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## Tax-Exempt Property and Municipal Fiscal Status

Conducted Pursuant to Senate Resolution 2008-363

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## Summary and Conclusions

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Senate Resolution 363 of 2008 directed the Legislative Budget and Finance Committee (LB&FC), in cooperation with the Department of Community and Economic Development and the Local Government Commission, to study the impact of tax-exempt real property on the fiscal health of Pennsylvania municipalities. Real estate property taxes are an important source of revenue for Pennsylvania cities, boroughs, and townships, generally accounting for anywhere from 9 to 28 percent of local municipal total revenue.

In Pennsylvania, counties are responsible for real property assessments. Since they do not have standard ways in which they define and record tax-exempt property,<sup>1</sup> and since the State Tax Equalization Board's (STEB) mission is to determine annually the aggregate market value of taxable real property, but not tax-exempt property, it is not possible to assign a value to tax-exempt properties in Pennsylvania. We, however, were able to analyze available assessment data for several municipalities across the state, with a focus on fiscally distressed municipalities reporting a disproportionate share of tax-exempt property. We found:

***Governments and religious organizations are the major holders of tax-exempt property.*** National studies and data for surrounding states confirm that governments are the major holders of tax-exempt property. In all but one of the 11 Pennsylvania fiscally distressed municipalities we reviewed, local governments (i.e., county, municipal, and public schools) accounted for the largest share of tax-exempt property. When the share of tax-exempt property held by local public authorities is combined with that held by local government, local publicly held property accounted for about 50 percent or more of all tax-exempt property in nine of the 11 fiscally distressed municipalities we reviewed. Federal and state property combined accounted for less than 10 percent of tax-exempt property in eight of the 11 municipalities. A similar picture emerged when we reviewed the distribution of tax-exempt real property in eight fiscally healthy municipalities in one southeastern county, where we deliberately selected municipalities known to host non-profit hospitals and private colleges and universities. After local government, churches tend to account for the next highest share of tax-exempt property, often in the range of 10 to 20 percent of the tax-exempt property.

***Relatively few Pennsylvania municipalities host non-profit acute care hospitals and public and private universities.*** Only 7 percent of Pennsylvania's municipalities (183 of 2,566) are responsible for hosting non-profit general acute care hospitals

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<sup>1</sup>Our review of assessment data found, for example, that some counties include as tax-exempt properties, non-exempt properties, which local governments have elected to grant abatements (e.g. KOZs). Others include in their tax-exempt property values, taxable properties for which taxes are paid but collected by the state (i.e., PURTA) and properties that are only partially exempt.

and public and private universities. Twenty percent of these municipalities are cities, 39 percent boroughs and towns, and 41 percent townships. Of the 183 municipalities, almost 85 percent (152 of 183) host only one such major institution—typically a hospital. Philadelphia and Pittsburgh host the most institutions. Eight other municipalities (Allentown, Bethlehem, Erie, Lower Merion, Radnor, Scranton, Wilkes-Barre, and Williamsport) host three or more hospitals or universities.<sup>2</sup> Forty-one of the municipalities responsible for hosting hospitals and universities also host their county government seat. The population in the host municipalities, except for the townships, declined from 2000 to mid-2007.

***Of the Pennsylvania municipalities that host non-profit acute care hospitals and public and private higher education institutions, only about 25 percent have high fiscal distress scores.*** Based on criteria established in statute, 18 of Pennsylvania’s municipalities may be categorized as in severe fiscal distress. The number of municipalities in such distress is much greater, however, based on an indicator developed by the Pennsylvania Economy League (PEL), which takes into account changes in each municipality’s tax effort and tax capacity from 1970 through 2003 relative to municipalities statewide. Compared to the Commonwealth’s most fiscally healthy municipalities, the most fiscally distressed municipalities are:

- Less likely to have above average household income;
- Less likely to have above average number of college graduates;
- More likely to have above average numbers in poverty; and
- More likely to have above average numbers of persons over 65.

Using the PEL indicator, over 80 percent of all cities have a high level of fiscal distress,<sup>3</sup> as compared to 11 percent of all boroughs and towns and less than 1 percent of all townships. One-quarter of the municipalities that host the Commonwealth’s major hospitals and universities have high fiscal distress scores, including 31 cities and 13 boroughs. Twenty-four (13 percent) of the host municipalities, however, are among those with the best fiscal status in the state.<sup>4</sup>

***Only six municipalities with high fiscal distress scores (Easton, Erie, Lancaster, Philadelphia, Pittsburgh, and York) host one or more non-profit hospitals or***

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<sup>2</sup>At least 21 additional municipalities host more than one hospital or university. Such municipalities include, for example, Abington, Altoona, Bloomsburg, Gettysburg, Harrisburg, Lancaster, Meadville, Reading, and York.

<sup>3</sup>We classified municipalities as having a “high level of fiscal distress,” or a “high fiscal distress score,” or in “high fiscal distress,” if on the PEL indicator they had a Z-score equal to or greater than minus 1.5. Those with a Z-score equal to or greater than plus 1.5 are categorized as municipalities in the “best fiscal status” or having “low fiscal distress scores.” A Z-score indicates how many standard deviations an observation (i.e., the result for a municipality) is from the mean for the distribution (i.e., the average for all municipalities).

<sup>4</sup>Since more than two-thirds (118 of 162) of the municipalities with high distress scores do not host major tax-exempt institutions, and three-quarters (139 of 183) of those hosting such institutions do not have such scores, the presence of such institutions would not appear to be the cause of the high fiscal distress experienced by roughly one-quarter of the host municipalities. An analysis of the underlying causes of municipal fiscal distress and the approaches to remedy such causes is outside of the scope of this study.

**universities that may be considered financially secure relative to their peers.** The fragile fiscal status of many municipalities that host the Commonwealth’s hospitals and universities is often mirrored by the fiscal status of many of their institutions:

- Fewer than one-quarter of the municipalities that host non-profit general acute care hospitals have hospitals with operating margins<sup>5</sup> at or above the statewide margin (+3.99 in FY 2005-06, according to Pennsylvania Health Care Cost Containment Council data).
- Fewer than one-quarter of the municipalities that host colleges and universities have institutions that had a relatively large (about \$250 million) endowment prior to the 2008 financial crisis.

We also found:

**Host municipalities, hospitals and public and private colleges and universities have developed a variety of approaches to strengthen their community and, in the words of the state-owned universities<sup>6</sup> governing board, “minimize, to the extent practicable, the burden of municipal services provided to the university.”** With differences in the fiscal status of the host municipalities and their major tax-exempt institutions in mind, LB&FC staff reviewed almost 100 major public and private universities and hospitals in 48 host municipalities, including municipalities in high fiscal distress, from all regions of the state to identify the types of assistance they provide.<sup>7</sup> While each of the municipalities and the institutions are very different, some common approaches emerge. For those institutions where we had complete data for the approaches identified below (61 institutions in 47 municipalities, or one-quarter of all institutions and host municipalities), we found:

- 41 institutions in 40 municipalities provide public safety services through their own sworn police staff and/or through contracts, including contracts for police service with the local municipality.
- 52 institutions in 32 municipalities paid realty taxes on institution property not used for the institution’s public charity purpose. All non-profit organizations are not “purely public charities” as defined in

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<sup>5</sup>A hospital’s operating margin is the ratio of its patient care expenses to its patient care revenues. Within the hospital industry a reasonable margin is generally thought to be at least 4 percent.

<sup>6</sup>Commonwealth property is not “tax-exempt property.” Rather, it is immune from taxation by political subdivisions, absent explicit statutory authorization by the Pennsylvania General Assembly. The General Assembly has not authorized such taxation, nor has it authorized the state-owned universities to make payments in lieu of taxes to local municipalities. We have included the state-owned universities in our analysis, however, as they often have “affiliate non-profit” organizations. To assist their municipalities, the state-owned universities often rely on their non-profit affiliates, some of which are charitable organizations under federal and state laws.

<sup>7</sup>The Department of Community and Economic Development (DCED) municipal reporting system does not identify PILOTs and contributions by tax-exempt organizations. Absent a standard source of reliable data, LB&FC staff, therefore, contacted the institutions directly.

Pennsylvania's Institutions of Purely Public Charity Act (Act 1997-55),<sup>8</sup> and all property owned by non-profits is not used for charitable purposes. Consistent with Act 55's requirements, all of the major non-profit organizations we reviewed that held property used for other than its public charity mission paid real property taxes to the municipality, county and school district, with the school district the primary beneficiary of such payments.

- 61 institutions in 47 municipalities paid fees for all relevant services, including sewer and water, inspections, and other locally established fees.
- 33 institutions made cash and in-kind contributions to 21 municipalities, and a 22<sup>nd</sup> municipality received one of two in-kind only contributions from two additional institutions. Cash contributions to the municipality ranged from over \$6,100 from a small private college to a fiscally healthy municipality to \$1.2 million from a regionally dominant health care provider to a fiscally distressed municipality.<sup>9</sup>
- 25 institutions in 30 municipalities contributed to one or more local volunteer fire companies.
- 31 institutions in 26 municipalities participated in community revitalization and other economic development initiatives.
- 15 institutions in 13 municipalities participated in neighborhood improvement districts to provide for "safe and clean" municipalities. Such non-profit institutions, which are authorized in state law, provide an important vehicle for tax-exempt institutions in the geographic footprint of such districts to assist fiscally distressed municipalities.

We also identified five municipalities that received payments in lieu of taxes from one or more hospital or private university. As with realty tax payments, school districts typically received about two-thirds of the PILOT payments made for tax-exempt property used for the institution's purely public charity mission. Such payments ranged from \$68,000 to \$868,800.

***While many hospitals and universities, including those with thin operating margins, seek to assist their municipalities, some are better positioned financially than others.*** The report includes many examples of arrangements between municipalities and the hospitals and universities they host. For example:

Lancaster hosts a private college that ranks among the top 50 liberal arts colleges in America and, in 2007, had a greater than average endowment. Its non-profit hospital (whose health system is the largest employer in the

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<sup>8</sup>Act 1997-55 specifies that "purely public charities" must advance a charitable purpose. Such purposes may include relief of poverty; advancement and provision of education, including postsecondary education; advancement of religion; prevention and treatment of disease or injury, including mental retardation and mental disorders; government or municipal purposes; and accomplishment of a purpose which is recognized as important and beneficial to the public and which advances social, moral or physical objectives.

<sup>9</sup>This analysis does not include organizations contributing to the Pittsburgh Public Service Fund.

county) accounts for almost 70 percent of all general acute care admissions in the county, and 85 percent of all live births, according to Department of Health data. In recent years, moreover, it has had operating margins above the statewide average. In response to requests for contributions from the City's Mayor,<sup>10</sup> the institutions provide substantial annual cash contributions, ongoing maintenance of a city-owned park and capital investments to the park and surrounding neighborhood, and payment of \$2 million in realty taxes. In the case of the hospital, its cash contribution to the city is approximately three times greater than the average municipal payment per set up and staffed bed made by Pennsylvania for-profit hospitals that pay realty taxes. Both institutions employ their own security staff, including the college, which has sworn police officers equivalent to 12 percent of the police officers employed by the City and a contract with the City for certain police services.

The college and hospital are also founders of the James Street Improvement District (JSID)—a non-profit special purpose district. James Street spends over one-third of its budget for public safety through bike patrol “ambassadors” in the Northwest and City Downtown<sup>11</sup> to serve as a visible deterrent to crime. In cooperation with the City, JSID provides public space maintenance in parts of the City, assists in marketing and economic development, and administers the Commonwealth's Elm Street Program on behalf of the city.<sup>12</sup> In addition, the hospital and college are involved along with a regional economic development organization in a major economic development initiative. As part of the initiative, the college and hospital invested \$12 million to demolish and clean up an old city industrial site and a municipal dump last used in the 1960s. As noted by the president of the economic development organization, only organizations with strong community interest would have undertaken such projects because of their upfront costs.

Scranton, in contrast, hosts three acute care general hospitals, which are among the 10 largest employers in the county. Almost every year since 2000, each of the three hospitals has had operating expenses that exceeded patient revenues. Scranton also hosts one university and part of a second. The universities' endowments, however, are substantially below the average for colleges and universities statewide. Each university and hospital has its own security force, including one hospital and university with sworn police officers equivalent to 20 percent of the city's police force. A second hospital serving

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<sup>10</sup>The Mayor refers to such request as PILOTs, however, we have elected to use the term contribution as the payment request only includes the City, and not the county or school district.

<sup>11</sup>In 2007, the James Street Improvement District agreed to manage the Lancaster Downtown Investment District—a public municipal authority funded through assessments on property owners in a specific downtown area and voluntary contributions.

<sup>12</sup>Finding F provides information on the Elm Street Program.

as the region's trauma center, moreover, contracts with the city for an average of 50 hours of police service weekly.

All of the hospitals and universities pay realty taxes on property that is used for other than their purely public charity missions, with the three hospitals paying over \$1 million in such taxes. However, the city receives less than one-quarter of such payments, with the school district and county receiving most of the revenue. Prior to 2000, the three hospitals made voluntary cash contributions to the city. Currently, only the university continues to make such contributions. Recently, the university also agreed to invest more than \$1 million in a streetscape project to provide new sidewalks, street lighting, landscaping and widening of street turn lanes.

