

*A SPECIAL REPORT:*

## A Review of Potential Lost Revenue Due to Property Tax Exemptions

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Pennsylvania is at a major crossroads in the decades-long debate over how to define and review the property-tax exempt status of nonprofit organizations. A 2012 Supreme Court ruling that affirmed the courts' authority to define a purely public charity led to ongoing legislative efforts to pass a constitutional amendment that gives the legislature that authority. The amendment passed in the General Assembly last session and must pass the upcoming session before being put on the ballot for voters to either affirm or reject.

Counties, municipalities, and school districts continue to grapple with mounting financial challenges, while many nonprofits' charitable work is financially dependent upon their property tax exemption. The Department of the Auditor General wrote this report in an effort to provide taxpayers and other stakeholders with some data on the potential tax revenue from properties that are currently exempt from property taxes.

### Issue Background

The Constitution of Pennsylvania permits the Pennsylvania General Assembly to exempt certain institutions of "purely public charity" (IPPC) from taxation.<sup>1</sup> Subsequent legislation specified that such institutions are exempt from property taxes at all levels, including at the county, municipal, and school district levels<sup>2</sup>.

For years, neither the state constitution nor the applicable legislation in effect at the time properly codified how to define a "purely public charity," leading to decades of wrangling between the Pennsylvania courts and the General Assembly as to who has the authority to establish that definition.

<sup>1</sup> Pa. Const. Art. 8, § 2(a)(v).

<sup>2</sup> The General County Assessment Law, 72 P.S. § 5020-204(a)(9), and the Consolidated County Assessment Law, 53 Pa.C.S. § 8812(11) (recently enacted by Act 93 of 2010, effective January 1, 2011). The state's four state-related universities are also exempt from property taxes pursuant to 10 P.S. § 374(b).

In 1985, the Pennsylvania Supreme Court defined the five requirements an institution must meet to be considered a “purely public charity” in *Hospital Utilization Project v. Commonwealth*<sup>3</sup> (the “HUP Test”). All five elements of this test must be met to attain IPPC status in Pennsylvania:

1. Advance a charitable purpose;
2. Donate or render gratuitously a substantial portion of its services;
3. Benefit a substantial and indefinite class of persons who are legitimate subjects of charity;
4. Relieve the government of some of its burden; and
5. Operate entirely free from profit motive.

In 1997, the General Assembly passed Act 55<sup>4</sup>, which relaxed some of the requirements for meeting the HUP Test. With two apparent separate standards for meeting the requirements of a purely public charity, the Pennsylvania Supreme Court was called upon once more to provide clarity on the issue.

In a 2012 case, *Mesivtah Eitz Chaim of Bobov, Inc. v. Pike County Board of Assessment Appeals*, the Pennsylvania Supreme Court reaffirmed the five element requirements for IPPC status (the “HUP Test”).<sup>5</sup> Importantly, the Supreme Court in *Bobov* also observed that: “[t]he ultimate power and authority to interpret the Pennsylvania Constitution rests with the judiciary, and in particular with this court” and stated that “... the Judiciary is not bound to the ‘legislative judgment concerning the proper interpretation of constitutional terms.’”<sup>6</sup> In short, the court stated that statutes enacted by the legislature did not carry the same weight as the judiciary’s interpretation of the constitution; if the legislature disagreed with this interpretation, the only remedy was to amend the state constitution.

In reaction to this Supreme Court decision, the General Assembly is currently attempting to pass a constitutional amendment to give the Pennsylvania legislature the sole authority to define a purely public charity. The joint resolution (Senate Bill 4, P.N. 347) passed the Pennsylvania House of Representatives and the Pennsylvania Senate in June 2013; it must pass again in the new legislative session, and then be affirmed or rejected by the voters of Pennsylvania.<sup>7</sup>

The Allegheny County Controller’s office explored this issue in a 2012 report that looked at property tax exemptions in Allegheny County.<sup>8</sup>

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<sup>3</sup> 507 Pa. 1, 487 A.2d 1306 (1985).

<sup>4</sup> 10 P.S. § 371 *et seq.* (Act 55).

<sup>5</sup> 615 Pa. 463, 473, 44 A.3d 3, 9 (2012).

