Controllers' Report: It's Time for Pittsburgh's Big Nonprofits to Pay

By Nthando Thandiwe | June 2022

Summary

For decades, changes in Pennsylvania law and court decisions regarding "purely public charities" and the rising share of city property owned by such nonprofit organizations, Pittsburgh and its political leaders have wrestled with whether and how to get the largest nonprofits to pay taxes or make other contributions to city revenues. An important and recent joint report from the Pittsburgh City and Allegheny County Controllers contains an updated estimate that the five biggest nonprofits, all health care and higher education institutions, avoid $34.5 million annually in property tax payments to the city, led by the University of Pittsburgh Medical Center (UPMC) at $13.9 million. This brief summarizes key findings of the controllers' report and reinforces its message that city political leaders—like their counterparts in places such as Erie, Pennsylvania, and Boston, Massachusetts—need to ensure that big nonprofits contribute their fair share to city coffers.

Like private corporations, nonprofits depend on and benefit from public investments. Further, while "eds and meds" help drive today's city economy and bring in revenues from outside the city, well-off people compose a disproportionate share of these institutions' customers and employees. Therefore, their tax breaks are a variant of a "reverse Robin Hood" policy—when big nonprofits make little contribution to the Pittsburgh budget, less well-off workers (and for-profit businesses) must contribute more. Both "meds and eds" also impoverish many low-wage caregivers and contingent faculty, some of whom end up relying on taxpayers for public assistance.

The City of Pittsburgh has two main options, not mutually exclusive, to ensure that UPMC and other large nonprofits pay their fair share.

First, the city could negotiate "payment in lieu of taxes" (PILOT) agreements with its large nonprofits.

- The City of Boston, highlighted in the Controllers' report, uses a mix of PILOTs and provision of benefits to city residents at low prices to garner $90.5 million from nonprofits with more than $15 million in tax-exempt property. That $90.5 million is equivalent (based on population) to $39.6 million in Pittsburgh.
- The budget of the City of Erie, Pennsylvania, receives more than 12 times as much per capita as Pittsburgh from PILOT agreements under which large nonprofits, including the UPMC affiliate in Erie (UPMC-Hamot), pay 50% of their property tax exemption.

Second, Pittsburgh could reopen the city's 2013 court challenge to the anchor institution that behaves most transparently like a for-profit, UPMC. The Controllers' report notes that "there is little evidence" that UPMC's practices have changed since a city legal review prior to the original lawsuit. That review

concluded that UPMC fails most, and possibly all, of five legal tests required to be a Pennsylvania "pure public charity" and therefore exempt from property taxes.

Pittsburgh's big non-profits have the "ability to pay" PILOT more to city revenues. Even if they paid their entire property tax exemption it would amount to roughly 1% of their combined net income. Obtaining fair payments from large nonprofits would give the City of Pittsburgh sustainable revenue as American Rescue Plan funds expire. These funds could address the top priorities of Pittsburgh's new mayor such as the pressing and immediate need for more affordable housing and for training that leads to good jobs, as well as addressing the long-term race and class inequities exacerbated by the pandemic.

The Scale of City Tax Exemptions for Large Nonprofits

Like small businesses, other for-profits, and homeowners, nonprofit organizations depend on and benefit from public investments in the city's public emergency medical services (EMS) and other first responders, in transportation including public transit, and in K-12 education and workforce development. Currently, in Pittsburgh, even the city's biggest nonprofits (UMPC, Highmark, University of Pittsburgh, Carnegie Mellon University, and Duquesne University) contribute little to the city revenues that pay for these public goods. The Controllers' report estimates that these five organizations enjoy tax exemptions on more than $4.3 billion in property in the city of Pittsburgh (table 1).[1] UPMC is the largest beneficiary of these tax exemptions, owning $1.7 billion's worth of property that is exempt or abated from city taxes.[2] Nonprofits' tax-exempt status has become an increasing challenge to the city over time. Nonprofits now own about 20 percent of all property in Pittsburgh, and nearly two-thirds of this amount (63.4%) are owned by the big five.[3] These exemptions reduce the tax bills of these five nonprofits in Pittsburgh by 92.7%.