***Several of the tax-exempt institutions we reviewed are following the path taken by the University City District—a non-profit special purpose district—in the City of Philadelphia.*** The University of Pennsylvania, other major medical and higher education institutions, and public partners established the University City District in the late 1990s. Prior to that time, the hospitals and universities had participated in the Philadelphia Voluntary Contribution Program. By the late 1990s, the financial status of health care providers had dramatically changed, and the City and the University of Pennsylvania (and others) did not renew their Philadelphia Voluntary Contribution Program agreements.<sup>13</sup> Instead, the University and other major institutions focused their efforts on revitalizing West Philadelphia through the University City District. Our report provides information on this highly successful special purpose district. Ten years after founding, it is credited with reducing serious crime in the District by 20 percent and helping to bring nearly \$4.5 billion in investment to West Philadelphia.

As noted above, Lancaster developed the James Street Improvement District. In Wilkes-Barre, the Diamond City Partnership administers the Downtown Wilkes-Barre Business Improvement District, which in addition to its “ambassadors,” contracts with the City for supplemental police services. In Pittsburgh, moreover, major non-profit organizations based in Oakland participate in the Oakland Business Improvement District and other local community revitalization and regional economic development initiatives.

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<sup>13</sup>Philadelphia's Voluntary Contribution Program was formed to obtain financial support primarily from hospitals and universities when the City faced serious financial problems. In 1996, the program received almost \$9 million in cash contributions from such institutions for the city and the school district. By 1999, however, that amount was almost cut in half. The decline occurred as a result of the dramatic changes in the health care industry, including mergers, acquisitions, hospital health system bankruptcy, the “financial hemorrhaging of the University of Pennsylvania health system,” the closing of stand-alone hospitals, and dramatic changes in health care reimbursement formulas and amounts. In response to such events, the City began to waive its contributions and introduced “hardship” payments as City officials did not want to cause harm to these institutions. Several of the hospitals that participated in Philadelphia's Voluntary Contribution Program have since closed.

***At least six states (Connecticut, Delaware, New York, Rhode Island, Vermont, and Wisconsin) provide state funding to local governments based on the presence of certain state or private tax-exempt institutions.***

Connecticut: In Connecticut, local education and road maintenance are the primary responsibilities of the state's municipal governments, and local property taxes are the only source of local tax revenues available to them. To provide relief to local municipalities, Connecticut makes payments in lieu of taxes for certain non-profit hospitals and universities and certain state properties based on the audited assessed value of such properties, with the payment amounts varying by type of property and the funds appropriated by the state legislature. In 2008, the state distributed to municipalities<sup>14</sup> over \$120 million in general fund revenue for its private college and hospital PILOT, and \$83 million for state government property. In Connecticut, local governments account for 60 percent of all tax-exempt property based on assessed value, and such property is not included as part of the state's PILOTs.

Rhode Island has a program similar to Connecticut's. Its program, however, is limited to public and non-profit hospitals, educational institutions and state correctional facilities, and distributes \$27.8 million in state funds.

Vermont provides about \$3.5 million in payments to municipalities that host state-owned buildings, state correctional institutions, and the state's capital. Much of the funding for this program comes from the state's share of an optional local sales tax, which a limited number of municipalities levy.

Delaware makes "compensatory payments" for state properties located in the three municipalities that serve as county seats. Approximately \$3.5 million was appropriated in 2005 for such payments with the largest share directed toward the county seat with 50,000 residents (the City of Wilmington).

Wisconsin has a municipal service program which reimburses municipalities for fire, police, and solid waste handling services provided to state buildings, including the state's public hospitals. The state's payments are based on the part of the costs for such services that are reimbursed through local realty taxes. Such actual costs must be documented by the state and are adjusted and reduced when the institution provides its own police protection. Wisconsin expends \$22 million for such municipal service payments.

New York has programs that provide payments for certain state parks. It also makes "transitional payments" for defined periods when it acquires previously taxed property that accounts for 2 percent or more of the municipality's taxable

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<sup>14</sup>Connecticut has no counties. School districts are not separate governments in Connecticut, except for regional districts that may be organized by two or more towns.

assessed value. Similarly, it makes payments to cities with a population of 75,000 or more when state property acquisition or improvements result in a decrease in the value of taxable property and such a decrease and the value of other state-owned property (excluding state public authority property) is equal to or exceeds 25 percent of the city's total taxable assessed value. New York also makes payments to its state capital due to its acquisition of property for the Empire State Plaza. New York expended a total of over \$23 million annually in recent years for these three PILOT programs, with the City of Albany receiving the vast majority of such funding.

***Pennsylvania provides significant tools and state financial support for local municipalities through a variety of programs and taxes.*** These include:

Authorization for Local Taxes: The General Assembly has authorized all local municipalities to impose certain taxes (such as earned income, realty, realty transfer, local service taxes). In 2005, such taxes accounted for approximately 45 percent of total municipal revenues (\$11.4 billion), with realty taxes accounting for about 16 percent of total municipal revenues. Realty taxes differ from some other local taxes in that their revenues are general purpose revenues and are not restricted to a particular municipal function. Additionally, in response to local fiscal crises, the General Assembly permitted Philadelphia and Allegheny County to impose a 1 percent local sales tax. In the case of Philadelphia, the additional local 1 percent sales tax can be used for general government purposes. Allegheny county's regional 1 percent sales tax can also be used for general government purposes, though much of it is earmarked for certain debt obligations and other county and municipal services specified in statute. The City of Pittsburgh receives about 50 percent of the non-earmarked municipal revenue, in part since the distribution formula is weighted toward less affluent municipalities.<sup>15</sup>

Earmarked State Tax and Fee Revenues: Pennsylvania earmarks approximately \$650 million in state revenues and fees for local municipalities.<sup>16</sup>

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<sup>15</sup>The municipal distribution is determined using a formula which includes total tax revenue, total market value of taxable real estate, and population for the individual municipality compared with all municipalities in the county. Municipalities with lower tax revenues and lower real estate values receive a proportionally larger share of the available municipal sales tax revenue. In recent years, the Allegheny County municipalities in high fiscal distress accounted for 40 percent of the population and 67 percent of the total municipal sales tax allocation. Municipalities with the best fiscal status accounted for 10 percent of the population and about four percent of such allocation. Excluding Pittsburgh, the fiscally distressed municipalities in Allegheny County with 19 percent of the population received 34 percent of the municipal sales tax allocation, and municipalities with the best status and 13 percent of the population received 8 percent of the revenues.

<sup>16</sup>This amount excludes the portions of such revenues that are earmarked for distribution to local governments other than municipalities, such as the school districts and the county.

The largest share of such revenues is the liquid fuel tax (\$295.7 million),<sup>17</sup> followed by the gross business tax imposed on out-of-state property and fire insurers (approximately \$285 million). Such taxes on insurers are used to support general municipal pensions and volunteer firefighters' relief associations. Other earmarked state tax and fee revenues include taxes on public utility real estate and liquor license and municipal waste landfill fees.

State Property Tax Rebates: Since the early 1970s, Pennsylvania has used Pennsylvania lottery revenues to provide rebates and reduce the burden of local property taxes on the elderly and disabled. With the recent availability of state revenues from gaming facilities, the state is substantially expanding payments for property tax rebates for all home owners to reduce school district property taxes.

Police Services: Pennsylvania permits, but does not require, local governments, other than cities, to provide police services.<sup>18</sup> Pennsylvania State Police provide services in 1,718 municipalities, including 1,314 municipalities where they effectively serve as the "municipal police" force enforcing the Commonwealth's Criminal and Vehicle Codes. The State Police estimate that in 2005, the cost of providing primary local police services was about \$38.3 million.

The Commonwealth also operates its own Capital Police Force, which is responsible for security for designated state property in Harrisburg and in state offices in Philadelphia, Pittsburgh, and Scranton.

Payments to Certain Municipalities: The General Assembly has authorized the Department of Conservation and Natural Resources, the Pennsylvania Game Commission, and the Pennsylvania Fish and Boat Commission to make payments in lieu of taxes (PILOTs) to local governments, including local municipalities. Such payments are distributed based on acreage (\$1.20 per acre, with over two-thirds of the amount from the new revenues available from state gaming facilities). In recent years, local municipalities received more than \$4.2 million<sup>19</sup> in PILOT payments from such state agencies. The Commonwealth also provides significant funding to the Harrisburg Fire Department and effectively has a \$4.3 million PILOT agreement as part of its

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<sup>17</sup>Such funds must be placed in a restricted account. They may only be used for construction, reconstruction, maintenance, and repair of public roads or streets for which the municipality is responsible, and for the purchase of road equipment, traffic and street signs, traffic signals and controls, and the salary and benefit costs of municipal road crews.

<sup>18</sup>Cities must provide police services. Such requirements can be met through participation in regional police forces and through part time police coverage. Boroughs and townships may elect to provide such services.

<sup>19</sup>This amount excludes payments to school districts and county governments. Typically, local municipalities receive about 30 percent of the total PILOT payments. The US Department of the Interior and the US Department of Housing and Urban Development may also make payments to local municipalities. Such programs and the amounts paid in Pennsylvania are described in Finding F.

lease agreement for Strawberry Square and 333 Market Street, which house major state agencies.

In addition, the Commonwealth provides financial support for various municipal community revitalization and economic development efforts. In FY 2007-08, over \$623 million from Pennsylvania's General Fund was spent on such community and economic development.

## **Conclusion:**

During our review, we spoke with many municipal officials and community leaders from fiscally distressed communities that host key Commonwealth institutions. Such officials stated their need for additional revenues that go beyond the financial support that could be realistically made available from their major institutions, and recognized the importance of maintaining such assets in their community. In recent years, some (e.g., Reading) have seen major medical institutions move to other municipalities just as their populations have migrated to other municipalities. The work of the Pennsylvania Economy League and the data we reviewed, which predate the nationwide financial crisis of 2008, underscore the financial fragility of the distressed municipalities that host our major institutions. We also note the work done by The Brookings Institute and others that highlight the importance of medical and educational institutions in strategies to revive Pennsylvania's older cities and core communities.

Various proposals have been offered to help stabilize these communities. They include, for example:

***Mandating PILOTs From Public and Other Tax Exempt Organizations.*** Opportunities for local governments to obtain revenue from tax-exempt property are limited as most tax-exempt property is held by governments, in particular local governments. After governments, religious organizations are among the largest holders of such property. As a consequence, for both constitutional and practical reasons, local municipalities are not able to gain local tax revenues from such institutions.

With respect to major tax-exempt institutions such as non-profit hospitals and public and private universities, some advocate amending Act 1997-55—the state legislation governing designation of “purely public charities” eligible for tax-exemption. The Act provides explicit criteria for the courts to determine if these institutions and their activities meet the tests set forth by the Pennsylvania Supreme Court, and thus qualify for the “purely public charity” local realty tax-exemption. The criteria make clear when property owned by a non-profit does not qualify for the exemption; and non-profit institutions, therefore, place such property on the tax rolls. Act 55 also encourages large non-profit institutions to provide voluntary

contributions, though it does not mandate such contributions or require they be provided to all local governments, including school districts.

As a consequence of Act 55's specific criteria, which have been upheld by the Supreme Court,<sup>20</sup> some local municipalities state they have not been able to obtain PILOT agreements as they had in the past from non-profit hospitals and public and private universities. If Act 55 was amended to require formal PILOT agreements between all purely public charities and local governments, however, it is likely that the school districts, rather than municipalities, would be the primary beneficiaries.

***Distributing state tax revenues to municipalities that host a disproportionate share of tax-exempt property.*** Targeting aid to fiscally distressed municipalities that host key Commonwealth institutions, such as public and private universities and non-profit acute care hospitals, would appear feasible in view of the relatively few such municipalities (183) that host these institutions. One difficulty of such an approach, however, is that it requires obtaining General Fund revenues that have many competing uses. Another challenge to successful implementation of such an approach is the absence of standard county assessment data systems. Any proposal to allocate state revenues based on tax-exempt assessed property values (as in Connecticut's PILOTs) would require that counties develop compatible assessment systems, which would be costly and controversial. Assigning market values to most tax-exempt property, moreover, would be complex as such property is rarely on the market, and comparable values would be difficult to establish. Alternatively, some standard distribution unit could be developed, as occurs with the distribution of earmarked revenues for local municipal pension funds, with units assigned based on the number, size, and type of institutions (e.g., one unit for a small non-profit hospital, two units for a mid-size university, etc.), possibly weighted by other factors such as percent of the municipality living in poverty.

***Requiring Payment of Service Fees From Tax Exempt Institutions.*** Some have proposed requiring non-profit institutions that are exempt from realty taxes to pay an essential service fee. Presumably, essential services include police and fire services provided by the municipality. The variation in how such services are currently provided by Pennsylvania's municipalities would present challenges in implementing such a proposal. Most distressed cities provide police and fire services, and such services account for the largest share of their expenditures. A great number of boroughs and townships, however, do not. For example, fire services in many municipalities, including those that host many hospitals and colleges and universities, are often provided by volunteer fire companies that are themselves non-profit organizations. Further complicating the development of essential service fees for non-profit organizations is that many of these institutions, particularly many major

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<sup>20</sup>In determining whether an entity qualifies as a purely public charity under the state's Constitution, the Pennsylvania Supreme Court stated in 2002 that an entity must first meet Pennsylvania's Constitutional requirements before statutory qualifications are considered.

medical and education institutions, provide their own security and police services, and in some cases, contract with their local municipality for police service.