<sup>6</sup> 615 Pa. 463, 470, 44 A.3d 3, 7 (2012): *see also Stilt v. Commonwealth of Pennsylvania et al.*, 588 Pa. 539, 589-590, 905 A.2d 918, 948 (2006).

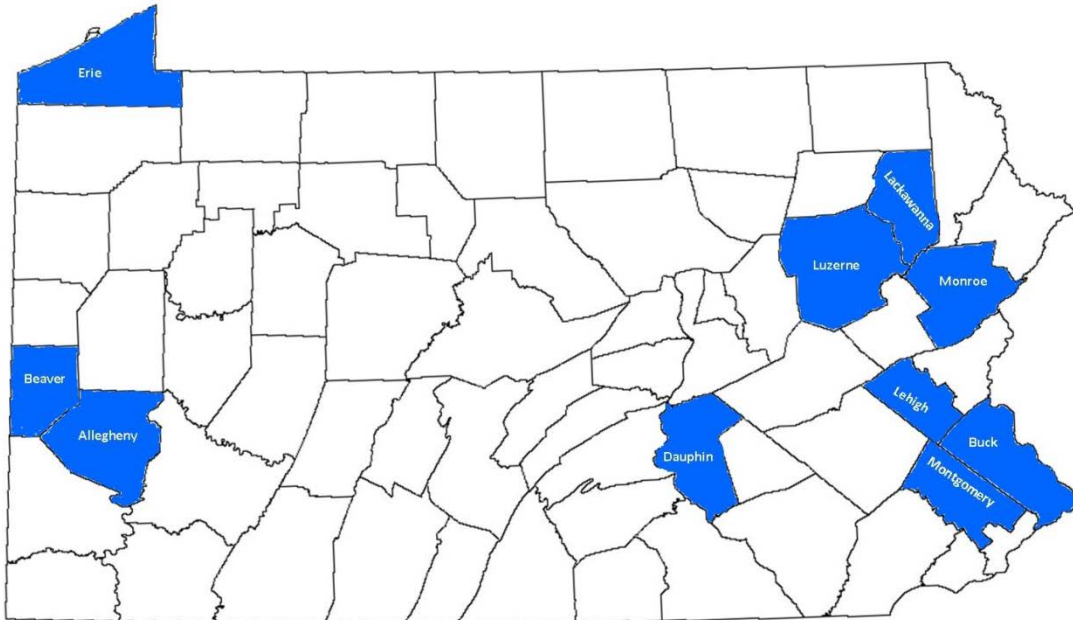
<sup>7</sup> SB 4 - JR-2 of 2013.

<sup>8</sup> “Taxpayer Alert: Property Tax Exemptions Cost County Millions,” June 2012.

[http://www.alleghenycounty.us/news/2012/20120625a\\_taxExempt.pdf](http://www.alleghenycounty.us/news/2012/20120625a_taxExempt.pdf)

## METHODOLOGY

To better understand the potential impacts that properties with tax exempt status have on the counties, municipalities, and school districts in Pennsylvania, the Department of the Auditor General sampled ten counties across the commonwealth to identify those properties, and the dollar amounts of potential property tax liability.



All data was obtained from individual county offices for the 2014 tax year, with the exception of Beaver County, which provided the 2013 tax year. (See Appendix A for more details)

Each of the ten county property tax databases was reviewed to identify the following data:

- total assessed value of all properties, regardless of tax exemption status;
- all properties that have been assigned exemption status;
- medical facilities<sup>9</sup> that are classified as purely public charities.

Once that data was compiled, we calculated and combined the potential tax liability for each property at the county, municipal, and school district levels.

Medical facilities that are classified as institutions of purely public charity were reviewed due to reports of high revenues of some institutions in this category, growth and consolidation in the industry, and the fact that many for-profit medical facilities do exist and pay property taxes. While medical facilities are highlighted as an example in this report, the department recommends that any scrutiny given to the

<sup>9</sup> Medical facilities include properties where health care services are provided; these facilities could range in size from large healthcare systems down to nursing care facilities that provide medical treatments.

purely public charity status be done as a comprehensive review rather than singling out one category of institution.

