties owned by these nonprofits that are used for commercial purposes are not tax-exempt. However, tax exemption on the properties that they can claim are used for charitable purposes reduced taxes for these five nonprofits by 88.9% to Allegheny County and 92.7% to Pittsburgh. This meant that the county collected nearly $23.5 million less, and Pittsburgh collected $34.5 million less due to their tax-exempt status. The total tax loss for *all* local governments and school districts throughout the county (including the county government and City of Pittsburgh) was nearly $127.5 million for these five nonprofits alone.

Total Tax Loss (County, All Local Governments, and School Districts)

Nonprofit Name	Total Paid	Total Exempt/Abated	Percent of Property Taxes Exempt/Abated
UPMC	$9,149,165	$58,314,875	86.4%
Highmark/AHN	$4,195,858	$16,866,777	80.1%
University of Pittsburgh	$1,618,646	$33,056,327	95.3%
Carnegie Mellon University	$768,735	$10,020,894	92.9%
Duquesne	$72,426	$9,212,863	99.2%
Total	***$15,804,831***	***$127,471,736***	***89.0%***

Allegheny County Tax Loss

Nonprofit Name	Estimated County Property Taxes Paid	Estimated County Tax Loss on Property Exempt/Abated	Percent of Property Taxes Exempt/Abated
UPMC	$1,669,280	$9,791,880	85.4%
Highmark/AHN	$759,903	$2,833,197	78.9%
University of Pittsburgh	$322,368	$6,865,806	95.5%
Carnegie Mellon University	$158,511	$2,084,381	92.9%
Duquesne	$15,065	$1,916,308	99.2%
Total	***$2,925,127***	***$23,491,572***	***88.9%***

City of Pittsburgh Tax Loss

Nonprofit Name	Estimated Property Taxes Paid	Estimated City Tax Loss on Property Exempt/Abated	Percent of Property Taxes Exempt/Abated
UPMC	$1,425,031	$13,935,575	90.7%
Highmark/AHN	$529,960	$2,138,961	80.1%
University of Pittsburgh	$452,468	$11,633,766	96.3%
Carnegie Mellon University	$270,105	$3,551,821	92.9%
Duquesne	$25,671	$3,265,421	99.2%
Total	***$2,703,235***	***$34,525,543***	***92.7%***

Potential Revenue from PILOT Agreements

If all exempt property in Allegheny County was treated as fully taxable, the county would have collected an additional $50.3 million in 2021 and the City of Pittsburgh would have brought in an additional $54.4 million. Focusing only property owned by the top five nonprofits, the county would have collected $23.5 million, and Pittsburgh would have collected $34.5 million.

Tax exemption serves a valuable purpose, particularly for smaller nonprofits that might otherwise struggle to remain solvent. These numbers should only be interpreted as a baseline for understanding the full scope of tax exemption. However, they also illustrate the considerable amount of revenue left on the table by local governments when adequate PILOT agreements are not in place.

For example, if PILOTs were in place for each of the top five nonprofits amounting to 25% of what they would have paid had their property been fully taxable, Allegheny County would have brought in an additional $5.9 million in 2021 and Pittsburgh an additional $8.6 million. To put this into perspective, this is enough to increase the county's debt service payments by 10% and fund Pittsburgh's entire Department of Mobility and Infrastructure. If agreements matched 50% of exempt taxes, PILOT payments from these five nonprofits could fund the entire County Medical Examiner's Office and Pittsburgh's Department of Innovation & Performance.

Potential Revenue Increase for Allegheny County

PILOT Revenue Increase: All Exempt Property		
Percent of Liability Paid	All Exempt Property	Top Five Nonprofits Only
100% (Baseline)	$50.3 million	$23.5 million
50%	$25.2 million	$11.5 million
25%	$12.6 million	$5.9 million

Potential Revenue Increase for City of Pittsburgh

PILOT Revenue Increase: All Exempt Property		
Percent of Liability Paid	All Exempt Property	Top Five Nonprofits Only
100% (Baseline)	$54.4 million	$34.5 million
50%	$27.2 million	$17.3 million
25%	$13.6 million	$8.6 million

Alternative Models

Boston, Massachusetts: A Strong Focus on Community Benefits

Over half of the property in Boston, Massachusetts is tax-exempt, largely due to the large share of buildings owned by the state and local government and medical and educational nonprofit institutions. In addition, it has a unique revenue structure: without an income, payroll, or sales tax, the city relies on property taxes for two-thirds of its revenue. As in Pittsburgh and Allegheny County, its ability to raise new revenues is constrained by state limits on home rule power. Property tax increases are also limited by Massachusetts Proposition 2 ½. These structural limitations place outsized importance on the city's PILOT contributions to maintain sufficient levels of revenue.