Some municipal service fee proposals are linked to assessed property values and contributions received from institutions that are tax-exempt. Attempts to link service fees and contributions to the assessed value of property can be complicated by the nature of property held by some exempt institutions. Some of this property is historic, and the community requires that it be maintained in ways that might not be optimally efficient. Tax-exempt property of major institutions is often subject to life safety code requirements (e.g., NFPA 13: Installation of Sprinkler Systems) that are more rigorous than those in place for residential and commercial property.

Many municipalities, in particular, those that are fiscally distressed, now receive a variety of contributions from their major institutions. In several municipalities, the local arrangements provide financial support in excess of what the municipality would have received from property tax payments, and in all likelihood, a service fee. Therefore, while a state defined system might benefit some municipalities, others may be disadvantaged by a uniform system.

***Regional Revenue Sharing.*** For Pennsylvania to thrive, it requires strong regional economies. Such economies require municipalities that are financially sustainable. To sustain Pennsylvania's municipalities and promote strong regional economies, a variety of actions appear needed, according to the Brookings Institute and others who have closely studied such matters. Such actions include, for example, reducing local fragmentation (such as in tax collection, number of employee benefit and pension plans, consolidation of public safety services, etc.) to increase efficiency, effectiveness, and financial sustainability; increasing local government capacity; and providing revenue raising systems that do not breed insularity and rivalry.

In the past, the General Assembly has allowed local governments to adopt regional revenue sharing approaches that distribute revenues to municipalities in ways that assist, in particular, severely distressed municipalities. For example, the formula used to distribute Allegheny's 1 percent sales tax to municipalities takes into account the ability of a municipality to generate tax revenue relative to other municipalities, thereby providing additional assistance to the region's severely distressed municipalities.

In the past, the County Commissioners Association of Pennsylvania proposed allowing all counties the ability to levy a local sales tax. Recently, the Governor endorsed the option of a voluntary county sales tax. In March 2009, the Governor's Office advised us that it has been in the process of meeting with key groups to identify possible models for optional local sales tax proposals for the General Assembly to consider, and multiple models are being considered.

One such model was developed by the Lehigh Valley Partnership, a coalition of business and civic groups. With support from Pennsylvania Economy League researchers, the group analyzed issues of regional development, shared services, and regional revenue needs. Based on such work, the Partnership recognized that regional revenue sources, such as a local option sales tax, can be used to provide property tax relief; support locally identified regional projects, promote shared services, assist communities that host major tax-exempt institutions; and provide regional revenue to support municipal services. The Partnership developed a specific proposal tailored to address its regional needs, with 40 percent of the funding from the 1 percent sales tax targeted to municipal property tax reduction, 40 percent for municipal service support, including certain revenue for municipalities with high amounts of tax-exempt property and revenues for inter-municipal cooperation efforts, and the remaining 20 percent for regional initiatives, including crime reduction, public health, libraries, regional transportation, and culture and arts organizations. As part of its effort to gain support for its proposal, the Partnership has shared its model with the State Planning Board and others, which are also considering various models of regional revenue sharing and shared services.

# I. Introduction

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Senate Resolution 363 of 2008 (Appendix A) directed the Legislative Budget and Finance Committee, in cooperation with the Department of Community and Economic Development and the Local Government Commission, to study the impact of tax-exempt real property on the fiscal health of Pennsylvania municipalities.

## Study Scope and Objectives

Specifically, the study sought to identify the:

1. Value of tax-exempt real property in individual municipalities by property type (i.e., federal, state, or local governments; government designated instrumentalities; churches; hospitals; private colleges and universities; parks and recreations; museums; and other federal 501(c)(3) entities holding tax-exempt real property).
2. Payments in lieu of taxes, services in lieu of taxes, and other taxes, fees, and grants provided to individual municipalities by those with tax-exempt real property, including federal, state, and local governments and government affiliates.
3. Effect of a disproportionate share of tax-exempt properties on the fiscal status of the Commonwealth's municipalities.
4. Commonwealth programs designed to address the disproportionate impact of tax-exempt real properties on local government.
5. Approaches taken by the federal government and other states to address the disproportionate impact of exempt real property on municipal government and their options for replication in the Commonwealth.

To identify the value of tax-exempt real property in individual municipalities by property type we reviewed data on taxable and tax-exempt property assessed values reported by County Assessment Offices to the Legislative Office for Research Liaison (LORL). We also contacted and met with four major county assessment vendors, reviewed exempt property data provided by several counties, and reviewed property assessment data available at county assessment office websites. We also consulted the State Tax Equalization Board (STEB) concerning its available data. Based on such contacts and our review of the available data sets, we concluded that a survey of all county assessment offices would not yield comparable data on tax-exempt properties statewide.

Comparable statewide data on tax-exempt property are not available statewide for several reasons. County assessment offices differ substantially in the design of their assessment databases. As a consequence, some assessment databases include as tax-exempt property, property that is held by a utility and taxed at the state (rather than local) level with such realty tax payments redistributed by the state to local municipalities. Some county databases include in the total assessed value of tax-exempt property taxable properties where local governments have granted tax abatements for specific periods of time (e.g., KOZ or other local economic development initiatives).

Our review of county assessment data also found that all counties do not maintain separate records for property which is partially tax-exempt and partially taxable. One large county we identified lists the total assessed value of a property as tax-exempt, even though the assessment record indicates taxes are actually paid on part of the property (e.g., a non-profit hospital that rents space to a private physician practice). Moreover, while STEB maintains important statewide assessment data, its primary function is to determine annually the aggregate market value of taxable real property in each municipality, and not tax-exempt property.

Based on our review of county assessment databases, we concluded that the tax-exempt data reported to LORL was not comparable across Commonwealth municipalities; and, for reasons stated above, may tend to overstate the assessed value of tax-exempt property statewide. Nonetheless, the LORL data could be used to identify those areas in the state with a “self-reported” high presence of tax-exempt property relative to municipalities statewide. We have, therefore, relied on LORL data to identify Commonwealth municipalities with a “self-reported” disproportionate share of tax-exempt property—defined as 15 percent or more of the total assessed property value in the municipality.

To obtain accurate information on tax-exempt properties requires information from property records based on both ownership and property use, and often review of individual parcel records. Such an approach is required to assure accuracy and completeness of the tax-exempt data and to assure exclusion of property held by a religious or non-profit organization on which property taxes are paid. While such information could not be gathered statewide for use in our analysis as it is highly labor intensive and Pennsylvania has more than 2,600 municipalities, we have been able to obtain and report such information for a select number of communities, in particular fiscally stressed municipalities, in various areas of the state.

To obtain information on payments in lieu of taxes (PILOT), services in lieu of taxes (SILOT), and other taxes, fees, and grants provided to individual municipalities by those with tax-exempt real property, including governments, we reviewed Department of Community and Economic Development (DCED) reports that, according to DCED staff, are to include reported PILOT payments. Based on

our review of DCED and other data, we learned from local municipalities that their accounting systems did not lend themselves to the DCED financial reporting instructions. As a consequence, PILOTs and other contributions to municipalities are not always reflected in the DCED municipality financial database.

The information we have included in this report on PILOTs, SILOTs, and other contributions and assistance provided to municipalities is taken from several sources. We obtained information for non-profit and other organizations through direct contacts with such organizations. We also obtained information from federal Internal Revenue Service reports that certain organizations are required to report and which are publicly available. In addition, we spoke with local municipal officials and others about local arrangements to assist municipalities, in particular those in fiscal distress.

To identify the effect of a disproportionate share of tax-exempt property on the fiscal health of Commonwealth municipalities, we identified municipalities based on their level of fiscal distress, the presence (or absence) of a self-report of a high proportion of tax-exempt property, and the presence (or absence) of certain state institutions, non-profit acute care hospitals, and major colleges and universities. We considered the distribution of such state and non-profit institutions across all Pennsylvania municipalities, and for subsets of municipalities, such as cities.

To identify Commonwealth programs designed to address the disproportionate impact of tax-exempt real properties on local government, we obtained information from Commonwealth and federal agencies on such programs, and obtained information on programs that assist local governments in Pennsylvania to provide major public services. We also gathered information on initiatives that are in place in several distressed communities that have been successful in gaining major support from local organizations that are financially positioned to assist in financing community revitalization and economic development.

To identify approaches taken by other public programs to address the disproportionate impact of tax-exempt real property on municipal governments and their options for replication in the Commonwealth, we reviewed reports prepared by the Urban Institute, the Brookings Institute, the Pennsylvania Economy League, and others. We reviewed various state statutes and spoke with state officials in states such as Connecticut about their programs. The comparative information on other states we have included in the study is based on data reported in the *2002 United States Census of Governments* and other Census data.

## **Acknowledgements**

On behalf of the Department of Community and Economic Development, the Local Government Commission, and the LB&FC staff, we thank the County Commissioners Association of Pennsylvania and county assessors that assisted us in our work. We also thank the Pennsylvania League of Cities and Municipalities, the Pennsylvania State Association of Boroughs, and the Pennsylvania State Association of Township Supervisors for their cooperation and assistance. In particular, we thank the Pennsylvania Economy League for sharing its expertise and prior works, and the municipal officials, hospitals, and public and private universities with whom we spoke who also assisted us in our work.

## **Important Note**

*This report was developed by the Legislative Budget and Finance Committee staff. The release of this report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.*

*Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.*

## II. Findings

Pennsylvania, with over 5,000 local governments, including over 2,560 sub-county general purpose governments, ranks second in the nation in number of local governments, according to the U.S. Census Bureau's *2002 Census of Governments*. Pennsylvania's subcounty general purpose governments include:

- 56 cities,
- 962 boroughs and towns, and
- 1,548 townships.<sup>1</sup>

Pennsylvania's cities, boroughs and towns had over 55,000 full-time equivalent employees in March 2002, according to the U.S. Census Bureau, with the state's townships having an additional 18,745 employees. Table 1 shows the distribution of such municipal employees by types of government functions performed by local governments nationwide.

Table 1

### Distribution of PA Municipal Employment by Type of Local Government Function (March 2002)

Government Function	Cities, Boroughs	Townships
	Towns	Townships
Education: Higher Education.....	0.0 %	0.0%
Education: Elementary & Secondary Education.....	0.0	0.0
Education: Other Education .....	0.0	0.0
Libraries .....	2.0	1.7
Public Welfare .....	3.5	0.1
Hospitals .....	0.0	0.0
Health.....	3.3	0.7
Highways .....	7.6	28.0
Air Transportation.....	1.2	0.0
Water Transport & Terminals .....	0.0	0.0
Police Protection .....	30.9	33.0
Fire Protection.....	9.7	1.5
Corrections.....	4.0	0.0
Natural Resources .....	0.1	0.0
Parks and Recreation.....	3.1	4.5
Housing and Community Development.....	1.2	0.2
Sewerage .....	3.3	3.7
Solid Waste Management .....	4.2	2.4
Financial Administration .....	5.5	7.6
Judicial and Legal .....	6.4	0.1
Other Government Administration.....	6.2	13.2
Utility--Water Supply .....	4.5	0.6
Utility--Electric Power .....	0.3	0.0
Utility -- Gas Supply .....	0.0	0.0
Utility-- Transit.....	0.1	0.0
All other.....	3.0	2.7

Source: Developed by LB&FC staff from U.S. Census Bureau, *Governments—Public Employment*, Table 15—Employment and Payrolls of State and Local Governments by Type of Government, Function, and State: March 2002.

<sup>1</sup>In addition to counties, examples of other local governments include school districts and special district governments, such as housing, industrial and commercial development, metropolitan transportation, municipal parking, county and municipal redevelopment, municipal, convention center, port, and sport and exhibition.

As shown in Table 1, the largest share of Pennsylvania municipal employees are involved in police protection. Table 1 also highlights some of the differences between cities, boroughs, towns, and townships. Many more city, borough, and town employees, for example, are involved in fire protection than in townships (9.7 versus 1.5 percent), whereas more township employees are involved in highway maintenance (28 versus 7.6 percent).

Pennsylvania local municipalities vary in many ways, including population size, government functions performed, revenue structures, and fiscal status. Pennsylvania municipal populations, for example, range from a high of 1.449 million in the city of Philadelphia to 17 in Green Hills Borough. Approximately 30 percent of the state's local municipalities have populations of less than 1,000.

Pennsylvania's municipalities also vary in functions performed by local municipal governments. Approximately 67 percent of Pennsylvania municipalities, for example, rely on the Pennsylvania State Police to provide primary or part-time police protection, according to the Pennsylvania State Police, and 96 percent of municipalities provide for fire safety through volunteer fire fighters, according to the Office of the State Fire Commission. Thirty-four municipalities operate emergency medical services, according to Pennsylvania Department of Health data.

In 2001-02, Pennsylvania cities, boroughs, and towns had revenues of \$8.2 billion. During the same period, Pennsylvania townships had \$2.5 billion in total revenues.

Pennsylvania's local municipalities vary in their revenue structures. As shown in Tables 2 and 3, total taxes account for roughly 40 percent of all revenue for Pennsylvania cities, boroughs and towns, and roughly 50 percent for townships.

Tables 2 and 3 show that property tax revenues account for differing proportions of total revenues for Pennsylvania municipalities. For more populous cities, boroughs, and towns, they account for 8.5 percent of total revenues; however, for less populous cities, boroughs, and towns, and for all townships, they make up roughly 20 percent of all revenues. As shown in Tables 2 and 3, townships with populations of 25,000 or more are more reliant on real property taxes for revenues than cities, borough, towns, and less populous townships.