Some purely public charitable institutions do pay property taxes on individual properties, as those individual properties generate income and may not be used in a way that fulfills their charitable mission. Thus, ownership of property by a tax-exempt organization is not the only determinant of a property being exempted.<sup>10</sup>

In addition, it is possible that one or more of the IPPCs listed in this report may make Payments In Lieu of Taxes (PILOTs) to one or more taxing bodies that have jurisdiction over their property. However, because there is no standardization for how these voluntary payments are calculated, paid, and recorded it is difficult to determine if an IPPC makes payments in lieu of taxes, and if so, how much. An IPPC making a PILOT could be making a payment at any percentage of its potential tax liability.

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<sup>10</sup> Section 375(h) (relating to Parcel review) of the Institutions of Purely Public Charity Act 10 P.S. § 375(h), provides, in part: “(1) Nothing in this act shall affect, impair or hinder the responsibilities or prerogatives of the political subdivision responsible for maintaining real property assessment rolls to make a determination whether a parcel of property or a portion of a parcel of property is being used to advance the charitable purpose of an institution of purely public charity or to assess the parcel or part of the parcel of property as **taxable** based on the use of the parcel or part of the parcel for purposes other than the charitable purpose of that institution.”

## RESULTS

**Table 1** provides summary information about ALL property in a county, including assessed value and total taxes if all parcels were taxed at county, municipal and school district levels.

<b>Table 1: ALL Properties, 2014</b>					
<i>*Beaver County 2013</i>					
	<b>Total Assessed Value of All Property</b>	<b>Total County Taxes If All Parcels Taxed</b>	<b>Total Municipal Taxes If All Parcels Taxed</b>	<b>Total School Taxes If All Parcels Taxed</b>	<b>Total Taxes If All Parcels Taxed</b>
<b>Allegheny County</b>	\$100,419,248,445	\$474,983,045	\$533,643,496	\$1,803,868,156	<b>\$2,812,494,697</b>
<b>Beaver County</b>	\$2,862,260,986	\$63,542,194	\$46,598,307	\$171,349,380	<b>\$281,370,964</b>
<b>Bucks County</b>	\$9,037,067,410	\$209,659,964	\$125,024,640	\$1,213,320,746	<b>\$1,548,005,349</b>
<b>Dauphin County</b>	\$18,774,831,500	\$129,095,741	\$68,742,472	\$354,320,831	<b>\$552,159,044</b>
<b>Erie County</b>	\$16,935,708,680	\$83,100,719	\$76,709,743	\$240,333,375	<b>\$400,143,838</b>
<b>Lackawanna County</b>	\$1,681,569,518	\$96,555,722	\$61,114,761	\$190,519,737	<b>\$348,190,220</b>
<b>Lehigh County</b>	\$33,735,438,800	\$109,040,505	\$68,543,195	\$462,985,225	<b>\$640,568,925</b>
<b>Luzerne County</b>	\$22,580,849,200	\$129,740,527	\$50,152,487	\$281,082,555	<b>\$490,975,569</b>
<b>Monroe County</b>	\$2,379,110,780	\$53,542,953	\$27,965,553	\$363,858,799	<b>\$445,367,305</b>
<b>Montgomery County</b>	\$62,971,264,466	\$198,485,426	\$215,851,540	\$1,670,328,426	<b>\$2,084,665,392</b>

**Table 2** looks at the same data points as Table 1 among only exempt properties, including government owned properties, K-12 schools, churches, charitable organizations, hospitals, and higher education institutions.

