April 7, 2015 Policy Brief: Volume 15, Number 17

When Political Bias Substitutes for Analysis: The Case of Tax-Exempt Properties

$1.5 billion: Keep that figure in mind because it is a number that is an important component in a debate over tax-exempt charitable properties in Pennsylvania and has been badly misrepresented in a recent local editorial. To be sure, the tax-exempt property question has been a major source of controversy in Pittsburgh for quite a long time and is also a source of lively debate across the state as it involves local governments, the legislative and judicial branches of state government, the non-profits themselves, and it is all driven by a possible ballot question to amend the state Constitution.

The dollar figure cited above that was grossly misrepresented was contained in a December 2014 report by the Auditor General's office titled "*A Review of Potential Lost Revenue Due to Property Tax Exemptions*". In the Auditor General's study, ten of Pennsylvania's 67 counties were selected and three data points were produced: the total assessed value of all properties, assessed value of tax-exempt properties, and assessed value of medical facilities that are classified as purely public charities. One of the ten counties in the sample was Allegheny County.

Using the assessed value of all tax-exempt property and multiplying by the county, municipal, and school district millage rates the study produced a "total potential property tax liability" or, in English, the amount of revenue that could be realized if all tax exemptions were eliminated.

In table two of the report, titled "Tax Exempt Properties, 2014" the amount of potential tax revenue from tax-exempt properties ranged from $619.7 million in Allegheny County to $35.8 million in Monroe County. As noted above the table in the report, tax-exempt properties include "…government owned properties, K-12 schools, churches, charitable organizations, hospitals, and higher education institutions". Indeed, under the title of the table in parentheses it states "including government owned properties". It would be very difficult to miss that important point.

Adding up all the potential tax revenue from all tax-exempt properties in the ten counties, including government owned, churches, etc., produces the $1.5 billion figure. Straightforward enough.

However, it seems some readers that decided to write about the report were not paying close attention to the details in the report. For example, as noted above, a recent opinion piece in a Pittsburgh newspaper asserted that the study said, "… Pennsylvania taxpayers lose $1.5 billion each year in property taxes because of tax exemptions to a few large non-profits in just 10 counties."

Was the author confused by the data? It is possible, but also a stretch. Table two does not even mention any non-profits specifically. In order to be accurate the author should have wrote "the report made it clear that Pennsylvania taxpayers in ten counties lose $1.5 billion each year in property taxes because of all tax exemptions for all classes of tax-exempt property, such as non-profits, churches, institutions of higher education, food banks, burial grounds, and property owned by Federal, state, county, municipal, school district, and authority government".

Is the author new to the topic and that would excuse the confusion? Perhaps, but he is affiliated with a non-profit organization that testified at one of the Auditor General's four hearings on the subject of tax exemption, so it probably is safe to say that the author should be familiar with the report, its methodology and the topic in general.

To compound his mistake, the author then wrote "in Allegheny County, we forgo more than $600 million each year from the likes of UPMC and Highmark". Not so. The $600 million plus number is based on the tax revenue that could result if all exemptions were eliminated. In other words the likes of Highmark and UPMC do not account for the $600 million in foregone revenue. To get that number it is necessary to include the taxes not collected on authority properties, all government buildings, churches and the universities. These would include huge properties such as the Pittsburgh International Airport, Port Authority facilities, the Convention Center, Housing and Parking Authorities, the County Courthouse, the Post Office, and Point Park University to list examples. It would also include the over one billion dollars' worth of heavily subsidized sports facilities owned by the Sports and Exhibition Authority.

If we estimate the combined Allegheny County, average municipal, and average school district property tax millage at 30 mills a quick calculation shows that one would need a total assessed value of around $20 billion in tax-exempt property to produce $600 million in real estate taxes. That's right around the amount that has appeared on the County's assessment rolls in recent years and is the figure in table two. Does anyone honestly believe that exempt non-profits such as hospitals alone could account for that much value in Allegheny County?

A quick look at the report's data shows that the implication that hospitals account for this level of tax liability is extremely wide of the mark. A subsequent table three, titled "Medical Facilities with Purely Public Charity Status, 2014" calculates the potential tax liability for this sub-classification of exempt property in the same ten counties. The total comes to $177.4 million. Appendix B is titled "IPPC Medical Facilities' Potential Property Tax Liability, By County": the aforementioned UPMC's potential tax liability is $47.9 million. Along with thirteen other organizations in that table for Allegheny

County, the total assessed value of $3.1 billion results in a potential tax liability of $76.1 million for Allegheny County, its municipalities, and school districts. That's far less than $600 million the opinion writer claims.

We are fully in support of the author's desire to have "real debate" on the issue and have pointed out that if non-profits are holding property that does not serve a charitable mission then that property should be paying property taxes just like Article VIII, Section 2(v) of the state Constitution stipulates. In fact, we don't know for certain that some of the maligned charities are not in fact paying property taxes on properties that do not qualify for an exemption or have agreed to payments in lieu of taxes, a point made by the Auditor General's report.

Grossly misrepresenting and misusing data in order to promote a political cause is deplorable. But sadly, there are probably many readers who believe the claims in the piece and are repeating them. Thus it is that horribly wrong analysis becomes a rallying cry in the effort to eliminate tax exemptions.

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