Table 2

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**Distribution of Government Revenues for Pennsylvania Cities,  
Boroughs, and Towns by Source and Population-Size Groups**

<u>Revenue Source</u>	<u>All Cities, Boroughs, and Towns</u>	<u>Population 300,000 or More</u>	<u>Population Less Than 10,000</u>
Real Estate Tax .....	12.0%	8.5%	20.2%
All Other Taxes .....	27.7	31.0	20.0
Federal Government.....	7.0	8.3	2.5
State Government.....	21.2	25.6	9.0
Local Government.....	2.7	3.2	1.7
Other Income .....	29.3	23.5	46.7

Source: Developed by LB&FC staff from U.S. Census Bureau, *Finances of Municipal and Township Governments: 2002, Volume 4, Number 4, Government Finances, Table 13.*

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Table 3

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**Distribution of Government Revenues for  
Pennsylvania Townships by Source and Population-Size Groups**

<u>Revenue Source</u>	<u>Townships</u>	<u>Population 25,000 or More</u>	<u>Population Less Than 2,500</u>
Real Estate Tax .....	20.3%	27.5%	16.8%
All Other Taxes .....	33.9	25.1	33.2
Federal Government.....	1.4	2.4	2.5
State Government .....	11.8	7.2	29.3
Local Government .....	1.2	1.0	1.9
Other Income.....	31.4	36.8	16.4

Source: Developed by LB&FC staff from U.S. Census Bureau, *Finances of Municipal and Township Governments: 2002, Volume 4, Number 4, Government Finances, Table 16.*

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The Commonwealth has as a goal to foster the fiscal integrity of its municipalities so they can:

- provide for the health, safety and welfare of their citizens;
- pay due principal and interest on their debt obligations when due;
- meet financial obligations to vendors and suppliers; and
- provide for proper financial accounting procedures, budgeting and taxing practices.

The General Assembly enacted Act 1987-47<sup>2</sup> to accomplish this goal and at the same time leave principal responsibility for conducting municipal governmental affairs, including choosing expenditure priorities and the manner of expenditures based on available revenues, to local elected officials.

Act 47 provides criteria to evaluate the financial status of local municipalities, procedures and processes to designate financially distressed municipalities. It also sets forth various remedies to assist such distressed municipalities. As of March 2007, the Act 47 Municipalities Financial Recovery Program included 17 local municipalities:

- 10 cities (Aliquippa, Chester, Clairton, Duquesne, Farrell, Johnstown, Nanticoke, New Castle, Pittsburgh, and Scranton),
- 6 boroughs (Braddock, Franklin, Greenville, Millbourne, Rankin, and West Hazleton), and
- 1 township (Plymouth).

Previously six boroughs (Ambridge, East Pittsburgh, Homestead, North Braddock, Shenandoah, and Wilkinsburg) had been involved in the program and had their distress determinations rescinded.

The number of local municipalities experiencing significant fiscal stress, however, appears greater than those participating in the Act 47 Municipalities Financial Recovery Program. The Pennsylvania Economy League (PEL) found that many more municipalities are in fiscal distress based on an indicator which takes into account changes in each municipality's tax effort and tax capacity from 1970 to 2003 relative to municipalities statewide. Compared to the most fiscally healthy municipalities identified using the PEL indicator, the most fiscally distressed communities are:

- less likely to have above average household income;
- less likely to have above average number of college graduates;
- more likely to have above average numbers in poverty;
- more likely to have above average numbers of persons over 65; and
- more likely to have above average population density.

As a result of local municipalities' reliance on real property tax revenue, some are concerned that the disproportionate presence of institutions that do not pay local real property taxes, such as government, religious, and non-profit organizations may, in particular, be a cause of the severe fiscal distress experienced by Pennsylvania municipalities.

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<sup>2</sup>Act 1991-6, the Intergovernmental Cooperation Authority Act for Cities of the First Class, established the Pennsylvania Intergovernmental Authority and suspended provisions of Act 47 for Philadelphia until such time as the Authority is terminated. While not currently under Act 47, Philadelphia is a financially distressed municipality.

## A. Governments Are the Major Holders of Tax-Exempt Property.

National studies have found that governments are the major holders of tax-exempt property. LB&FC staff analyzed data for three surrounding states that track and report on the values of tax-exempt property by owner. As shown in Tables 4 and 5, local governments, including county, municipal and public schools account for the greatest share of tax-exempt property in Maryland (39 percent), New York (34.5 percent), and Ohio (36 percent). After local governments, federal and state governments combined account for the next highest share of tax-exempt property in Maryland and New York. In all three states, religious and non-profit organizations combined account for less than one-third of the state's tax-exempt property value.

Table 4

<b>Distribution of Exempt Real Property Value for Selected States</b>				
<u>Item</u>	<u>Maryland</u>	<u>New York<sup>a</sup></u>	<u>Ohio</u>	
U.S. and Foreign Governments .....	18.2%	7.6%	4.6%	
State.....	14.7	14.5	8.8	
County, Municipal & Public Schools .....	38.8	34.5	36.0	
Religious .....	11.8	b/	10.2	
Education (Private) .....	4.3	b/	8.6	
Charitable.....	9.9	b/	11.0	
Private Organizations.....	--	19.4 <sup>b/</sup>	--	
Other .....	2.2	1.4	2.2	
Abatements.....	--	--	18.5	
Industrial & Commercial.....	--	12.0	--	
Urban Renewal & Public Subsidized Housing .....	--	10.5	--	

<sup>a</sup>Excludes residential dwelling exemptions for clergy, veterans, volunteer firefighters, elderly, and disabled persons.

<sup>b</sup>See Table 5 below.

Sourced: Developed by LB&FC staff using data reported by the Maryland Department of Assessments and Taxation (2007), the New York Office of Real Property Services (2007), and the Ohio Department of Taxation (2006).

Table 5

<b>New York Distribution of Exempt Real Property for Private Organizations</b>	
<u>Item</u>	<u>Percent</u>
Clergy & Nonprofit Religious Organizations.....	28.5%
Educational Nonprofit .....	26.8
Hospital Corporation and Nonprofit Hospitals .....	19.2
Other Charitable Nonprofits.....	6.5
Other Private Organizations .....	19.0

Sourced: Developed by LB&FC staff using data reported by the New York Office of Real Property Services (2007).

Pennsylvania does not have a statewide property assessment system that allows for a statewide analysis of tax-exempt property by owner and tax-exempt property value. LB&FC staff, however, was able to analyze data for several fiscally distressed municipalities in different regions of the state to consider if Pennsylvania might differ from the nation and from surrounding states in terms of the composition of its tax-exempt real property.

As shown in Tables 6, 7, 8, 9, and 10, local government, including county, municipal, and public schools consistently accounts for the largest share of tax-exempt real property in all but one fiscally distressed municipalities in the regions of the state we reviewed. When the share of tax-exempt property held by local public authorities is combined with that held by local government, such local publicly held property accounts for about 50 percent or more of all tax-exempt property in nine of the 11 fiscally distressed municipalities. Federal and state property combined accounts for less than 10 percent of the tax-exempt property in eight of the 11 fiscally distressed municipalities.

Somewhat similar information has been reported for the City of Pittsburgh by the Allegheny Institute for Public Policy. The Institute's report included data on tax-exempt property market value. Based on the reported data, locally held public property, including county, municipal, public schools, and public authority property accounted for 44.2 percent of the total market value of Pittsburgh's tax-exempt property in 2003. Colleges, universities, and academies accounted for 22.2 percent, and hospitals and other charitable homes for 17.3 percent. Federal and state property combined accounted for 11.2 percent, with churches accounting for the remainder.<sup>3</sup>

LB&FC staff also reviewed the distribution of tax-exempt real property in eight fiscally healthy municipalities in one southeastern Pennsylvania county to determine if the distribution of tax-exempt property in the fiscally healthy municipalities differed significantly from that of fiscally distressed municipalities. We deliberately chose municipalities known to have non-profit hospitals and private colleges and universities. We found that the distribution of tax-exempt property in the fiscally healthy municipalities was not unlike that of the fiscally distressed municipalities.

In all eight fiscally healthy municipalities, local government accounted for the greatest share of tax-exempt property, ranging from 32.4 to 65.2 percent. In five of the eight municipalities, locally held public property, including county, municipal, public schools, and public authority property, accounted for 50 percent or more of the value of municipal tax-exempt property.

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<sup>3</sup>The Institute also reported that local growth in tax-exempt property had occurred due to the development of public authority property and not the expansion of non-profit or religious property.

Table 6

**Distribution of Tax-Exempt Real Property by Assessed Value for a  
Fiscally Distressed Municipality in Northwestern Pennsylvania**

<u>Property Owner</u>	<u>% of Total</u>
Federal.....	3.48%
State .....	2.39
County, Municipal, Public Schools .....	28.22
Religious (Includes Elementary and Secondary Schools, Clergy Housing).....	11.68
Education (Private Colleges and Universities) .....	18.32
Hospitals.....	1.82
Urban Renewal, Public Housing Authorities and/or Other Public Authorities .....	23.89
Other Non-Profit Organization.....	8.94
Other.....	<u>1.24</u>
Total.....	100.00%

Table 7

**Distribution of Tax-Exempt Real Property by Assessed Value for a  
Fiscally Distressed City in North Central Pennsylvania**

<u>Property Owner</u>	<u>% of Total</u>
Federal.....	1.7%
State .....	19.4
County, Municipal, Public Schools .....	24.9
Religious (Includes Elementary and Secondary Schools, Clergy Housing).....	17.3
Education (Private Colleges and Universities) .....	7.1
Hospitals.....	15.5
Urban Renewal, Public Housing Authorities and/or Other Public Authorities .....	6.8
Other Non-Profit Organization.....	5.6
Other.....	<u>1.7</u>
Total.....	100.0%

Source: Developed by LB&FC and Local Government Commission staff from county assessment data.

Table 8

**Distribution of Tax-Exempt Real Property by Assessed Value for  
Fiscally Distressed Cities in South Central Pennsylvania**

<u>Property Owner</u>	City 55,000 pop. <u>% of Total</u>	City 80,000 pop. <u>% of Total</u>
Federal .....	0.0%	0.8
State .....	1.5	1.1
County, Municipal, Public Schools .....	39.8	44.6
Religious (Includes Elementary and Secondary Schools, Clergy Housing) .....	13.6	12.7
Education (Private Colleges and Universities) .....	12.6	9.0
Hospitals .....	16.4	3.9
Urban Renewal, Public Housing Authorities and/or Other Public Authorities .....	10.0	21.8
Other Non-Profit Organization .....	5.3	4.2
Other .....	<u>0.8</u>	<u>1.9</u>
Total .....	100.0%	100.0%

Source: Developed by LB&FC and Local Government Commission staff from county assessment data.

Table 9

**Distribution of Tax-Exempt Real Property by Assessed Value for  
Selected Fiscally Distressed Pennsylvania Municipalities in Northeastern Pennsylvania**

<u>Property Owner</u>	<u>City 40,000 pop.<sup>a</sup></u>	<u>City 11,000 pop.<sup>b</sup></u>	<u>Township 2,000 pop.<sup>c</sup></u>	<u>Borough 3,500 pop.<sup>d</sup></u>	<u>Township 11,000 pop.<sup>e</sup></u>	<u>Township 11,000 pop.<sup>f</sup></u>
Federal.....	2.2%	0.0%	0.0%	0.3%	35.1%	7.0%
State.....	1.2	9.8	20.8	7.3	0.0	0.7
County, Municipal, Public Schools.....	25.1	36.7	36.1	66.1	15.8	44.3
Religious (Includes Elementary and Secondary Schools, Clergy Housing) .....	16.1	33.1	7.0	12.5	1.3	5.8
Education (Private Colleges and Universities) .....	18.4	0.0	0.0	0.0	0.0	0.0
Hospitals .....	11.3	0.0	0.0	0.0	14.6	0.0
Urban Renewal, Public Housing Authorities and/or Other Public Authorities.....	13.2	18.2	7.5	5.2	31.8	25.4
Other Non-Profit Organization .....	8.8	0.3	0.0	4.6	0.1	3.3
Other .....	3.7	1.9	28.6	4.0	1.1	13.4

<sup>a</sup>This table is based on 2007 assessment data. Tax-exempt property represented 26 percent of total property value for the municipality, and had an assessed value of approximately \$572 million.

<sup>b</sup>Based on 2007 assessment data. Tax-exempt property represented 26 percent of total property value for the municipality and had an assessed value of approximately \$137 million.

<sup>c</sup>Based on 2007 assessment data. Tax-exempt property represented 9 percent of total property value for the municipality, and had an assessed value of approximately \$11 million.

<sup>d</sup>Based on 2007 assessment data. Tax-exempt property represented 8 percent of total property value for the municipality, and had an assessed value of approximately \$20 million.

<sup>e</sup>Based on 2008 assessment data. Tax-exempt property represented 33 percent of total tax property value for the municipality, and had an assessed value of approximately \$357 million.

<sup>f</sup>Based on 2007 assessment data. Tax-exempt property represented 11 percent of total property value for the municipality, and had an assessed value of approximately \$86 million.

Source: Developed by LB&FC and Local Government Commission staff from county assessment data.