<b>Table 2: Tax Exempt Properties, 2014</b> (including government owned properties) <i>*Beaver County 2013</i>					
	<b>Total Assessed Value</b>	<b>Potential County Taxes</b>	<b>Potential Municipal Taxes</b>	<b>Potential School Taxes</b>	<b>Total Potential Property Tax Liability</b>
<b>Allegheny County</b>	\$24,609,985,238	\$116,378,678	\$140,488,512	\$362,865,542	<b>\$619,732,732</b>
<b>Beaver County</b>	\$499,618,871	\$11,091,539	\$9,191,349	\$29,775,639	<b>\$50,057,831</b>
<b>Bucks County</b>	\$940,556,600	\$21,820,913	\$13,639,646	\$129,039,566	<b>\$164,500,125</b>
<b>Dauphin County</b>	\$4,204,889,050	\$28,912,917	\$20,072,615	\$89,324,701	<b>\$138,310,233</b>
<b>Erie County</b>	\$2,991,083,003	\$14,353,714	\$18,410,869	\$42,714,018	<b>\$75,478,602</b>
<b>Lackawanna County</b>	\$305,951,227	\$16,820,238	\$13,843,834	\$33,320,971	<b>\$63,985,044</b>
<b>Lehigh County</b>	\$5,204,816,300	\$19,856,197	\$15,148,521	\$86,987,020	<b>\$121,991,738</b>
<b>Luzerne County</b>	\$2,681,977,800	\$15,409,572	\$8,189,268	\$36,085,671	<b>\$59,684,511</b>
<b>Monroe County</b>	\$189,455,270	\$4,300,312	\$2,542,152	\$29,013,988	<b>\$35,856,452</b>
<b>Montgomery County</b>	\$6,679,391,027	\$21,053,441	\$25,071,346	\$183,915,768	<b>\$230,040,555</b>

**Table 3** outlines assessed property and total forgone taxes (county, municipal, and school taxes combined) by medical facilities with purely public charity status. Medical facilities include properties where health care services are provided; these facilities could range in size from large healthcare systems to nursing care facilities that provide medical treatments. Appendix B provides information about forgone property taxes by individual medical facilities.

**Table 3: Medical Facilities with Purely Public Charity Status, 2014**

*\*Beaver County 2013*

	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability*</b>
<b>Allegheny County</b>	\$3,196,536,805	\$76,124,321
<b>Beaver County</b>	\$26,975,300	\$2,675,644
<b>Bucks County</b>	\$92,051,210	\$15,557,615
<b>Dauphin County</b>	\$544,562,200	\$16,512,001
<b>Erie County</b>	\$243,671,725	\$7,181,931
<b>Lackawanna County</b>	\$29,513,184	\$6,280,067
<b>Lehigh County</b>	\$775,369,200	\$18,184,315
<b>Luzerne County</b>	\$121,681,400	\$9,613,394
<b>Monroe County</b>	\$5,206,970	\$1,149,444
<b>Montgomery County</b>	\$663,912,280	\$24,135,955

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for parcels owned by medical facilities.*

## Conclusion

The debate over how a purely public charity is defined is ongoing. This report demonstrates why taxpayers, local governments, school districts, and the charitable institutions themselves have a major stake in the outcome of how this issue is resolved. Local governments forgo significant amounts of increasingly needed taxes, while some institutions' exclusion from paying property taxes is a critical factor in their financial health and ability to provide charitable services. Counties not included in this analysis may find it beneficial to conduct an analysis of their numbers, if they have not yet already done so.

## Appendix A

Data was received from the following sources:

**Allegheny:** Allegheny County Office of Property Assessment, 2014 Tax Year

**Beaver:** Beaver County Assessment Office, 2013 Tax Year

**Bucks:** Bucks County Board of Assessment, 2014 Tax Year

**Dauphin:** Dauphin County Office of Tax Assessment, 2014 Tax Year

**Erie:** County of Erie, Bureau of Assessment, 2014 Tax Year

**Lackawanna:** Lackawanna County, Department of Information Technology, 2014 Tax Year

**Lehigh:** County of Lehigh, Office of Assessment, 2014 Tax Year

**Luzerne:** Luzerne County Assessment Office, 2014 Tax Year

**Monroe:** Monroe County Assessment Office, 2014 Tax year

**Montgomery:** Montgomery County Board of Assessment Appeals, 2014 Tax Year

Some of the data was provided by SEIU Healthcare Pennsylvania.

All data contained in this report has been checked and verified by the Department of the Auditor General.