Table 1.

The City of Pittsburgh

Non Profit	Exempt Property	% of All Non-Government Exempt	Estimated Property Taxes Paid	Potential PILOT Revenue at 25%	Potential PILOT Revenue at 50%	Potential PILOT Revenue at 100%
UPMC	$1.7 billion	25.6%	$1.4 Million	$3.5 Million	$6.97 Million	$13.9 Million
Highmark/AHN	$265 million	3.9%	$529,960	$534,740	$1.1 Million	$2.1 Million
University of Pittsburgh	$1.4 billion	21.4%	$452,468	$2.9 Million	$5.8 Million	$11.6 Million
Carnegie Mellon University	$441 million	6.5%	$270,105	$887,955	$1.8 Million	$3.6 Million
Duquesne	$405 million	6.0%	$25,671	$816,355	$1.6 Million	$3.3 Million
Total	**$4.3 billion**	**63.4%**	**$2,703,235**	**$8,631,386**	**$17,262,772**	**$34,525,543**

Source: Michael E. Lamb and Tracy Royston, "Special Report: Tax Exempt Properties," Office of the Allegheny County Controller and the Office of the City of Pittsburgh Controller, May 2022, https://apps.pittsburghpa.gov/redtail/images/18106_PILOT_Special_Report_Final.pdf.

Based on a national ranking summarized in the Controllers' report, the 2022 Lown Institute Hospitals Index, Pittsburgh's two biggest health care networks contribute less to the city budget than big hospital systems in most other cities. UPMC's tax breaks exceeded the value of its community investment

[1] Michael E. Lamb and Tracy Royston, "Special Report: Tax Exempt Properties," Office of the Allegheny County Controller and the Office of the City of Pittsburgh Controller, May 2022, https://apps.pittsburghpa.gov/redtail/images/18106_PILOT_Special_Report_Final.pdf.

[2] Ibid, 12.

[3] Ibid.

spending by $601 million in 2019, the fifth-largest "fair share deficit" of any nonprofit hospital system in the country. This was a drop from a second-place ranking based on "excess revenue" of $1.1 billion in 2020 that took into consideration federal CARES Act grants.[4] The Lown Index found that Allegheny Health Network currently has the 21st highest fair share deficit, $182 million.

"Profitable Nonprofits"

The Controllers' report notes the healthy financial situation of Pittsburgh's biggest non-profits in a short section titled "Profitable Nonprofits":

> UMPC and AHN both reported net income in excess of $1 billion during 2020, with UPMC experiencing a 36% jump in profits during the pandemic. … The University of Pittsburgh 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.

These net income amounts should be considered against the size of the property tax breaks each institution gets. According to the Controllers' report, the big four's combined profits and net income exceeds $2.5 billion. (Duquesne's net income is not provided.) These four nonprofits' combined property tax exemption is $31 million—only a bit more than 1% of their aggregate profits and net income. The implication: these anchor institutions have the ability to pay.

The City's Five Biggest Nonprofits Serve and Employ Disproportionately Affluent Pittsburghers

Anchored by the biggest five nonprofits in the city, higher education and health care are critical drivers of the modern Pittsburgh economy. They deliver vital services to people of all ages. They also bring people and buying power into the region, including through high-tech spinoffs from universities that spur business development (although jobs from high-tech spinoffs rarely get created in the city). It is also worth remembering that these nonprofits disproportionately serve and employ the well-off.

More than half of the students at the three nonprofit universities come from families in the top fifth of the income distribution, with 4% or less coming from the bottom 20%. (See table 2.)

Table 2.