Table 10

**Distribution of Tax-Exempt Real Property by Assessed Value for a  
Fiscally Distressed Municipality in Southeastern Pennsylvania**

<u>Property Owner</u>	<u>% of Total</u>
Federal.....	1.3%
State .....	1.0
County, Municipal, Public Schools .....	52.9
Religious (Includes Elementary and Secondary Schools, Clergy Housing).....	18.7
Education (Private Colleges and Universities) .....	0.0
Hospitals.....	16.6
Urban Renewal, Public Housing Authorities and/or Other Public Authorities .....	3.2
Other Non-Profit Organization.....	1.4
Other.....	<u>4.9</u>
Total.....	100.0%

Source: Developed by LB&FC and Local Government Commission staff from county assessment data.

Six of the eight fiscally healthy southeast county municipalities had non-profit hospitals; however, all of the property held by the hospitals was not fully tax-exempt. Non-profit hospitals accounted for less than 10 percent of the exempt and partially exempt total assessed value of tax-exempt property in two of six municipalities. In two of the six fiscally healthy municipalities, hospitals accounted for from roughly one-third to two-thirds of such exempt property.

The opportunity for local governments to obtain revenue from tax-exempt property appears limited in view of the nature of such property. The federal government is immune from taxation by states (and their political subdivisions). Furthermore, the United States Constitution's Bill of Rights states: "Congress shall make no law respecting the establishment of religion, or prohibiting the free exercise thereof . . . ." In 1969, the U.S. Supreme Court specifically considered a challenge to church property tax-exemption. Writing for the majority, the Chief Justice observed that "elimination of exemption would tend to expand the involvement of government [with religion] by giving rise to tax valuation of church property, tax liens, tax foreclosures, and the direct confrontations and conflicts that follow in the train of those legal processes." The majority further opined: "[exemption] restricts the fiscal relationship between church and state and tends to complement and reinforce the desired separation insulating each from the other." In Pennsylvania, the Constitution of the Commonwealth specifically empowered the General Assembly to exempt places of religious worship from taxation. In Pennsylvania, Act 1997-55 provides for tax-exemption of institutions of purely public charities. The act specifies such institutions must advance a charitable purpose, and such purposes include advancement of religion.

Under the state's Constitution as interpreted by the Pennsylvania Supreme Court, all Commonwealth real estate and real estate of Commonwealth instrumentalities, including independent agencies, may not be subject to taxation by political subdivisions absent the express authorization by the General Assembly. The General Assembly has not provided such authorization. In certain instances, it has specifically permitted, but not required, payments in lieu of taxes (PILOTs) by certain public agencies. It has also appropriated funding for certain PILOTs and authorized grants for certain municipal services. Such PILOT payments and grants are discussed in Finding F.

A limited number of states share revenues with local governments based on the presence of certain tax-exempt institutions. Finding E provides information on such state programs. None of these programs, however, provide revenues for tax-exempt property held by local governments or churches.

Finding D provides information on the options available to local governments to secure financial support from major tax-exempt institutions. Such institutions typically include public and private colleges and universities and non-profit general acute care hospitals.

## **B. A Relatively Small Number of Pennsylvania Municipalities Host Tax-Exempt Hospitals, Colleges, and Universities.**

National studies suggest that major health care institutions and colleges and universities account for about half of the value of non-profit tax-exempt real property when church property and government property are excluded.<sup>4</sup> To begin to consider the impact of tax-exempt non-profit organizations on Pennsylvania municipalities, LB&FC staff identified all municipalities with such non-profit institutions within their municipal boundaries. The four types of major tax-exempt institutions we reviewed included all:

1. Non-profit general acute care hospitals,
2. Private four-year liberal arts and science colleges and universities,
3. State-Related Colleges and Universities, and
4. State System of Higher Education Universities.<sup>5</sup>

We identified the municipalities hosting such institutions through direct contact with the institutions and/or local police.

Only a small number of municipalities are responsible for hosting major tax-exempt health and educational institutions. Only 7 percent of all Pennsylvania municipalities (183 of 2,566) host at least one non-profit general acute care hospital, or a public or private college or university. (Appendix B provides a list of the host municipalities by one of the four types of institution.) Table 11 shows the number and distribution of municipalities hosting such institutions by type of municipality.

As shown in Table 11, Pennsylvania townships account for the largest number of host municipalities. Together with boroughs and towns, the townships account for 80 percent of all host municipalities.

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<sup>4</sup>National researchers also report problems with data on assessed property values available for analysis. As a result, these national research findings may overstate the extent to which hospitals and colleges and universities in Pennsylvania municipalities account for non-profit tax-exempt property. Based on data reported in Finding A for 11 fiscally distressed municipalities in Pennsylvania, hospitals and colleges and universities accounted for at least 20 percent of the total assessed value of tax-exempt property in only 4 of the 11 fiscally distressed municipalities we reviewed. We found nothing in the literature indicating that non-profits, other than churches, generally account for a high proportion of tax-exempt property.

<sup>5</sup>LB&FC staff elected to include these state public institutions in this analysis because of their possibly large community “footprint,” and because most have affiliate non-profit foundations that assist with their support.

Table 11

**Distribution of Municipalities With Tax-Exempt Acute Care Hospitals and Colleges and Universities by Municipality Type**

<u>Municipality Type</u>	Number of Municipalities With Major Tax-Exempt	
	<u>Non-Profit</u>	<u>Percent Distribution</u>
Cities .....	37	20%
Boroughs & Towns.....	71	39
Townships.....	<u>75</u>	<u>41</u>
Total .....	183	100%

Source: Developed by LB&FC staff.

The institutions most frequently hosted by municipalities are non-profit general acute care hospitals, with roughly 128 municipalities hosting such institutions. Private colleges and universities follow, with 56 municipalities hosting them.

Most municipalities that host major tax-exempt non-profit institutions host only one such type of institution. Eighty-three percent (152 of 183) of the host municipalities are home to only one of the four types of major tax-exempt non-profit institutions (i.e., an acute care hospital, a four-year private college or university, a state-owned university, or a state-related university) and have only one of these institutions. An additional three municipalities (Abington, Altoona, Reading) are host to only one type of institution, but host more than one such institution.

None of the 183 host municipalities are home to all four types of major tax-exempt non-profit institutions. Philadelphia and Pittsburgh, however, host three of the four types, and together host 38 such institutions. Only 10 of the 183 municipalities host three or more major tax-exempt institutions. They include Allentown, Bethlehem, Erie, Lower Merion, Philadelphia, Pittsburgh, Radnor, Scranton, Wilkes-Barre, and Williamsport. Seven of these municipalities are severely fiscally distressed, and two, relative to municipalities statewide, are among the most fiscally healthy municipalities in the state.<sup>6</sup>

Twenty-two percent (41 of 183) of the municipalities that host major institutions also serve as the county seat for their county. The county seats in 26 of the 67 county seats do not host major tax-exempt institutions.<sup>7</sup> In some instances,

<sup>6</sup>Twenty-one municipalities (Abington, Altoona, Bloomsburg, Chambersburg, Cheltenham, College, East Stroudsburg, Gettysburg, Greensburg, Greenville, Harrisburg, Huntingdon, Lancaster, Meadville, Reading, Spring Garden, Washington, West Chester, West Goshen, White, and York) host two major tax-exempt institutions. The 21 municipalities include nine severely fiscally distressed and three fiscally healthy municipalities.

<sup>7</sup>They include the following counties: Armstrong, Beaver, Bedford, Blair, Bradford, Bucks, Butler, Cambria, Cameron, Carbon, Centre, Elk, Forest, Fulton, Juniata, McKean, Mercer, Mifflin, Monroe, Montour, Northumberland, Perry, Pike, Snyder, Sullivan, and Venango.

however, they host for-profit hospitals that pay realty taxes. For the most part, the county seats that do not host major non-profit institutions are in more rural areas of the state.

**Share of Tax-Exempt Property:** Based on county assessment office reporting,<sup>8, 9</sup> at least one-quarter (634 of 2,566) of all Pennsylvania municipalities have a “disproportionate share of tax-exempt property;” that is, their tax-exempt real property accounted for 15 percent or more of the municipality’s total assessed property value. For the most part, the 183 municipalities that host major tax-exempt non-profit institutions are among the municipalities with a reported disproportionate share of tax-exempt property. Approximately forty percent (67 of 183) of the municipalities responsible for hosting public and private colleges and universities and non-profit hospitals, however, are not reported as having a disproportionate share of tax-exempt property, based on county assessment office data. They include five cities (one of which is a rural county seat), 20 boroughs (including a county seat), and 42 townships (including six that host multiple institutions).

**Population:** Pennsylvania municipalities that host major non-profit tax-exempt institutions account for 38 percent of the state’s population. Table 12 shows the U.S. Census Bureau’s population estimates for the host municipalities by type and the population distribution across the host municipalities. As shown in Tables 11 and 12, the cities account for 20 percent of the host municipalities and about two-thirds of host municipality total population. Townships, on the other hand, account for 41 percent of the host municipalities and 26 percent of their population.

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<sup>8</sup>Two (Bedford and Lackawanna) of the 67 county assessment offices did not report data, and the county reported data are not comparable. The operational definition of tax-exempt in the county reported data, for example, are not uniform across the 65 reporting counties. See Chapter I, Introduction for a discussion of county reported assessment data.

<sup>9</sup>In county reported assessment data, “tax-exempt real property” includes tax-exempt non-profit institutions, property held by local, federal and state governments, churches, and in some counties properties with local tax abatements. As discussed in Finding A, governments are primary holders of tax-exempt real property.

Table 12

**2007 Population Estimates for Municipalities Hosting Major Tax-Exempt  
Non-Profit Institutions by Type of Municipality**

<u>Municipality Type</u>	<u>Population Estimate July 1, 2007</u>	<u>Distribution Across Host Municipalities</u>
Cities .....	2,868,239	62.32%
Boroughs and Towns .....	524,164	11.38
Townships .....	<u>1,209,857</u>	<u>26.28</u>
Total .....	4,602,260	100.00%

Source: Developed by LB&FC staff from U.S. Census Bureau data (Pennsylvania—Place and County Subdivision, GCT-T1: 2007 Population Estimates).

With the exception of townships, the host municipalities have not experienced population growth since 2000. From 2000 to 2007, the 183 host municipalities experienced a 2.5 percent decline in their population, at the same time the state as a whole experienced a 1.2 percent population increase. The overall population decline for the host municipalities is due in large part to the decline in the population of host cities.

The cities that host major public and private universities and non-profit acute care hospitals experienced a four percent decline in their population from 2000 to mid-2007. Almost all of the cities hosting such institutions (34 of 37) saw their populations decline. During the same period, the host boroughs had about a two percent decline, while the host townships experienced growth at a rate similar to that for the state as a whole. Sixty percent (45 of 75) of the host townships saw their populations remain the same or increase from 2000 to 2007. This growth in population in the townships may account for the movement of some major non-profit institutions from cities to townships in recent years. As discussed in Finding C, there are other important differences in the host municipalities.

### **C. Most Cities in Fiscal Distress Host Major Non-Profit Tax-Exempt Institutions, Though the Townships That Host Such Institutions Are Not in Distress.**

The Pennsylvania General Assembly established criteria to identify municipalities in severe fiscal distress. Such criteria are set forth in Act 1987-47, as amended, (which currently applies to municipalities other than Philadelphia) and Act 1991-6 (which currently applies to Philadelphia). Based on data provided to LB&FC staff by the Department of Community and Economic Development, such criteria have been met by:

- 11 of the Commonwealth's 56 cities,
- 6 of its 963 boroughs and towns, and
- 1 of its 1,547 townships.

The 183 municipalities hosting major non-profit tax-exempt institutions include:

- 6 of the 11 cities and
- 2 of the 6 boroughs and towns.

In other words, about half (8 of 18) of all municipalities in severe fiscal distress host major tax-exempt non-profit institutions, and four percent (8 of 183) of all municipalities that host such institutions are in severe fiscal distress based on such criteria.

The legislative criteria to identify municipalities with a high level of fiscal distress, however, may understate the number of Pennsylvania municipalities in such distress. The number of municipalities in such fiscal distress, and the extent to which cities, in particular, are in distress is highlighted by the indicator of municipal fiscal distress developed by the Pennsylvania Economy League (PEL).<sup>10</sup> For purposes of our analysis, we classified municipalities as having a high level of *fiscal distress* if on the PEL indicator they have a Z-score equal to or greater than -1.5. In contrast, those with a Z-score equal to or greater than +1.5 are the state municipalities with the best fiscal status.

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<sup>10</sup>Finding A provides a discussion of this indicator. Detailed technical information on the indicator may be found in the PEL report, *Structuring Healthy Communities, Part 1: Revenue Generation and Fiscal Health*, Appendix A. The PEL indicator is a measure of relative fiscal health, and is expressed as a Z-score. A Z-score indicates how many standard deviations an observation (in this case the indices' result for a municipality) is from the mean for the distribution (i.e., the average statewide for all municipalities). A municipality with a Z-score of 2.0 on the PEL indicator means that the municipality performance is 2 standard deviations above the state average for all municipalities. Negative Z-scores identify performance below the state average; and positive Z-scores identify municipalities above the state average.