## Appendix B: IPPC Medical Facilities' Potential Property Tax Liability, by County

<b>Allegheny County IPPC Medical Facilities - 2014</b>		
Name	Total Assessed Value of All Property	Total Potential Property Tax Liability *
UPMC	\$2,122,435,632	\$47,976,590
Allegheny Health Network	\$595,323,476	\$15,680,975
Baptist Homes	\$113,351,900	\$2,937,975
Heritage Valley Health System	\$82,721,349	\$2,299,525
Masonic Village	\$60,585,500	\$1,537,951
St Barnabas Health System	\$46,785,800	\$1,222,901
Presbyterian Senior Care	\$40,917,400	\$1,199,327
Ohio Valley General Hospital	\$45,196,100	\$1,067,984
Concordia Lutheran Ministries	\$30,752,400	\$838,734
Vincentian Collaborative System	\$21,578,000	\$505,570
Marian Manor	\$12,670,000	\$280,387
Institute for Transfusion Medicine	\$8,353,048	\$225,282
Commons at Squirrel Hill	\$8,435,300	\$186,673
Fair Oaks of Pittsburgh	\$7,430,900	\$164,446
<b>Total</b>	<b>\$3,196,536,805</b>	<b>\$76,124,321</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Beaver County IPPC Medical Facilities 2013</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
Heritage Valley Beaver	\$24,365,650	\$2,440,323
Gateway Rehabilitation	\$1,783,400	\$141,581
Beaver County Rehabilitation	\$449,000	\$49,051
Mental Health Association	\$133,350	\$15,695
Valley Care Association	\$110,850	\$14,481
Drug And Alcohol Services	\$100,800	\$10,836
Homemaker-Home Health Aide	\$32,250	\$3,677
<b>Total</b>	<b>\$26,975,300</b>	<b>\$2,675,644</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Bucks County IPPC Medical Facilities 2014</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
Doylestown Hospital	\$27,145,950	\$4,241,555
Trinity Health	\$21,291,880	\$4,104,436
Erickson Living	\$14,205,400	\$2,248,857
Grand View Health	\$12,129,310	\$1,863,580
Pennswood Village	\$4,865,630	\$937,947
Saint Lukes Health Network	\$4,400,290	\$742,527
Holy Redeemer Health System	\$2,161,600	\$407,721
LifeQuest	\$1,275,720	\$215,750
Abington Health	\$1,116,140	\$176,696
Presbys Inspired Life	\$700,360	\$173,741
Childrens Hospital of Philadelphia	\$1,003,250	\$158,576
Phoebe Ministries	\$888,000	\$152,843
Diakon Lutheran Social Ministries	\$487,080	\$73,134
Masonic Villages	\$380,600	\$60,253
<b>TOTAL</b>	<b>\$92,051,210</b>	<b>\$15,557,615</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Dauphin County IPPC Medical Facilities</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
Milton Hershey Medical Center	\$329,647,700	\$8,651,703
Pinnacle Health System	\$194,082,300	\$7,227,101
Pennsylvania State University	\$14,699,000	\$385,780
Hamilton Health Center	\$4,215,300	\$185,184
Planned Parenthood of the Susquehanna Valley	\$384,200	\$18,114
Community Life Team Inc.	\$389,400	\$10,513
Gaudenzia Foundation Incorpora	\$206,400	\$10,097
South Central Emergency Med	\$373,800	\$8,497
Hope Within Ministries Inc	\$281,100	\$7,954
Millersburg Area Ambulance	\$197,400	\$5,108
Keystone Services Systems	\$85,600	\$1,950
<b>Total</b>	<b>\$544,562,200</b>	<b>\$16,512,001</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Erie County IPPC Medical Facilities 2014</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
UPMC	\$103,208,798	\$3,344,306
Allegheny Health Network	\$40,064,200	\$1,286,579
Saint Mary's Home of Erie	\$29,492,882	\$745,989
Corry Memorial Hospital	\$19,534,900	\$502,262
Presbyterian Homes of the Presbytery of Lake Erie	\$15,439,200	\$370,764
Asbury Atlantic, Inc	\$12,189,200	\$265,241
Sarah Reed Senior Living	\$7,873,700	\$255,134
Brevillier Village	\$8,842,500	\$183,980
Village at Luther Square	\$5,093,145	\$165,035
Community Blood Bank of Northwest Pennsylvania and Western New York	\$1,695,800	\$54,950
Clinical Services Inc	\$237,400	\$7,693
<b>TOTAL</b>	<b>\$243,671,725</b>	<b>\$7,181,931</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

