ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

February 15, 2023 **Policy Brief: Volume 23, Number 7**

Tax-exempt property goes under the microscope again

Summary: On Jan. 24 the mayor of Pittsburgh signed an executive order which directs two city departments to "begin a review of all tax-exempt properties to determine if properties currently designated as exempt from property taxes are owned by institutions of purely public charities and direct them to act on such information." This is the most recent measure by the city to extract money, possibly through a payment-in-lieu of taxes (PILOT) arrangement, from large nonprofits.

The order came just under a year since three proposals were introduced in City Council regarding tax-exempt property (see *Policy Brief Vol. 22, No. 12*). One would levy a tax on users of medical and higher education facilities. Another would place those tax revenues into an infrastructure trust fund. A third would direct the Finance Department and the City Solicitor to examine the fair market value of land and buildings owned by tax-exempt organizations and discern how much would be paid in property and payroll preparation taxes as a starting point for PILOT discussions with purely public charities and universities.

Those proposals are still in committee. Apparently, the order supplants the third proposal as the Finance and Law Departments will be in charge of the 2023 review.

How big a task will this be? Based on the most recent data, of the city's 142,576 parcels, 18,156 (13 percent) are tax-exempt.

Of course, not all tax-exempt property is owned by charitable organizations. The order states that churches and religious institutions will not be part of the review. Likely to be eliminated rather quickly are properties owned by various levels of government. This would include authorities like the Sports & Exhibition Authority. So there is no chance Acrisure Stadium, PNC Park or PPG Paints Arena will be returning to the tax rolls by virtue of this review. Making those venues taxable would generate over $11 million annually in city property taxes.

To be classified as a purely public charity, an organization must meet a five-point test set out in a 1985 Pennsylvania Supreme Court decision. These include advancing a charitable purpose, relieving government from some of its burden and operating freely from private profit motive. This test was reaffirmed in a 2012 ruling by the same court. The third proposal from 2022 estimated that 500 parcels in Pittsburgh were owned by colleges and hospitals.

Studies of tax-exempt property and "tax loss"

Studies by the Allegheny County Controller in 2012 and the Pennsylvania Auditor General in 2014 classified tax-exempt property in Allegheny County and estimated a "tax loss" by applying property tax rates to the value.

The controllers for Pittsburgh and Allegheny County performed a similar study released in May 2022. Based on county assessment data from Nov. 2021, the report showed the following for Pittsburgh:

- Of $32.7 billion in total assessed value, tax-exempt property accounted for $12.7 billion (39 percent);
- Of that $12.7 billion, $6.4 billion (50 percent) was owned by nonprofits;
- Of that $6.4 billion, $4.3 billion (67 percent) was owned by two health systems (UPMC and Highmark) and three universities (Pitt, Carnegie-Mellon and Duquesne).

Interestingly, this was the first study of the three to show specifically how much taxable property those five entities own. The total was $335 million in Pittsburgh—a fraction of the tax-exempt value—yet showed that not everything owned by these nonprofits is tax-exempt.

The report's "tax loss" for the city was $34.5 million annually if the tax-exempt property owned by those five entities were made taxable and the city applied its millage rate to the value.

Short of that, if city policymakers were to convince the group to make a PILOT agreement based on the "tax loss," payments would range from $8.6 million (25 percent) to $17.3 million (50 percent). The city's 2023 operating budget counts $563,897 in nonprofit payments for services, a significant decline from the years of fiscal distress and state financial oversight.

Possible impact of the review

Will the order produce what the city hopes? Time will tell and, based on a similar undertaking by Allegheny County, it will take quite some time to tell. A 2007 ordinance ordered charitable property holdings to undergo "a parcel review… at least once every three years."

As noted in a 2019 *Policy Brief* (*Vol. 19, No. 11*), the countywide examination of 2,800 charitable nonprofits, which would include the City of Pittsburgh, began in 2013. As of 2019, 61 percent remained tax-exempt, 10 percent had been deemed taxable and 25 percent were pending a legal review. The following year the respective shares were 58, 15 and 18 percent. Did the city administration inquire how the county's review was proceeding before starting what appears to be a duplicative analysis, even though the city will examine fewer parcels?

At least one city official involved with the review seemed to already be banking the dollars. "The city of Pittsburgh is facing a revenue shortfall, especially once the (American Rescue Plan Act) funds run out … We need this money in order to properly run the city."

The city's five-year financial forecast shows revenues will fall after stimulus money is spent. But the city is projected to maintain positive operating results and end-of-year fund balances that meet the required minimum of 10 percent of total expenditures. What is the city's plan if the property reviewed is found to be in compliance with the requirements for being a purely public charity and remain tax-exempt? The city's problem is not revenue as much as it is the very high levels of spending for a city its size.

Recommendations

If city officials want to strengthen the operating results and fund balance, they should be focusing on curtailing spending growth to bring it in line with per resident spending in comparably sized cities, focusing on core city functions and outsourcing or privatizing those that are better handled by other entities.

Refraining from anti-business measures will go a long way to grow the tax base as well.

In 2021, the city abated and diverted $8.1 million in property tax revenue in economic development arrangements. That could be avoided if the city had a business-friendly climate, carried out necessary functions well and had a low tax framework in place.

Eric Montarti, Research Director

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: AlleghenyInsti1