CMU, Pitt, and Duquesne Serve Mostly Affluent Students

Share of Students from Each Part of the U.S. Income Distribution	CMU	Pitt	Duquesne
Top 1%	7%	2%	2.5%
Top 5%	34%	15%	16%
Top 10%	49%	29%	30%
Top 20%	66%	51%	53%
Bottom 20%	4%	3.7%	3.4%

Source: *New York Times* interactive data base online at https://www.nytimes.com/interactive/projects/college-mobility

[4] As found in the Controllers' report, Aaron Toleos, "U.S. nonprofit hospitals get billions more in tax breaks than they spend on charity care and community investment," LOWN Institute, April 12, 2022, https://lowninstitute.org/press-release-u-s-nonprofit-hospitals-get-billions-more-in-tax-breaks-than-they-spend-on-charity-care-and-community-investment/.

Turning to health care, the Controllers' report (p. 9) synthesizes information from several sources which shows that UPMC targets its services to the affluent in and far beyond Pittsburgh. The Controllers' report quotes the city legal review written before the 2013 city lawsuit that challenged UPMC's tax-exempt status. That review documented UPMC's

> "closure of facilities in locations with relatively high numbers of Medicare, Medicaid or uninsured patients…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 Controllers' report then adds

> "There's little evidence that [UPMC's] 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 which are already covered by Medicaid)."

The education and acute health care sectors also have among the most educated workforces of all sectors. While college-educated workers make up only about a quarter of employed Pennsylvanians, they make up about half of employed Pennsylvanians in hospitals and nearly two-thirds (63%) of those employed in "educational services."[5] Some executives and the highest-level professionals make high salaries in these sectors. In calendar year 2020, Jeffrey Romoff, then president and CEO of UPMC received $10.4 million in total compensation. Leslie Davis took over as CEO in July 2021, but in 2020 while she was still chief operating officer, she was paid $2.4 million.[6] In 2019, at least 32 UPMC executives each received more than $1 million—14 of whom made more than $2 million.[7] That equals more than $54 million that went to 32 individuals, an amount that far exceeds what UPMC would owe in city taxes—revenue that would benefit the entire city if the health system were not considered a "purely public charity." A 2020 study found that Carnegie Mellon and Duquesne Universities had the 2nd- and 25th-highest private college president salaries in Pennsylvania, although at $1.2 million and $433,812 respectively, these are modest compared to salaries at UPMC.[8]

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[5] Based on the American Community Survey, in 2019 in Pennsylvania, 24% of workers in all industries had four years of college or more compared to 62.5% in "Educational Services," 49% in "Hospitals," and 37% in "Medical and Other Health Services, Except Hospital." American Community Survey data extracted from IPUMS USA, University of Minnesota, www.ipums.org. To replicate the numbers above, go to https://usa.abacus.ipums.org/#/tabulator/ and extract data on the variables "educ" and "ind1950" for Pennsylvania in the industries listed in the first sentence of this footnote.

[6] UPMC website, "What is a Form 990?" https://www.upmc.com/ABOUT/FINANCES/IRS-FILINGS#:~:text=Our%20filing%20shows%20that%20UPMC%20Chief%20Executive%20Officer,president%20%26%20chief%20operating%20officer%2C%20Health%20Services%20Division.

[7] Natasha Lindstrom, "IRS records: UPMC CEO Jeffery Romoff made $9.5M in 2019; pay tops $1M for 32 employees," TribLive.com, May 14, 2021, https://triblive.com/business/records-upmc-ceo-jeffrey-romoff-made-9-5m-in-2019-pay-tops-1m-for-32-employees/.

[8] Chatham had the 28th-highest president salary at $414,687. Sara K. Satullo, "How much Pa.'s top 25 private college presidents make," LehighValleyLive.com, December 11, 2017, https://www.lehighvalleylive.com/education/2017/12/find_out_how_much_pas_private_college_leaders_make.html; Jacqueline Palochko, "What the presidents of Pennsylvania's private colleges make," *Morning Call*, January 21, 2020, https://www.mcall.com/news/education/mc-nws-pennsylvania-college-presidents-salaries-20200121-gwmc7zubzvb43mlhlcs2jo5fee-story.html.