Using such criteria, over 80 percent (46 of 56) of all Pennsylvania cities have a high level of fiscal distress, compared to 11 percent (110 of 963) of all boroughs and towns and less than one percent (6 of 1,547) of all townships. Cities, moreover, are not found among municipalities with the best fiscal status. Ten percent of the townships (149 of 1,547) and four percent (36 of 963) of the boroughs and towns, however, are among the municipalities with the best fiscal status. Twenty-seven percent (44 of 162) of municipalities with high fiscal distress scores on the PEL indicator host major non-profit tax-exempt institutions; the remainder do not.

As shown in Table 13, cities in high fiscal distress account for over 80 percent (31 of 37) of the cities that host a major tax-exempt non-profit institution. None of the townships that host major non-profits are in the high distress group. Rather, almost 30 percent (21 of 75) of the townships hosting major non-profits are among the municipalities with the best fiscal status in the state.

Table 13

**Municipalities Hosting Major Tax-Exempt Non-Profit Institutions by Fiscal Status**

<u>Municipality Type</u>	<u>Number of Hosting Municipalities</u>	<u>Hosting Municipalities With High Fiscal Distress</u>	<u>Hosting Municipalities With the Best Fiscal Status</u>	<u>Hosting Municipalities With Other Fiscal Status</u>
Cities .....	37	31	0	6
Boroughs and Towns .....	71	13	3	55
Townships .....	<u>75</u>	<u>0</u>	<u>21</u>	<u>54</u>
Total .....	183	44	24	115

Source: Developed by LB&FC staff.

Since more than two-thirds of municipalities in severe fiscal distress (118 of 162) do not host tax-exempt medical and educational institutions, and three-quarters of those municipalities hosting such institutions are not in high fiscal distress (139 of 183), the presence of such institutions is not the cause of the high level of fiscal distress experienced by roughly one-quarter of the host municipalities (44 of 183).<sup>11</sup> Nonetheless, Pennsylvania cities, in particular, which are home to major tax-exempt medical and education institutions experience a high level of fiscal distress. As a consequence, they may not have the fiscal capacity to leverage such institutions to help enhance their economic competitiveness.

Major tax-exempt non-profit institutions are important parts of strategies to promote community and economic revitalization and enhance Pennsylvania’s economic competitiveness, according to the Brookings Institution. In a 2003

<sup>11</sup>An analysis of the underlying causes of municipal fiscal distress and approaches to remedy such causes is outside of the scope of this study.

report,<sup>12</sup> Brookings called for the state to rejuvenate its many distinctive cities, towns and older suburbs and invest in the high quality service industries often located there. Brookings noted:

Pennsylvania's institutions of higher learning and medical facilities are fixed assets that help fuel economic growth in myriad ways. They wield substantial purchasing power. They invest heavily in real estate and infrastructure. They generate significant revenues for their surrounding communities. They employ large—and growing—numbers of people across a range of occupational skill levels, and are essential in helping to spur innovation and business development. . . . The state should work with academic, public, private, and community leaders to evaluate the benefits of these tremendous resources, and find ways they can be fully levered to create jobs, income, and wealth in the state's older areas.<sup>13</sup>

The Brookings Institution in two other reports<sup>14</sup> highlighted the importance of medical and higher education institutions in helping local municipalities. LB&FC staff, therefore, sought to identify if and how major tax-exempt non-profit institutions are contributing to the fiscal health of the host municipalities, in particular, municipalities with a high level of fiscal distress, and to identify options for fiscal and economic assistance.

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<sup>12</sup>The Brookings Institution, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*, 2003.

<sup>13</sup>Ibid, p. 101

<sup>14</sup>The Brookings Institution, *Higher Education in Pennsylvania: A Competitive Asset for Communities*, 2005, and *Eds and Meds: Cities' Hidden Assets*, 1999.

## **D. Tax-Exempt Public and Private Organizations Have Adopted a Variety of Approaches to Help Strengthen the Fiscal Status of Fiscally Distressed Municipalities and Revitalize Their Communities.**

LB&FC staff attempted to identify approaches taken by major tax-exempt institutions and municipalities that host such institutions to reduce or eliminate any possible fiscal burden associated with hosting such tax-exempt institutions. We also spoke with officials from several municipalities with high fiscal distress scores on the PEL indicator who indicated that the absence of property tax revenues from tax-exempt institutions created problems for their operating budgets and contributed to their fiscal distress.

Based on our contacts with major tax-exempt institutions and municipal officials, we identified a variety of approaches that are being used throughout Pennsylvania. In general, such approaches include:

- Provision of public safety services by the tax-exempt institution through its own trained staff or through contracts,
- Payment of realty (and other) taxes on the non-profit institution's property when such property is not used for the institution's public charity mission,<sup>15</sup>
- Payment of fees for all relevant services, including sewer and water, inspection, and other fees,
- Contributions to assist financially distressed municipalities,
- Participation in neighborhood improvement districts, and
- Contributions to community revitalization and other economic development initiatives.

There are, however, differences in the approaches taken in various municipalities and by various institutions. As discussed below, such variation appears due to differences in the municipalities as well as differences in the organizational and fiscal status of the tax-exempt institutions.

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<sup>15</sup>Non-profit institutions do not necessarily qualify as a purely public charity, and thus eligible for property tax-exemption. Act 1997-55 sets forth specific criterion to be met by institutions, including that they advance a charitable purpose. The charitable purpose criterion is met if the institution is organized and operated to relieve poverty; advance the provision of education, including postsecondary education; advance religion; prevent and treat disease or injury, including mental retardation and mental disorders; advance government or municipal purposes; or accomplish a purpose which is recognized as important and beneficial to the public and which advances social, moral or physical objectives. Act 55 also sets forth other criterion to determine if institutions, in particular major non-profits, qualify as purely public charities.

# 1. State-Owned and State-Related Universities

## State-Owned Universities

Pennsylvania has 14 state-owned universities (i.e., the Pennsylvania State System of Higher Education or PASSHE) whose purpose is to provide high quality undergraduate and graduate education at the lowest possible costs to students. The universities' main campuses are located in 20 municipalities,<sup>16</sup> which include four municipalities with high fiscal distress scores on the PEL indicator<sup>17</sup> and four municipalities that fiscally perform significantly better than municipalities state-wide.<sup>18</sup>

The 14 state-owned universities are the largest provider of higher education in the Commonwealth, with an enrollment of over 112,000 students. Nearly 90 percent of its students are Pennsylvania residents, with minority students accounting for about 12 percent of total student enrollment in 2008. The state-owned universities are also the lowest-cost option among all four-year colleges and universities in Pennsylvania. Their average university endowment (approximately \$14 million), moreover, is significantly lower than many private four-year colleges and universities, and those of some state-related institutions. In FY 2008-09, the General Assembly appropriated approximately \$500 million for the 14 state-owned universities.

Pennsylvania's 14-state owned universities are Commonwealth real estate. As such, they cannot be subject to taxation by a political subdivision absent express statutory authority by the Pennsylvania General Assembly,<sup>19</sup> and the General Assembly has not authorized such taxation, nor has it authorized them to make payments in lieu of taxes to local municipalities.

In 1997, however, the PASSHE Board of Governors adopted a policy concerning community relations with communities that host the state-owned universities.<sup>20</sup> The policy encourages the universities to work effectively with host municipalities

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<sup>16</sup>The main campuses of Cheney, Edinboro, Indiana, Slippery Rock, and West Chester Universities are located in more than one municipality.

<sup>17</sup>Clarion Borough, Edinboro Borough, Lock Haven City, and Mansfield Borough.

<sup>18</sup>East Bradford Township, Thornbury Township (Chester County), Thornbury Township (Delaware County), and West Goshen Township.

<sup>19</sup>The Supreme Court of Pennsylvania has opined that real estate owned by the Commonwealth (including independent agencies of the Commonwealth) may not be subjected to taxation by political subdivisions in the absence of express statutory authority.

<sup>20</sup>Policy 1997-02: Community Relations, adopted January 16, 1997.

to accomplish several objectives, including “minimiz[ing] to the extent practicable, the burden of municipal services provided to the university.”<sup>21</sup>

At times, the universities rely on their “non-profit affiliate organizations” to assist in implementing the Board of Governor’s policy. Some of the “affiliates” are non-profit foundations organized exclusively to assist the university to accomplish its public charity mission. Other non-profit affiliates (such as student organizations), however, have been organized for purposes that are not limited to the public charity mission of the university. In some cases, such non-profit affiliates carry out their activities on land owned by the non-profit, not the university.

We found the 14 state-owned universities and their non-profit affiliate organizations attempt to reduce the fiscal burden on host municipalities in several ways. They include, for example:

- provision of police and security services by the university,
- contributions to local volunteer fire companies by the state-owned university and/or its non-profit affiliate,
- total campus maintenance (e.g., roads, trash removal, etc.) by the university,
- payment for services financed through user fees (e.g., sewer, water, etc.) and, if applicable, local fee-based services applicable to all similarly situated properties (e.g., building licenses and permits, registration and inspection of multi-unit housing, and public safety service fees) by the university and/or its non-profit affiliates,
- payment of realty taxes by non-profit affiliates on property owned by the affiliate and not used for the educational or scientific mission of the educational institution,
- payments in lieu of taxes and services by certain affiliates of the state-owned university typically for off campus student housing, and
- other municipal contributions by the university and/or its non-profit affiliate.

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<sup>21</sup>Other objectives include: promoting economic and community development through cooperative planning and consultant support, where possible; consulting with host community representatives, particularly in areas that may result in infrastructure impact (e.g., water, sewer, telephone, power, storm sewers, streets, conference centers, libraries, etc.); communicating with officials regarding university decision-making, council of trustees’ agenda, public events, student programs, etc.; continuing and expanding student community service projects; providing expertise in areas such as obtaining infrastructure grants from federal and state sources; reviewing and where necessary, developing student life and off-campus housing policies that reflect the mutual interest of the host communities and the university; and reviewing and, where appropriate, changing, modifying, and/or developing new policies regarding off-campus student issues.

**Police and Security.** As shown in Exhibit 1, all 14 state-owned universities employ their own police and security forces.<sup>22</sup> Of the 20 municipalities that host the main campus of state-owned universities, five rely on the Pennsylvania State Police for public safety services, according to Pennsylvania State Police data. Eight of the 12 municipalities<sup>23</sup> with their own police forces employ fewer full time police than the universities themselves, and one employs the same number. Only Lock Haven City, West Chester Borough, and West Goshen Township employ more full time police than the state-owned university, based on Department of Community and Economic Development municipal police force data.

**Fire Services.** Fire services are provided by volunteer firefighters in all of the host municipalities. Twelve of the 14 state-owned universities make annual contributions to their volunteer firefighters, including four that have also made contributions for capital projects (such as purchase of new equipment or construction of volunteer fire headquarters). In one case, the university specifies that its annual payment of approximately \$40,000 support the services of a volunteer fire department building inspector. In addition to the contributions to volunteer fire departments by the universities themselves, the non-profit affiliates of at least two state-owned universities also provide annual contributions to local volunteer fire and ambulance services. Cheney and West Chester are the only two state-owned universities that did not report making regular contributions to their local fire services in 2008.<sup>24</sup>

**Use and Service Fees:** Most public services such as water, sewer, waste removal, etc., are provided on a fee basis. In Pennsylvania, such municipal services are often provided by public authorities rather than municipal general purpose governments. When municipal governments provide such services, however, they typically provide them on a fee basis, and such fees apply to all users without regard to realty tax status. As such, universities and their non-profit affiliates pay all user fees to the relevant public entity.

Some general purpose municipalities, moreover, have adopted various service fees specific to multi-family housing that can apply to colleges and universities.

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<sup>22</sup>Act 1982-188 provided for the establishment of the State System of Higher Education and its institutions and provided for campus police. The Act, as amended by Act 2003-48, provides for such police to exercise the same powers (including the power to prevent crime, investigate criminal acts, apprehend, arrest and charge criminal offenders and issue summary citations) on the campus grounds as police of the municipalities where the university is located.

<sup>23</sup>The 12 include: Bloomsburg, California, Clarion, Edinboro, Indiana, Kutztown, Lock Haven, Mansfield, Millersville, Slippery Rock Borough, West Chester, and West Goshen.

<sup>24</sup>Prior to 2005, West Chester University made voluntary contributions to three volunteer fire companies and one volunteer ambulance company.

Exhibit 1

**Size of State-Owned University Police and Security Force by University and Municipality**

State-Owned University	Size of University Police and Campus Security	Main Campus Host Municipality(ies)
Bloomsburg	20	Bloomsburg—has own municipal police force
California	13	California—has own municipal police force
Cheney	14	Thornbury Township—Chester County—part of regional police force Thornbury Township—Delaware County—relies on PA State Police
Clarion	11	Clarion Borough—has own municipal police force
East Stroudsburg	18	East Stroudsburg Borough—part of regional police force
Edinboro	13	Edinboro Borough—has own municipal police force Washington Township—relies on PA State Police
Indiana	21	Indiana Borough—has own municipal police force White Township—relies of PA State Police
Kutztown	16	Kutztown Borough—has own municipal police force
Lock Haven	10	Lock Haven City—has own municipal police force
Mansfield	11	Mansfield Borough—has own municipal police force
Millersville	15	Millersville Borough—has own municipal police force
Shippensburg	17	Shippensburg Township—relies on PA State Police
Slippery Rock	20	Slippery Rock Borough—has own municipal police Slippery Rock Township—relies on PA State Police
West Chester	20	West Chester Borough—has own municipal police force West Goshen Township—has own municipal police force East Bradford Township—contracts with another municipality.

