NEWS & VIEWS

Tax Free

While the city soaks in red ink, nonprofits pay a pittance — and may soon get off scot-free.

"This city is bleeding," says City of Pittsburgh Controller Tom Flaherty. The reason: 40 percent of the real estate in Pittsburgh is tax exempt. So as nonprofits like the University of Pittsburgh Medical Center (UPMC) and Duquesne University grow bigger and bigger, the city's real estate tax base withers away.

Although Pittsburgh's financial situation is arguably better than it was a few years ago, the city is still threatened with a $20 million structural deficit. Meanwhile a bill before the State House threatens to limit what little power the city does have to compel nonprofits to pitch in for the city services they receive. And a bill which could help stop the city's bleeding seems to be going nowhere.

Let's Make A Deal

Pittsburgh's many major hospitals and universities pay no property tax, no matter how much property they own. The University of Pittsburgh, for example, holds properties with fair market value in excess of $500 million. In 1996, Pitt voluntarily paid $170,000 in lieu of taxes — a fraction of the $6.3 million it would have paid were it subject to real estate taxes. Meanwhile St. Francis Hospital, with real estate valued at only $40 million, paid $315,000 in lieu of taxes in 1996. Were St. Francis a for-profit institution, its tax bill would have been $588,938.

If that system sounds arbitrary, that's because it is. When Sophie Masloff was mayor, she threatened Pittsburgh's big universities and hospitals with lawsuits challenging their nonprofit status unless they agreed to "voluntarily" pay the city a sum in lieu of taxes. Masloff, though, didn't establish a formula for determining how much an institution would pay. "It was pick-and-choose and it was unequitable," says Flaherty. "It smacked of favoritism." For the nonprofits, it came down to being a low-stakes game of Let's Make A Deal.

Under Mayor Tom Murphy, the deals have gotten even sweeter. The total payments by nonprofits have dropped from a high of $5.1 million in 1992 to $3.6 million in 1996. That could hit zero if a bill currently before the State House, HB 55, passes. That bill, says State Rep. Don Walko, would spell out the minimum requirements necessary for an institution to qualify for tax exemption in Pennsylvania. "If House Bill 55 becomes law, there will be less incentive for [tax exempts] to make deals with the city," Walko says, because the city and county would have a much harder time suing to challenge their nonprofit status. Presumably the city's already modest take would dwindle further — if the tax exempts saw fit to pay anything at all.

Bandaids And House Bills

The public sector's patience for the tax exempts may be running out. The Lincoln Institute of Harrisburg surveyed elected officials in three Pennsylvania counties and found that 40 percent of the respondents felt that nonprofits should be required to pay property taxes. Of the officials who felt the exemptions should continue, 72 percent said the exempt organizations should pay some type of fee instead of taxes.

Locally, though, not even budget-conscious Flaherty thinks it's time to tax the nonprofits. He fears that would start a flight of the hospitals and universities from the city to other municipalities that would offer a tax exemption. And as Flaherty points out, nonprofits are some of Pittsburgh's biggest employers. UPMC and Pitt are the fourth and fifth largest work-givers in the region. In all, 16 of the region's 50 largest employers are nonprofits, and 11 of those are in Pittsburgh.

Instead, Flaherty says the state should reimburse cities for some of the monies they lose due to the concentrations of nonprofits there. He suggests that could be funded through a small personal income tax increase; a one-tenth of 1 percent hike in the personal income tax could raise approximately $300 to 400 million annually.

The best hope for the city right now, though, is a HB 1246, sponsored by Walko and State Rep. Thomas Dempsey (D-Williamsport). Known as the Local Tax Exempt Property Grant Act, HB 1246 would take funding from real estate transfer taxes that are paid by both the buyers and sellers of property. The proposition calls for an allocation of $25 million for fiscal year 1997-98 and $30 million through the year 2000 for municipalities with over 10 percent of the market value of their real estate classified as tax exempt. More would go to those with over 25 percent of their land and buildings off the rolls. After 2000, the funding would be tied to the Consumer Price Index.

"This bill passed the House in May and is just wallowing in the Senate so we won't see any action on that, if any, until the fall," Walko says. Meanwhile, nonprofits are getting the kid gloves treatment. "Isn't it ironic that the city is giving Pitt part of Bigelow Boulevard, and the city is going to pay $425,000 out of the $850,000 cost to modify Bigelow Boulevard. I think that's ridiculous. ... I find that ironic in a city with a deficit."

Flaherty suggests that one way to get the legislation off Square One might be to use the clout of the very hospitals and universities which are currently creating the problem. The city, he says, can tell them: "Don't continue to take properties off of the tax roles for your institutions without at least getting in place some uniform governmental program to reimburse municipalities."