Alongside well-compensated, college-educated workers, higher education and the acute health care sectors employ many low- and lower-paid workers, including front-line caregivers; full-time maintenance, janitorial, and office staff; and part-time and contingent faculty in higher education.[9] If property tax exemptions were conditioned on commitments to pay all workers a living wage and to honor their rights to organize unions, those commitments might provide reasons to maintain some portion of tax exemptions. But currently the exemptions are not accompanied by any binding requirement to pay people decently or honor workers' freedom to organize. In fact, UPMC healthcare workers often face low pay, little job security, a lack of voice in the workplace, and, ironically, high costs for the health care that they help provide.[10]

Two Options for Increasing Nonprofits Contributions to the City Budget

The Controllers' report documents the fact that efforts to secure payments from large nonprofits have not produced significant revenue in the past, despite the city's financial need.[11] Over the entire 2000–2020 period, Pittsburgh collected $39.6 million from PILOT agreements, receiving $1.07 per capita in 2020. This makes the total PILOT amounts collected in Pittsburgh over the past 20 years slightly more than the five biggest nonprofits now receive in exemptions each year.

Pittsburgh has two options for ensuring UPMC and other large nonprofits pay their fair share in taxes:

1) negotiating PILOT agreements which require the city's large nonprofits to make meaningful contributions to the city budget and which could also include provisions to deliver community benefits, such as low-cost services and/or jobs to diverse city residents.
2) renewing the city's legal challenge to UPMC's claim to be a "purely public charity."

The Boston and Erie PILOT Models

The Controllers' report highlights PILOT agreements in Boston and Erie as models for Pittsburgh.

More than half of the property in Boston, Massachusetts, is tax-exempt—in part, because it is the state capital and within the city limits are world-renowned nonprofit higher education and health care institutions. This makes it imperative that Boston receive some contributions to the city's budget from nonprofits. The creation of a task force at the direction of Boston mayor Thomas Menino evaluated existing PILOTs and developed a methodology for valuing community benefits, costs associated with providing community services for nonprofits, and proposing a long-term partnership structure. This led to task force recommendations, including PILOT contributions based on assessed value of the institution, exemptions for small nonprofits, and credits for community benefits provided. The result is a program where Boston uses a mix of PILOTs and provision of benefits to city residents at low prices to

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[9] A dozen years ago at the University of Pittsburgh, part-time and adjunct faculty taught 28% of undergraduate courses and earned $4,738 per course (22% of what tenured and tenure-track faculty made) and received no health or pension benefits. Graduate students taught 10% of undergraduate courses. See Deirdre Brill and Stephen Herzenberg, "Reversing Course in Pennsylvania Higher Education: The Two Tiers in Faculty Pay and Benefits and a Way Forward," Keystone Research Center, 2010, 15, 21–22; https://files.eric.ed.gov/fulltext/ED541268.pdf.
[10] Moshe Z. Marvit, "UPMC Drives Largest Anti-Union Campaign in Pittsburgh," The Century Foundation, 2014, https://posting.pghcitypaper.com/media/pdf/marvit_upmc_report__2_.pdf.
[11] Ibid.

garner $90.5 million from nonprofits with more than $15 million in tax-exempt property.[12] That $90.5 million is equivalent (based on population) to $39.6 million in Pittsburgh.

PILOT agreements are not a new concept in Pennsylvania. In at least four other Pennsylvania municipalities—Braddock, Cranberry, Erie, and South Fayette—UPMC PILOTs contribute to local revenues equal to about 40%–55% of what it would pay in property taxes if not considered a "purely public charity."[13]

The City of Erie, Pennsylvania, receives a contribution of $13.39 per capita to the city budget thanks to PILOT agreements under which large nonprofits, including the UPMC affiliate in Erie (UPMC-Hamot), pay 50% of their property tax exemption. Pittsburgh currently receives $1.07 per capita in PILOT payments.