Source: Developed by LB&FC staff from Pennsylvania State Police and Department of Community and Economic Development data and information provided by the state-owned universities.

Some, for example, charge fees for inspection of multi-housing units.<sup>25</sup> At least four<sup>26</sup> of the 14 state-owned universities and/or their non-profit affiliates report paying such fees for university-sponsored student housing. When doing so, the university or its affiliated non-profit pays the same fee as other property landlords in the municipality.

In recent years, several of the universities and their non-profit affiliates have been involved in major building renovation and construction programs. Such programs involve securing and payment of permit and inspection fees, which can be substantial. A West Chester University non-profit affiliate, for example, recently paid \$1 million to the borough for such a permit.

***Payment of Realty Taxes:*** Many major non-profit institutions pay realty taxes because not all real property held by a non-profit is exempt from such taxation. Real property held by a non-profit affiliate of a state-owned university that is not used for purposes related to the university's charitable, scientific, and educational mission, for example, may be subject to real property taxes.<sup>27</sup>

At least seven of the 14 state-owned universities have non-profit affiliates (or the non-profit's subsidiary) that make full payment of property taxes on certain properties they hold. Typically, such taxes are paid for faculty rental housing or other commercial rentals. In one case,<sup>28</sup> however, such payments are made for off-campus student housing provided through a subsidiary of a student organization. Such student housing is not owned by the university's foundation, not managed by the university, and not operated under university policies. Rather, the student organization subsidiary manages the off-campus housing under its own policies. Its residences, moreover, are not limited exclusively to students of the state-related university, and public safety services (such as policing services) are the responsibility of the municipality rather than the university.

***Payments in Lieu of Taxes (PILOTS):*** None of the state-owned universities make PILOT payments for Commonwealth-owned land or buildings, including

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<sup>25</sup>Other examples of service fees include fees for certain fire services (e.g. permits for fire alarm systems, charges for responses to more than a certain number of false alarms). The City of Pittsburgh also has in place an ordinance that provides for monitoring of citations for drug dealing, loose animals, fire alarms, other complaints, etc., for rental and owner-occupied housing. After three such problems occur at a property within two months the property may be classified as a disruptive property and the city can require a plan of correction from the property owner. If within the following six months subsequent disruptive activity occurs, the property owner can be assessed all costs incurred by the city in providing public safety service response.

<sup>26</sup>Bloomsburg, California, Indiana, and Millersville.

<sup>27</sup>Complex federal and state rules govern determinations of tax-exempt status, and exemption from real property taxes. A comprehensive review of such criteria is outside the scope of this study. We have, however, provided within the report some typical examples of possible taxable property held by non-profit tax-exempt organizations based on our review of such criteria and actual practice in many areas of the state.

<sup>28</sup>A Millersville University's non-profit affiliate, Student Services Corporation, operates off-campus student housing through its subsidiary, Student Lodging Inc. The subsidiary pays realty taxes for such off campus student housing, which it controls.

residences for student housing. Some municipalities that host state-owned universities, however, receive PILOTS from their non-profit affiliates. Typically, such affiliates are providing university student housing in housing constructed by the non-profit affiliate through tax-exempt bond financing. Two of the 20 host municipalities (Bloomsburg and California) receive payments under PILOT agreements from student affiliate organizations for off-campus student housing, and in the case of California, for certain on-campus student housing for housing constructed by the student affiliate on land leased from the Commonwealth. The two municipalities participating in these PILOTS are responsible for providing police services for the off-campus student housing. A third municipality (Clarion) receives PILOT payments from a university foundation for off-campus student housing with the foundation paying the university a fee for security to be provided by university police.<sup>29</sup>

One additional host municipality (Indiana) receives payments under a PILOT agreement from a university foundation for on-campus student housing on land leased to the foundation by the university. Such housing is managed by the university on behalf of its foundation under policies approved by the university.<sup>30</sup>

Recently, one of the foundations advised the local municipality that it would not be making PILOT payments for new student housing it was constructing on land leased from the university based on a 2007 Commonwealth Court decision. The 2007 decision involved certain real property of the Lock Haven University Foundation, which provides off-campus student housing for students of the university. In the decision, the Commonwealth Court concluded the foundation was an institution of purely public charity and entitled to a property tax-exemption on the student housing complex. The Court further concluded that the five part purely public charity test set forth in Act 55 applies at the institutional level, and not the parcel level.

Each of the above PILOT agreements is a multi-year agreement and includes the local municipality, county, and relevant school district(s). Typically, school districts receive the largest share of funds (about two-thirds) under such agreements.

**Other Contributions:** At least, four of the 14 universities' non-profit affiliates have paid one-time impact fees or made other financial contributions to their local municipalities. One university affiliate paid a one-time impact fee to the county, municipality and school district totaling \$150,000 for construction of student housing on land owned by the university. A second paid over \$250,000 to a host municipality in high fiscal distress. Following a county challenge to the affiliate's tax-exempt status, the affiliate stopped making contributions to the financially

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<sup>29</sup>One of the foundation's PILOTS includes payments for an off-campus center providing K-12 educational services.

<sup>30</sup>In addition, two municipalities (Oil City and Punxsutawney), which do not host main campuses, receive payments under PILOT agreements.

distressed municipality. The university, however, continues to make various contributions to local economic development organizations that work to benefit the distressed municipality. A third and fourth affiliate are making substantial contributions for neighborhood revitalization projects.

Indiana University's non-profit affiliate, for example, as part of the campus residential master plan, is contributing \$500,000 for "Renaissance Indiana." In partnership with Downtown Indiana, Indiana Borough, Indiana County, and several other community partners, "Renaissance Indiana" will provide a variety of downtown improvements, including storm drainage improvements, underground conduits for electric, telephone and internet; historic street lighting; traffic signalization with historic-style poles; sidewalks and crosswalks; pedestrian access ramps; street milling, resurfacing, and traffic signage; and street furnishings and trash receptacles. Such community revitalization projects directly assist local municipalities. They also support economic development in the municipality as the appearance of a community is crucial to its economic development.

State-owned universities are also involved in several important state economic development initiatives. Five (Clarion, Indiana, Kutztown, Lock Haven, and Shippensburg) of the 14 state-owned universities, for example, are Pennsylvania Small Business Development Centers. Such centers receive state funding to work with local entrepreneurs and small businesses to help them compete and grow. They provide one-on-one business management consulting, information and education to assist small firms to compete in domestic and international markets.

The state-owned universities also participate (along with state-related and private educational and medical institutions) in Commonwealth initiatives to promote economic development through strategies recommended by the Bookings Institute that maximize the involvement of the state's medical and higher educational institutions.<sup>31</sup> Bloomsburg, California, Clarion, East Stroudsburg, Edinboro, Indiana, Kutztown, Shippensburg, and West Chester Universities participate in one such Commonwealth initiative—the Keystone Innovation Zones (KIZ). The KIZ initiative provides grant funds to community and university partnerships to generate job growth through technology transfer and entrepreneurship. They also provide KIZ Tax Credits to eligible industries within such zones. East Stroudsburg's Business Accelerator, moreover, is an affiliate of the University City Science Center's Port of Technology and Ben Franklin Technology Partners. (Finding F provides additional information on Keystone Innovation Zones. Additional information on Philadelphia's University City District is provided later in this finding.)

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<sup>31</sup>The Brookings Institute, *Eds and Meds: Cities' Hidden Assets, 1999, and Higher Education in Pennsylvania: A Competitive Asset for Communities*, 2005.

**Economic Impact:** The 14 state-owned universities have a significant community economic impact. In 2004, the total estimated economic impact of PASSHE spending upon the Commonwealth was over \$4 billion, or about 1 percent of the state's Gross State Product. Table 14 provides the total, direct, and indirect economic impact for each of the 14 state-owned universities.

Table 14

**Total, Direct, and Indirect Economic Impact for the  
Fourteen State-Owned Universities**

University	Total Economic Impact of PASSHE Institutions	Direct Economic Impact of a PASSHE Institution	Indirect Economic Impact of PASSHE Institutions
Bloomsburg	\$357,361,111	\$148,504,451	\$208,856,660
California	267,503,050	111,163,169	156,339,881
Cheney	102,322,515	42,520,992	59,801,523
Clarion	287,930,626	119,652,022	168,278,604
East Stroudsburg	273,528,114	113,666,936	159,861,179
Edinboro	336,680,817	139,910,579	196,770,238
Indiana	563,788,783	234,287,227	329,501,556
Kutztown	364,973,692	151,667,924	213,305,768
Lock Haven	203,284,664	84,476,672	118,807,992
Mansfield	133,399,285	55,435,208	77,964,077
Millersville	388,697,791	161,526,675	227,171,116
Shippensburg	285,608,291	118,686,956	166,921,335
Slippery Rock	309,559,712	128,640,173	180,919,539
West Chester	509,373,880	211,674,651	297,699,229

Source: *The Pennsylvania State System for Higher Education: Economic Impact on the Commonwealth of Pennsylvania, Full Report, 2006.*

## State-Related Universities

The General Assembly has conferred state-related status on four institutions of higher education, and as such they are “instrumentalities of the Commonwealth.” While the Commonwealth of Pennsylvania does not directly control the governing boards of the state-related universities, in many instances, their land or property is actually owned by the Commonwealth rather than the university itself. The four institutions (and the year in which state-related status was conferred) are:

- Pennsylvania State University (1855),
- Temple University (1965),
- University of Pittsburgh (1966), and
- Lincoln University (1972).

Nine municipalities host the main campuses of the four state-related universities,<sup>32</sup> including six municipalities that host the Pennsylvania State University main campus. Only two (Philadelphia and Pittsburgh) of the nine municipalities that host the state-related universities are in high fiscal distress relative to municipalities statewide.

In FY 2008-09, the General Assembly appropriated over \$600 million for education for the four state-related institutions. The Pennsylvania State University received the largest share of the education appropriation (over 40 percent) and Lincoln University the smallest (about three percent).

Only two of the four state-related universities—Pennsylvania State University and the University of Pittsburgh—had relatively large (i.e., greater than \$250 million) endowments, based on data that predate the 2008 financial crisis. Only one private university—the University of Pennsylvania—had a higher endowment than Penn State and the University of Pittsburgh.<sup>33</sup>

In view of the size of their endowments, we attempted to identify how the Pennsylvania State University and the University of Pittsburgh assist their host municipalities. As described below, we found that these two state-related institutions differ from most of Pennsylvania’s public and private colleges and universities in a variety of ways that go beyond the size of their endowments, and that they assist their host municipalities and regions in a variety of ways. They, moreover, have also taken on major roles investing in state and regional economic development initiatives.

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<sup>32</sup>Brenner Township, College Township, Ferguson Township, Lower Oxford Township, Patton Township, Philadelphia, Pittsburgh, Potter Township, State College Borough.

<sup>33</sup>Only 14 of Pennsylvania’s 72 private four year colleges and universities had endowments equal to or greater than \$250 million, based on data that predate the 2008 financial crisis.

**The Pennsylvania State University—University Park:** The Pennsylvania State University differs from all other public and private colleges and universities in Pennsylvania in that it is the state’s Land Grant University.<sup>34</sup> As such, it holds a distinct tax-exempt status under the federal Internal Revenue Code that differs from a private non-profit organization, such as a 501(c)(3), or a private foundation.

With 24 campuses throughout the state and a total enrollment of approximately 90,000 students, Penn State ranks among the ten largest public universities in the United States, and has one of the ten largest engineering schools in the nation. It differs from most other colleges and universities in Pennsylvania in that it is a major academic research center, ranking among the top ten public universities in the United States in research expenditures.

Penn State also differs from other Pennsylvania public and private colleges in that it participates in the Big Ten Conference and has one of the most successful overall athletic programs in the nation. Best known for its football team, its football stadium has the largest seating capacity of any college football stadium in the nation. (Reportedly, during Penn State home football games State College becomes the third most populous city in the state.)

About half of the University’s 90,000 students are enrolled at its main University Park campus. Of those enrolled at its main campus, about 75 percent are Pennsylvania residents. Because of the number of students and size of its main campus “footprint,” Penn State assists its six main campus host municipalities in a variety of ways.

**Police and Security:** Penn State University Police provide protection and services 24 hours a day, 365 days a year and employs:

- 47 police officers,
- 5 security officers,
- 5 police dispatch officers,
- 4 assistant police service officers, and
- 150 student auxiliary officers responsible for vehicle and crowd control during special events, security services, parking enforcement, and residence hall security patrols.

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<sup>34</sup>Land-grant universities are institutions of higher education designated by each state to receive the benefits of the federal Morrill Acts of 1892 and 1890. Under the initial federal legislation, eligible states received 30,000 acres of federal land for each member of Congress to establish and fund educational institutions to teach agriculture and mechanical arts as well as other scientific and classical studies. Subsequent federal legislation provided for cooperative extension programs. Farmers’ High School of Pennsylvania, later known as Penn State University, was the second land-grant university in the United-States created under the federal legislation.

Under state law, the University's police officers have the same authority as municipal police officers and are authorized to carry firearms and empowered to make arrests. All criminal incidents on campus or University property are reported to the University Police, and criminal incidents are investigated by University Police at University Park. The University Police maintain cooperative agreements with the State College Borough Police<sup>35</sup> and the Pennsylvania State Police, which is involved in providing police services in other municipalities that host the University's main campus.