### Lackawanna County IPPC Medical Facilities 2014

Name	Total Assessed Value of All Property	Total Potential Property Tax Liability *
Geisinger	\$13,366,400	\$2,851,493
Allied Services	\$5,047,351	\$1,126,414
Trinity Health	\$3,592,000	\$712,868
Little Sisters of the Poor	\$2,589,192	\$557,475
Jewish Home of Eastern Pennsylvania	\$2,643,541	\$546,102
Diakon Lutheran Social Ministries	\$1,100,000	\$244,572
St Marys Villa	\$1,027,000	\$205,379
Harrison House Personal Care Home	\$115,300	\$26,077
Scranton Primary Health Care Center	\$32,400	\$9,687
<b>TOTAL</b>	<b>\$241,738,525</b>	<b>\$7,119,289</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

### Lehigh County IPPC Medical Facilities 2014

Name	Total Assessed Value of All Property	Total Potential Property Tax Liability *
Lehigh Valley Hospital	\$435,282,700	\$9,838,639
St. Lukes Hospital	\$222,506,700	\$5,311,643
Good Shepherd Rehabilitation Hospital	\$67,265,800	\$1,737,473
Sacred Heart Hospital	\$48,615,500	\$1,258,214
Treatment Trends Foundation Inc.	\$905,600	\$23,694
North Whitehall Ambulance Corps	\$792,900	\$14,653
<b>Total</b>	<b>\$775,369,200</b>	<b>\$18,184,315</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Luzerne County IPPC Medical Facilities 2014</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
Geisinger South	\$35,578,300	\$5,096,471
Blue Cross Of Ne Pa	\$17,891,400	\$2,562,882
Northeastern Pa Health Corp	\$62,684,700	\$1,421,627
Kirby Memorial Health Center	\$2,260,500	\$323,809
Cancer Center Of Wyoming Vly Assoc	\$808,400	\$115,801
Volunteers In Medicine	\$346,200	\$49,592
Hazleton Nanticoke Health & Mental	\$1,477,700	\$29,255
Rural Health Corp Of N E Pa	\$588,400	\$13,148
Pennhurst Hospital	\$45,800	\$809
<b>Total</b>	<b>\$121,681,400</b>	<b>\$9,613,394</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

<b>Monroe County IPPC Medical Facilities 2014</b>		
<b>Name</b>	<b>Total Assessed Value of All Property</b>	<b>Total Potential Property Tax Liability *</b>
Pocono Health System	\$5,110,950	\$1,131,999
Central Pocono Ambulance	\$90,840	\$16,441
Bible Fellowship Church Homes	\$5,180	\$1,003
<b>TOTAL</b>	<b>\$5,206,970</b>	<b>\$1,149,444</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*

## Montgomery County IPPC Medical Facilities 2014

Name	Total Assessed Value of All Property	Total Potential Property Tax Liability *
Abington Health	\$209,854,240	\$7,430,151
Einstein Healthcare Network	\$133,674,370	\$5,725,122
Main Line Health	\$123,712,120	\$4,042,355
Holy Redeemer Health System	\$106,519,600	\$3,854,209
Lutheran Community at Telford	\$21,333,520	\$798,452
Presby's Inspired Life	\$15,877,810	\$503,997
Masonic Village	\$16,817,970	\$425,498
Eagleville Hospital	\$11,837,140	\$386,412
Main Line Senior Care Alliance	\$10,869,170	\$355,156
Phoebe Ministries	\$3,721,020	\$202,117
Creative Health Services	\$3,477,770	\$181,055
Wesley Enhanced Living	\$1,865,810	\$66,927
Delaware Valley Community Health	\$1,188,140	\$57,534
Visiting Nurse Association of Pottstown and Vicinity	\$1,310,840	\$57,060
St Lukes University Health Network	\$1,852,760	\$49,910
<b>TOTAL</b>	<b>\$663,912,280</b>	<b>\$24,135,955</b>

*\*Total Potential Tax Liability includes the sum of county, municipal, and school district taxes for properties owned by the entity.*