Next Steps

Pittsburgh's mayoral administration, mayoral transition team, and city council have all indicated the need for anchor institutions to contribute more to the city's revenue.[14] A PILOT agreement with a focus on community benefits can raise new revenue and leverage large nonprofits' resources to supplement city services and achieve policy outcomes outside the purview of the city. To get started, the city could follow Boston's approach in full by, first, establishing a PILOT task force to

- calculate the value of city/county services to large nonprofits.
- establish a "fair share" contribution target.
- determine the community benefits (lower-cost services, jobs for low-income city residents) to negotiate in addition to PILOTs.

The city can then decide what cut-off in terms of property tax exemptions to use when determining which non-profits to seek PILOTS and other community benefits from (recall that Boston used $15 million).

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[12] Ibid. In 2021, Boston's PILOT raised $35.1 million in cash contributions and delivered $55.4 million in community benefits credits; "City Council Supports Standardizing PILOT Payments Across Mass.," City of Boston website, April 1, 2022, https://www.boston.gov/news/city-council-supports-standardizing-pilot-payments-across-mass.

[13] Jonathan D. Silver, " UPMC among nonprofits eager to avoid paying property taxes," *Pittsburgh Post-Gazette*, September 26, 2012, https://www.post-gazette.com/news/health/2012/09/26/UPMC-among-nonprofits-eager-to-avoid-paying-property-taxes/stories/201209260169; "KCSD Okays Payment in Lieu of Taxes for UPMC Lock Haven Hospital," *The Record Online,* December 4, 2020, https://therecord-online.com/site/archives/64738; "Resolution Authorizing the Execution of a Community Contribution Agreement," City of Williamsport, PA, January 7, 2021, https://www.cityofwilliamsport.org/wp-content/uploads/formidable/10/9094.pdf.

[14] "Mayor Ed Gainey Says It Is Time Major Nonprofits Pay Their Fair Share" *MSN*, https://www.msn.com/en-us/news/us/mayor-ed-gainey-says-it-is-time-major-nonprofits-pay-their-fair-share/ar-AAVsISF?ocid=uxbndlbing; "Mayor Ed Gainey Transition Report 2022", https://gaineytransition.com/recommendations/; "Resolution directing the Director of Finance and the City Solicitor to determine the true fair market value of property owned or held by tax-exempt institutions and organizations in the City of Pittsburgh," March 14, 2022, https://pittsburgh.legistar.com/LegislationDetail.aspx?ID=5524807&GUID=7D648C69-9486-4E64-8010-D592E71F164D&Options=ID|Text|Attachments|&Search=pilot.

Pittsburgh should also adopt best practices such as negotiating long-term PILOT agreements (which provide predictability in revenues), dedicating staff to manage PILOT's, and tracking PILOT contributions and reporting on them publicly on an annual basis.

Simultaneously, the city should conduct a formal update of the legal review of whether UPMC meets the five-part test under Pennsylvania law for pure public charities. It seems likely that the findings of this update would mirror those of 2013. Confirming those findings would give the city more leverage to negotiate significant PILOT payments and community benefits from UPMC, as well as the option of reinitiating a lawsuit if UPMC proves unwilling to contribute a fair share.

In addition to seeking revenue through PILOTs, Pittsburgh should also implement fairer Pittsburgh city and school district income taxes by broadening the base of the city's income taxes to include more of the kind of income that goes mostly to affluent people ("income from wealth") and then raising the tax rate on such income from wealth above the tax rate on wage income. In our "Fair Taxation for Pittsburgh" policy brief, we outlined how the city can generate $57 million locally by expanding the tax base to include income from wealth and tax it at a higher rate.

Securing PILOT agreements and implementing fairer taxation now as ARP money is available allows the city to address the impact of the pandemic and long-term structural inequalities, while providing reliable revenue for years to come.