

Executive Summary

Policy Matters Ohio was commissioned by the Cuyahoga County treasurer to research issues related to the possible development of a program under which local nonprofit hospitals would make payments in lieu of property taxes (PILOTs). The report examines PILOTs and similar arrangements made by major nonprofit hospitals elsewhere in the United States, and finds that some of the top hospitals or their parent institutions make these payments. It also estimates conservatively that together, the Cleveland Clinic Health System and University Hospitals Health System would pay another \$17 million in annual taxes to the city of Cleveland if all of their property were taxable.

Nine of the 13 other hospitals on the *U.S. News & World Report* Honor Roll of hospitals besides the Cleveland Clinic are private nonprofits. Of these, five hospitals or their parent institutions make some kind of payments, and a sixth once did so. Among the five are two of the three hospitals that rank above the Clinic, Johns Hopkins and Massachusetts General. Hopkins, including the university and the hospital, is paying \$2.1 million this fiscal year. Mass General, including a separate affiliate, paid \$1.9 million last fiscal year.

Boston has a long-standing PILOT program covering more than 40 nonprofits, including at least 7 hospitals, and bringing in \$12 million a year. Pennsylvania has extensive experience with PILOTs because of a court ruling in the mid-1980s. A shift in the law covering nonprofits there means the amounts have since been scaled back. However, amidst a financial crisis in Pittsburgh, nonprofits in that city recently agreed to pay \$6 million a year. Other leading institutions elsewhere, such as the parent universities of Duke and Stanford hospitals, make payments for fire services and the like.

While PILOTs are not standard practice, they have existed for decades and are made by some of the nation's most elite universities, such as Harvard and MIT. Cambridge, Mass., has had a PILOT program since the 1920s. Connecticut has a program to reimburse municipalities for property taxes they do not receive because of nonprofit exemptions.

Tax-exempt property is more concentrated in Cuyahoga County than in most nearby counties, and within the county, Cleveland has an outsized share. Altogether, government, nonprofit and tax-abated property as valued in Tax Year 2003 accounted for 36 percent of the real property tax base in Cleveland. Charitable institutions such as hospitals accounted for 16 percent of that exempt property.

CCHS and UHHS together have at least \$1.3 billion in tax-exempt real property in the county. This would generate more than \$34 million a year in additional taxes, at existing values. The two hospital systems' exempt property in Cleveland adds up to close to \$1 billion, or 4.3 percent of the tax base. Such figures overstate the total because property owners that don't pay taxes are unlikely to contest their assessed values. Based on the experience of some local for-profit hospitals that challenged their valuations, it is reasonable to reduce those numbers by 40 percent. Including this reduction, CCHS would owe the city more than \$12 million a year – including properties where it is currently seeking exemptions – and UHHS would owe more than \$5 million.