

Hospitals Would Owe Tens of Millions If Exempt Properties Were Taxed

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Nine years ago, Policy Matters Ohio analyzed the size of the property holdings of Cuyahoga County's two major private nonprofit hospital systems. At the request of Common Good Ohio and the Cleveland Teachers Union, we have updated that analysis. The main conclusion: The area's two leading nonprofit hospital systems, the Cleveland Clinic and University Hospitals, together would owe tens of millions of dollars a year in additional property tax if their exempt properties in the city of Cleveland were subject to taxation. By one estimate, that would amount to close to \$34 million a year, and more than \$20 million annually for the Cleveland Metropolitan School District. Those figures do not include the very substantial properties for which the Clinic, in particular, is seeking exemptions now.

Policy Matters used data from the Cuyahoga County fiscal office to calculate the size of the hospitals' property holdings in the county. This also allows a determination of the property taxes foregone because these institutions do not pay on most of their holdings. While the examination covers the bulk of the hospitals' properties, it is not comprehensive.

Nonprofit, government and tax-abated property accounted for a fifth of the real property in Cuyahoga County in Tax Year 2012. In the city of Cleveland such exempt property accounted for 44.9 percent of the real property.

The Cleveland Clinic Health System and University Hospitals Health System Inc., together own more than \$2 billion in tax-exempt property in Cuyahoga County, amounting to 2.2 percent of all the real property, taxable and exempt. If these institutions paid taxes on all of this exempt property county-wide as valued, Cuyahoga County, local school districts, municipalities, public libraries, Cuyahoga Community College and other taxing jurisdictions would receive more than \$71 million a year in additional taxes.

Most of the exempt property is in Cleveland: The Clinic system has exempt property in the city valued at \$1 billion, while the UH system's exempt properties are valued at more than \$620 million. Altogether, the exempt property of the two institutions adds up to 6.8 percent of the total real property in the city.

Key findings

- The Cleveland Clinic and University Hospitals own tax-exempt property in Cuyahoga County valued at more than \$2 billion.
- By one estimate, the hospitals would pay close to \$34 million in annual taxes on their currently exempt Cleveland properties, and \$20 million to the Cleveland schools.
- These estimates don't include major properties on which they are seeking exemptions.

Values as they appear on the books likely overstate the properties' real value because nonprofit institutions that do not pay taxes have no incentive to appeal the valuation given to their tax-exempt properties, unlike for-profit businesses. Based on earlier experience at two nonprofit Cleveland hospitals that were purchased by for-profit operators, the earlier report also reviewed what values would be if they were reduced by 40 percent.

If the Clinic were taxed on its current tax-exempt Cleveland properties, it would pay \$34.9 million in annual taxes. That number is based on values as shown by the county fiscal office – these values are not adjusted downward. Even knocking 40 percent off these values, the Clinic would pay an additional \$20.9 million a year if it were fully taxed on its Cleveland properties. UH's exemptions in the city are worth \$21.6 million in taxes, or \$13 million after a 40 percent adjustment. Thus, the two hospital systems together would pay \$33.9 million a year.

Three-fifths of the total the two would pay on properties in the Cleveland school district would go to the district. At the listed values of the hospital properties, the school district would receive \$34.2 million a year; reducing that by 40 percent, the district would receive \$20.5 million a year.

These numbers, however, do not take into account the properties for which the two institutions – especially the Clinic, in the city of Cleveland – are seeking tax exemptions. Such pending applications cover properties worth hundreds of millions of dollars. The Beachwood schools have challenged the Clinic's application for an exemption on its family health and surgery center there. The state Board of Tax Appeals is likely to rule soon and the resolution of that case and another involving the Clinic will help determine how other cases are decided.

Both the Clinic and UH pay taxes on some of their properties that are not used for charitable purposes and are not exempt from taxation, such as the Clinic's InterContinental Hotels. According to records on the county web site, the two institutions paid a total of almost \$10.5 million county-wide in property taxes covering 2012. However, as indicated above, these taxes are only a small share of the total they would pay if they were liable to pay tax on all of their property.

Cuyahoga County's two private nonprofit hospitals avoid tens of millions of dollars a year in taxes that they would pay if most of their property were not exempt from taxation. The Cleveland school district foregoes the most – more than \$20 million a year by a conservative estimate.