Allegheny County Controller & City of Pittsburgh Controller

TAX EXEMPT PROPERTIES

Executive Summary

May 2022

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.

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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.