Given these constraints, in 2009 Boston Mayor Thomas M. Menino appointed a task force to review the city's existing PILOT program and address the following:

- Set a standard level of contributions to be met by all major tax-exempt landowning institutions;
- develop a methodology for valuing community benefits;
- propose a program structure that creates longer-term, sustainable partnerships between the city and its nonprofits;
- clarify the costs associated with providing city services to nonprofits; and
- if necessary, provide recommendations on legislative changes needed at the local or state level.

In December 2010, the task force made the following recommendations:

1. The PILOT program should remain voluntary to maintain the collaborative partnership between the city and its nonprofits
2. All nonprofits should participate, with an exemption for small nonprofits.
3. Nonprofits' PILOT contributions should be based on the assessed value of the institutions. Since essential services including public safety and public works comprised roughly 25% of the city's budget, the task force found that contributions totaling 25% of the institution's taxable amount would be reasonable.
4. Nonprofits should be eligible to receive up to 50% in credits in exchange for community benefits. The cap would ensure that the city receives at least some benefit in the form of cash payments.
5. The new PILOT formula should be phased in over a period of no less than five years.

Since the new program was launched, Boston's PILOT contributions have increased substantially: $19.5 million in 2012, a 28.4% increase over the previous PILOT program. In 2021, despite the pandemic, the program raised $35.1 million in cash contributions and delivered $55.4 million in community benefits credits. Boston has placed a high priority on the in-kind community benefits component; most contributions received have not been in cash payments to the city, but in vital community services, as described in further detail below.

It is important to stress that Boston's program has always been entirely voluntary, and its success has been attributed to fostering a sense of partnership with nonprofits rather than coercion. In doing so, the city has achieved high levels of participation, markedly increased revenue, and expanded the range of community services offered to residents.

<u>Community Benefits</u>

Boston's model has shown that when utilized effectively, PILOT agreements can leverage nonprofits' resources to deliver community services that supplement city services or achieve policy outcomes that the city is unable to. For example, hospitals could provide free health clinics in underserved neighborhoods or fund the city and county' EMS services given that they transport patients to their facilities.

These benefits could also relieve the city of significant cost burdens, freeing up revenue that can be devoted to city-funded services. The Department of Human Resources & Civil Services reported that the city paid UPMC $1,291,553 in 2021 to administer its Workers'

Compensation Managed Care program. The city also paid UPMC $36,762 and AHN $319,468 in administration fees for employee health plans. Successful PILOT arrangements could secure agreements that UPMC and AHN would waive these costs as part of their respective contributions.

Erie, Pennsylvania: Achieving High PILOT Contributions Through Local Government Partnerships

The most systematic effort to obtain PILOT revenue for local governments and school districts in Pennsylvania is undertaken by Erie's local governments. The city and school district have long-term PILOT agreements with 11 tax-exempt nonprofits, with each paying 50 percent of what they would owe if fully taxable, while the county has more than 30 in total. The city also receives annual voluntary contributions from three tax-exempt nonprofits. These contributions are then divided between Erie School District (receiving 50.4% of the revenue), Erie City (receiving 32.4%) and Erie County (receiving 17.1%). In total, the school district receives around $1.3 million in these annual payments from the 11 PILOT agreements.

About 30% of the assessed value of all properties in the City of Erie are tax-exempt. Of those, 59 properties include UPMC Hamot, which has a total assessed value of $85 million, and $65 million attached to the hospital's main building. Hamot has been in a PILOT agreement with Erie since 1993, paying 50% of what it would owe if the affected properties were fully taxable. After disputing the reassessed property value of its main property, both sides compromised on a final value of $51.5 million. The deal provides the three taxing authorities (County, City, and School District) with around $1.3 million on 22 properties in annual payments to divided between them. The other large hospital, the Allegheny Health Network's Saint Vincent Hospital, has an assessed value of about $37 million, providing annual PILOT contributions totaling around $749,000 on 14 properties.