The Bottom Line

By and large, the nonprofits are not hurting for cash. Philadelphia Online, which provides financial information on Pennsylvania Hospitals, shows that in 1995 UPMC posting $62,245,000 of revenue over expenses — the nonprofits' euphemism for profits. Allegheny General made $19,112,000 in revenue over expenses, Shadyside Hospital $10,706,000, West Penn $7,986,396 and St. Francis $1,301,000.

That kind of revenue leads to growth, and Flaherty cites the recent example of Duquesne University acquiring the Fisher Scientific Building as an example of how revenue-producing real estate is being taken off the tax roles. It's the kind of loss a city in the red can't afford — but which it increasingly must face, with no end in sight. ■

Schoolhouse Blues

If the city is bleeding, the school district is hemorrhaging with no transfusion in sight.

The Pittsburgh Public Schools are faced with a deficit of over $20 million. Outgoing Superintendent Louise Brennen says that balancing the budget will be especially difficult this year because there are no additional revenues to tap into, and deep cuts have already been made in staffing.

Like the city, the school district must negotiate with nonprofit organizations its own deals for payments in lieu of taxes. But on that account the district has been even less lucky than its Grant Street relation — it receives a meager $600,000 to $800,000 from the tax-exempts annually.

Richard Fellers, director of business affairs for the Pittsburgh Public Schools, says the district is only seeking to receive from tax-exempts payments based on those operations that generate money, like parking garages, public cafeterias and leased office space. The district negotiates each case individually. But like the city's, its leverage is limited. "Sometimes the city, county and school district work together on these agreements," he says. "Sometimes unfortunately, we've gone our own way. I think it's better when we work together, but that's not always possible for a variety of reasons."

If Pittsburgh's tax-exempts paid just a fraction of what their school taxes would otherwise be, the payments could quickly wipe out the $20 million school deficit. Carnegie Mellon University (CMU), for example, owns real estate with a fair market value of about $70 million. School tax from just that source would be $1 million. And the real estate held by Pitt and major hospitals makes CMU look like pocket change.

However, most hospitals and universities pay nothing to support the public schools. A few make small negotiated payments to the district. This year only Shadyside Hospital ($90,924) and the Institute for Transfusion Medicine ($38,916) have actually paid money to the school district. Allegheny General has a payment of $218,925 due.

To make up the $20 million shortfall, Fellers says the district can either reduce costs, increase revenues or both. The district has been able to hold the line on taxes for the past four years, but the future is unclear.

State House Bill 1246, which may help cities overloaded with large nonprofits, offers no relief to the state's school districts. State Rep. Don Walko (D-North Side) says the House did not attempt to treat education with this bill. "Ultimately with education, we should go to statewide funding to assist rural and poor school districts like Duquesne," he says. Walko agrees that the schools lose a source of revenue when property is converted to tax-exempt status. Thus, he says, "The school district has a very big interest in watching what happens to House Bill 55, which would clarify the tax-exempt status of real estate." HB 55 threatens to eliminate what little leverage government bodies have to compel nonprofits to pitch in.

Fellers knows of no direct help for school districts on the horizon, but he is pulling for the city. "Obviously, when you have an overlapping tax base, like the school district and the city do, anything that is good for the city is good for the school district because that creates a larger revenue pool for both of us," he says. "So we never begrudge the city getting something like that [HB 1246 reimbursement]."

Meanwhile, local universities and hospitals continue to be large and growing employers for the region. It seems ironic that most refuse to fund the education of the region's young people, many of whom will one day become their employees.

— Darlene White Natale

What They Paid ... And What They Would Have Paid

The nonprofits listed below have made contributions in lieu of taxes to the City of Pittsburgh's budget. Had they paid real estate taxes at the rates for-profit businesses do, though, they'd have pitched in a lot more.

Institution	Paid In Lieu Of Taxes 1996	1997	Real Estate Tax Per Year*
U. of Pittsburgh	$170,000	0	$6,300,476
Presbyterian U. Hosp.	$1,475,000	$300,000	$2,697,300
Carnegie Mellon U.	0	0	$1,012,554
Duquesne U.	$25,000	0	$734,153
Shadyside Hospital	$442,170	$451,013	$685,231
St. Francis Hospital	$315,000	0	$588,938

Other Nonprofits' Payment In Lieu Of Taxes

	1996	1997
Central Blood Bank	$66,940	$54,940
Eye and Ear Hospital	$104,422	0
Montefiore Hospital	$84,271	$14,302
Northern Area Multi-Service Center	$2,845	0
Residential Resources (Mental Health)	$13,978	0
Allegheny General Hospital	$1,085,310	0
Forward Housing	$30,000	$10,000
Institute Transfusion	0	$55,658
PA Residential Development	0	$718

** 1997 payments listed are as of April 16, 1997.*

Sources: City of Pittsburgh Controller's Office and Allegheny County Assessors Office