

[Latest Issue](#)
[Archives](#)
[Subscribe](#)
[Search](#)
[Events](#)

**Catalyst** CLEVELAND



Building Teacher  
Trust

**Updates**  
*February / March 2005*

**Sidebars**

— Should the region's  
largest employer contribute  
to support schools?

## Multi-billion dollar, tax-exempt clinic donates \$10 million to schools

by **Piet van Lier**

The tax-exempt Cleveland Clinic has announced plans to donate \$10 million in money and services to cash-strapped district schools over the next five years, effectively halting efforts by the county treasurer to get the \$3.3 billion non-profit health system to make annual payments to schools in lieu of property taxes.

Cuyahoga County Treasurer Jim Rokakis says his goal in negotiating with the clinic had been to set a precedent for similar agreements with other large non-profits that currently have tax-exempt status in Cleveland. He says he had hoped that such payments, based on property values, would provide a new revenue stream for the Cleveland Municipal School District.

Some observers say the clinic's gift is, at least in part, an effort to derail Rokakis' proposal, a charge the clinic denies.

Clinic CEO and President Delos M. Cosgrove said the clinic's decision, announced in January, was not prompted by Rokakis' efforts, which first became public last summer.

According to press reports, the clinic's plans grew from discussions about philanthropy that Cosgrove had with other CEOs at a Harvard Business School workshop in October.

"In spite of what the clinic says, we think it was because Rokakis" was pursuing an agreement with the clinic, says Michele Mills, treasurer of the Beachwood City school district, which is fighting the clinic over the tax-exempt status of its center there.

Rokakis says he's not sure how the clinic's new plans to

donate money to schools will affect his initiative.

A study of the clinic's economic impact on the region shows that the non-profit donated about \$1 million to charity in 2003. Its annual net operating revenue was \$3.3 billion. (See glancebox, above.)

"This payment to the schools was a wonderful gift, and I'm not trying to downplay that," Rokakis says. "But it doesn't in any way resolve the problem" of bringing in a broader and on-going source of revenue for the schools.

"The larger issue is still unaddressed," asserts Rokakis, who has said he is considering a run for Cleveland mayor this year. "Huge nonprofits that look like and operate like for-profits are still not paying taxes."

A study that Rokakis commissioned estimates that if all clinic property in Cleveland were taxable, the hospital system would owe more than \$12 million a year. Just over half of the money would be owed to the school district. The report says University Hospitals Health Systems would owe more than \$5 million.

Cosgrove dismissed Rokakis' idea of alternative payments after announcing the clinic's gift in a Jan. 21 speech at The City Club of Cleveland. "We think that [payment in lieu of taxes] is not an appropriate way to proceed," he said in response to a question from the audience. Such payments, known as PILOTs, do not significantly benefit recipients in other cities, Cosgrove asserted.

Others worry that pressuring non-profits could prompt them to move some operations out of the area to avoid payments.

Rokakis' study, privately funded and conducted by the local think tank Policy Matters Ohio, looks at other nonprofit hospital systems that make voluntary payments. Johns Hopkins in Baltimore, which includes both a university and a hospital, is paying \$2.1 million this year, the report says.

These payments may seem a small part of the Cleveland school district's overall budget, which totaled \$600 million this year, Rokakis admits. But a program like the one in Boston, where 40 nonprofits pay a total of about \$12 million a year, could knock as much as three mills off of a school operating levy here, he contends.

Voters rejected the district's attempt to pass an 11.5 mill, \$68 million levy in November; It is unclear when another levy will be placed on the ballot.

According to Rokakis, PILOTs can help participating nonprofits avoid costly legal challenges to their tax-

exempt status.

The clinic's status, for example, is under fire in two suburbs. In September, an examiner for the Ohio Department of Taxation recommended against tax-exempt status for a clinic site in Beachwood; in October the Ohio Supreme Court ruled that the system could not be granted an exemption for medical offices in Strongsville. Both cases are likely to see long appeals processes.

The tax-exempt status of large hospital systems has become a lightning rod for legal challenges nationally, says James Unland, editor of the quarterly Journal of Health Care Finance. At the heart of many such challenges, generally brought by city, county or state governments, are issues like high executive salaries and the amount of charity care provided by hospitals in comparison to revenue, he says.

While nonprofits have no legal obligation to sign a PILOT agreement, Rokakis' proposal would have been legally binding once signed.

Rokakis says support for his plan from school district and city officials has been weak and that he is considering how to proceed with the initiative.

The Clinic's gift should not get in the way of pursuing PILOT agreements with the Clinic or any other non-profit, says Alan Seifullah, chief spokesman for Cleveland schools. He says he expects conversations on the idea between the district and Rokakis to continue.

Rokakis isn't sure. "It is becoming clear to me that attempting to initiate a program like this without the full cooperation of the school superintendent and the mayor," he says, "could be nothing more than a waste of time on my part."

*THE COMMUNITY RENEWAL SOCIETY ©1997, 1998, 1999, 2001, 2002*