University PILOT Agreements Nationwide

In recent years, the tax benefits received by colleges and universities have come under scrutiny as campuses have expanded, putting greater strain on local government finances. In response, a growing number of educational institutions are making payments in lieu of taxes.

For example, Harvard gave around $10 million and Boston University gave $6.3 million to Boston in 2019, Brown gave $6.2 million to Providence, Rhode Island in 2020 in addition to a $10 million endowment for public schools, and Yale gives about $12 million to New Haven, Connecticut. In total, around 70 colleges and universities provided PILOT contributions in 2011. In 2020, the University of Pennsylvania announced it will provide $100 million over 10 years to address environmental hazards in Philadelphia public schools. Penn State Behrend's PILOT agreement provides over $267,000 in payments to Erie as of 2017 for its innovation complex called Knowledge Park and an additional $100,000 for its Advanced Manufacturing and Innovation Center.

Options Available

<u>Approaches the City and County Could Take</u>

The city and county administrations could adopt Boston's approach by first establishing a PILOT task force. The task force could:

1. Calculate the values of city/county services that large nonprofits benefit from.
2. Establish a threshold based on assessed property values at which nonprofits would be expected to participate in a PILOT program. This threshold should be relatively low to maximize participation in the program but high enough to avoid penalizing small nonprofits.
3. Establish a "fair share' contribution target based on the value of services nonprofits benefit from each year. This amount should be justified. Boston, for example, set a target of 25% of an institution's total property tax exemption because public safety and public works made up 25% of its operating budget.
4. Decide whether to incorporate a community benefits credit that would partially offset the cash contributions "owed" by nonprofits. Eligible activities should align with the city's priorities and improve equity by prioritizing free or discounted services offered to disadvantaged populations.

Also, as noted, despite losing nearly $14 million in property taxes to UPMC, the city is scheduled to pay the hospital $3.35 million from 2022-2024 to manage the city's workers' compensation program. A PILOT arrangement could include waiving these fees as a community benefit to eliminate a significant expense for the city.

The city and county could also take Erie's approach and negotiate 50% PILOT agreements with the largest nonprofits, which own a significant percentage of the non-government exempt property in the region. Two of the largest, UPMC and Highmark/AHN, have already agreed to make these 50% payments on their hospitals in Erie, and have the financial resources to come to the same agreement here. As with Erie, these PILOT agreements could provide revenue for the county, city, municipalities, and school districts.

Another pressing concern for Pittsburgh specifically as it relates to the collection of property tax revenues is the number of blighted and abandoned properties. An optimal solution would be to use the revenues collected by a new PILOT program toward efforts that place parcels back on property tax payrolls. If the city was able to secure 25% of the top five nonprofits' property tax liability in the form of cash contributions, it could generate approximately $8.6 million in the first year towards the Pittsburgh Land Bank to clear liens and delinquent taxes on vacant and abandoned properties. This would expand the city's capacity to turn unused liabilities into assets that spur community revitalization and further increase property tax revenues.

Since small municipalities often lack the bargaining power and technical expertise to negotiate adequate PILOT agreements, a new PILOT program could be administered by the county administration. After receiving contributions from nonprofits, the county would then distribute the funds to municipalities and school districts based on the size of their nonprofit presence. This system would benefit all parties involved: nonprofits would only have to negotiate with one government entity, while municipalities with a nonprofit presence would see an increase to revenues.

Best Practices

When negotiating PILOT agreements, the city and county administrations should follow best practices that have made other local governments' PILOT programs successful:

- The city and county administrations should aim to secure long-term agreements (i.e., at least 20 years) to avoid the lack of predictability and stability of revenue that has characterized their history with PILOTs.
- The city and county administrations should dedicate staff to manage the PILOT program, including maintaining positive and collaborative relationships with the city's nonprofit sector. Following the recommendation of the Lincoln Institute of Land Policy, staff should demonstrate that the city/county is a trustworthy partner, listen to nonprofit leaders' concerns, and acknowledge their contributions to the community.
- The Department of Finance should track PILOT contributions and publish an annual report detailing total amounts (both in cash contributions and eligible community benefits) made by each nonprofit institution. The city of Boston's centralized portal is an ideal example.

State-Level Changes

Recommendation 1: The state should change tax filing for tax-exempt entities so PILOT contributions are clear and easily searchable.

Recommendation 2: The state should amend Act 55 to set a standard way for nonprofits to make contributions.