**Fire and Other Emergency Services:**<sup>36</sup> The University's six host municipalities rely totally on volunteer fire companies to provide fire services. Fire services for the University's main campus are provided by one of the largest volunteer fire companies in the state. The University's staff and students comprise about half of the volunteers for the regional volunteer fire company. In addition, the University provides financial support for the all volunteer regional fire company, and its personnel policies provide the ability for University employees who are members of the volunteer force to respond to fire calls.

Penn State also serves as the county-required Pennsylvania Emergency Management Agency-certified HazMat Response Team for all of Centre County. Its HazMat Team members are dispatched by the county, and have been trained and certified to safely and properly clean up spills and releases of extremely toxic materials (i.e., radioactive materials, chemical hazards and biological agents). Penn State, moreover, owns University Park Airport, which serves State College and Bellefonte; and its employees provide airport crash fire rescue services. Such services are also made available to the community during emergencies such as major accidents on Interstate 80.

**Licensed Ambulance Service:** Penn State University operates University Ambulance Services (UAS), the oldest and largest collegiate ambulance services in the United States. UAS is licensed by the Pennsylvania Department of Health and operates 24/7. In addition to its ongoing emergency medical services provision, it provides nurses, doctors, paramedics, and additional emergency medical technicians under the command of an emergency medical physician from the Penn State Hershey Medical Center during special events at the main campus.

**Use and Service Fees:** Penn State University owns and operates its own water system. It also owns and operates a sanitary system, and provides wastewater treatment services for the Borough of State College on a fee basis. Parts of the

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<sup>35</sup>State College Borough employs 63 full time municipal police, according to Department of Community and Economic Development data.

<sup>36</sup>The University itself has many fire safety programs, including sprinkler systems throughout most of its buildings.

campus utilize a local sanitary system, and the University reimburses the local authority on a fee basis for its services.

**Payment of Realty Taxes:** Penn State University is an instrumentality of the Commonwealth and not subject to federal or state taxes. It is also not subject to local realty taxes for activities related to its instructional, research and public service mission. The University, however, makes what it terms “payments in lieu of property taxes,” which are equivalent to 100 percent of “property taxes” to local governments for certain properties that are not used for its public education and research mission. Such payments occur when the University leases its public land to third parties for commercial uses. Under terms of such leases, the University collects and provides to the relevant local governments the full amount of property taxes associated with the commercial activity. Such payments are made to four<sup>37</sup> municipalities and to the county. Under a separate agreement, the University also makes similar payments to the local school district for “family oriented residential dwelling units and residential structures” that it owns.

**Other Contributions:** Penn State University pays what it terms “impact fees” to the six municipalities that host its main campus. In addition, the University provides services that it makes available to the public on a fee basis to the county on an in-kind service basis up to an annually specified amount.

The impact fees are related to student-focused and non-student activities. In one instance, the impact fee is paid to the municipality that is the site of the University owned airport.<sup>38</sup> This impact fee provides the township with a share of the University’s gross revenue from the operation of the airport, and pays for the township’s share of fire protection costs to two local volunteer fire departments.

In a second instance, the impact fee is associated with an important regional economic development initiative in which Penn State participates. This fee is paid to the municipality for law enforcement services, road, street, and highway services associated with a 118 acre research park, which is adjacent to the University. Known as Innovation Park, the research park includes a Technology Center, which houses a business incubator, Penn State’s Research and Technology Transfer Organization, and Penn State’s Industrial Research Office. Such Penn State organizations help provide entrepreneurs with consultation, public and private funding access, commercialization of technology, intellectual property services (e.g., patent and licensing assistance), business strategic planning assistance, and collaborative research opportunities. Through Innovation Park a close working relationship between the business community is fostered that allows University scholarly work to

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<sup>37</sup>The four municipalities are State College Borough, Ferguson Township, Patton Township, and Harris Township. A fifth municipality (Brenner Township) receives payments that substitute for local taxes other than property taxes.

<sup>38</sup>The airport terminal building and parking areas are owned and operated by the Centre County Airport Authority.

be put to public and commercial use. The research park also houses several high tech firms which have leased land from Penn State and pay realty taxes on the buildings the firms have constructed, according to the Centre County assessment office.

The Pennsylvania State University emphasizes that it does not charge students a service fee to finance any of its impact fee payments and in-kind services for local governments.<sup>39</sup> Rather, such payments are derived from a charge on gross revenues from its auxiliary operations<sup>40</sup> and a fee included in the ticket price for all athletic and theatre events, including tickets to Penn State football.

In addition to such payments, the University has donated or leased land to local governments and community groups for community services, including medical, transport, cultural, and recreational services. It makes its facilities available to local residents. Further, it has constructed stadiums and arenas, with their accompanying economic benefits, without the use of any local tax revenues.

**Neighborhood Improvement District:** State law authorizes the establishment of neighborhood improvement districts to enable property owners in neighborhoods to provide services to their neighborhoods that supplement municipal services otherwise provided.<sup>41</sup> The Borough of State College has authorized the establishment of such a district.

The Downtown State College Improvement District is a non-profit corporation formed to promote, preserve and extend the safety, image and economic development of downtown State College through additional cleaning and security services and various marketing activities. It is supported by assessment fees on commercial and residential property holders, but not tax-exempt properties. As a non-profit organization, however, it can receive grants and contributions from public and private organizations, and Penn State provides such grants to the District along with technical support.

**Economic Impact:** A 2004 economic impact study noted that Penn State's entire system (including Hershey Medical Center) would have an estimated annual direct economic impact of \$7.4 billion statewide in 2008, and an indirect impact of an additional \$8 billion. For University Park the study reported a \$3.325 billion direct and indirect economic impact in 2003.<sup>42</sup> The total employment impact of Penn

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<sup>39</sup>Penn State is a state-related and not a state-owned institution. With respect to state-owned institutions, Act 1982-188 specifies the types of rental fees and other student charges that can be fixed, and processes related to their approval. It does not authorize state-owned institutions to charge students of state-owned institutions municipal service/impact fees.

<sup>40</sup>The University's auxiliary services include, for example, the Nittany Lion Inn, which is operated by the University as part of its student training programs.

<sup>41</sup>Act 2000-130, the Neighborhood Improvement District Act.

<sup>42</sup>Tripp Umbach & Associates, *The Pennsylvania State University Economic Impact Statement 2003, Executive Report*, October 2004.

State University Park, moreover, was over 30,000 jobs, including over 14,000 direct impact jobs.

**University of Pittsburgh—Pittsburgh Campus:** The University of Pittsburgh is one of the oldest universities in the United States, and along with Berkeley, UCLA, and the Universities of Illinois, Michigan, North Carolina, and Wisconsin is in the top cluster of U.S. public research universities. Well known for its work in the development of the first Polio vaccine, it is among the top 10 schools in the nation for receipt of National Institute of Health research grants for biomedical and health science research.

In 2008, the University had over 30,000 full time equivalent students at its main campus and four regional campuses, with about 25,000 enrolled at the main campus in the City of Pittsburgh. Approximately 70 percent of the students enrolled at the Pittsburgh campus are Pennsylvania residents.

The University's main campus is a 132-acre urban campus located in the Oakland section of the City of Pittsburgh. The University of Pittsburgh assists the City of Pittsburgh in a variety of ways.

**Police and Security:** Since the 1950s, the University of Pittsburgh has operated its own police and security force—now the third-largest law enforcement agency in Allegheny County—with its systems fully integrated into the City of Pittsburgh and Allegheny County's 911 system. The University's police department is housed in a new Public Safety Building near the Forbes Ave gateway to Oakland.<sup>43</sup> As a result, it provides a visible police presence for visitors entering Oakland from Forbes Ave.

The University's police department consists of 80 uniformed police officers, including a Special Emergency Response Team equipped to respond immediately to life-threatening events. University police perform many public safety services, including, for example, alarm monitoring, patrol services, bike patrols, crowd control, emergency medical services, event security, and crime investigations. Because it is an urban university with buildings dispersed throughout Oakland, and the number of municipal police precincts in the Oakland have been reduced, the University of Pittsburgh's police are involved in providing security for "all of Oakland" in cooperation with the City of Pittsburgh.

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<sup>43</sup>The building also houses the University's Department of Environmental Health and Safety. This Department is responsible for a variety of health and safety programs to ensure worker safety, environmental protection, and compliance with relevant regulations. It conducts fire drills and emergency preparedness exercises, indoor air-quality assessments, hazardous materials training, and fire protection systems review. It also provides training, reviews all laboratory designs and renovations, and annually inspects more than 1,700 University labs. The Department also oversees and manages the handling and disposal of the University's biological and chemical waste.

Annually, the University expends \$7 million for police services; with over 40 percent of its police calls unrelated to University students, according to University officials with whom we spoke. The City of Pittsburgh would need to increase its police force by about 10 percent to replace the University's current uniformed force.

**Fire Services:** The University receives fire services from the City of Pittsburgh. It pays the City for all fire services the City provides on a fee basis. Such services include permits for alarms and charges for responses after a certain number of alarms.

**Use and Service Fees:** The University pays municipal authorities for all municipal services that are provided on a fee basis, and pays all City building and inspection fees. It also plows all streets on its property along with the adjacent city streets, according to University officials.

**Payment of Realty Taxes:** The University pays realty taxes on all property that it owns that is not used for its primary educational, research, and service mission.<sup>44</sup> In 2007, for example, the University paid almost \$700,000 in real property taxes to the county, city, and school district for such University-owned property.

**Payment in Lieu of Taxes:** The University does not make payments in lieu of taxes to the county, city, and school district. As discussed below, however, it makes other types of contributions.

**Other Contributions:** The University of Pittsburgh is a major participant in the Pittsburgh Public Service Fund (PPSF). PPSF was established after the City's Act 47 coordinator requested the non-profit community to provide financial assistance when the City was designated as an Act 47 fiscally distressed municipality.<sup>45</sup>

In response to the Act 47 coordinator's request, the Fund was formed with more than 100 participants<sup>46</sup> pledging about \$14 million to the City over a three-year period (2005 through 2007). Contributions to the Fund are voluntary, amounts vary among participants, and contributions are not a matter of public

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<sup>44</sup>It should be noted that some University property is actually Commonwealth-held property or on land owned by the Commonwealth itself.

<sup>45</sup>Act 1997-55 provided for institutions of purely public charity, upon mutual agreement with a political subdivision, to establish a "public service foundation" to receive contributions from such institutions and to make distributions or grants to the participating political subdivisions to ensure essential government and community services will continue to be provided in a manner that will permit a purely public charity to fulfill its mission.

<sup>46</sup>Some of the Fund's participants are small community and religious organizations. In addition to the University of Pittsburgh, other major non-profits participating in the Fund include, for example, Carnegie Mellon University, Highmark Blue Cross/Blue Shield, UPMC, and the West Penn Allegheny Health System. UPMC is the largest contributor to the Fund. In 1997, UPMC purely public charity organizations made \$1.4 million in PI-LOT payments to the City of Pittsburgh according to data reported by the City comptroller. While contributions to the Fund are confidential, the Pittsburgh Post Gazette in 2007 obtained data showing UPMC annually contributed \$1.5 million to the Fund.

record. Newspaper accounts report the University is one of the largest contributors to the Fund, and report contributions of at least \$800,000 annually.<sup>47</sup>

The University also assists the City and region through its investment in major economic development initiatives in the region. The University, for example, participates in two Keystone Opportunity Zones:

- The Pittsburgh Technology Center and
- The Greater Oakland Keystone Innovation Zone.

The Pittsburgh Technology Center is now a 48-acre office park formed to advance academic and corporate technology research and located on what was once a major “brownfield”—a former Jones and Laughlin steel mill in the middle of the City of Pittsburgh. The University participates in this major public/private venture locating its Center for Biotechnology and Bioengineering at the Center.

The Greater Oakland Keystone Innovation Zone is a collaboration of the Urban Redevelopment Authority of Pittsburgh, the Allegheny County Department of Economic Development, various state-sponsored economic development organizations, and other non-profit and business organizations. It was developed to increase technology company formation, location and growth through better leveraging of the assets of the University of Pittsburgh, Carnegie Mellon, and the University of Pittsburgh Medical Center. The collaboration focuses on provision of space for high tech start ups and research centers to assist with the creation of industries in the City of Pittsburgh, and provide opportunity for employment for students that have been trained at the universities.<sup>48</sup>

In the 1990s, prior to the General Assembly’s passage of the Neighborhood Improvement District Act in 2000 (see the discussion above), the City of Pittsburgh

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<sup>47</sup>Following the creation of the Pittsburgh Public Service Fund, the City of Pittsburgh and the Pittsburgh Public Schools created “Pittsburgh Promise” in 2006. The Promise, which provides scholarships to students who graduate from city high schools, had been funded primarily by the University of Pittsburgh Medical Center, which provided \$10 million and offered a \$90 million challenge grant. In response to the challenge grant, many Pittsburgh institutions and foundations have pledged support to Pittsburgh Promise. Technically, the Pittsburgh Public Service Fund’s initial agreement with the City ended in 2008; however, in 2008, the Fund worked with the City to develop a new agreement. As of early 2009, a new agreement (providing contributions for 2008) had been developed but not signed. All of the larger institutions continue to participate in the Pittsburgh Public Service Fund, though some have thus far committed to one year, while others have committed to three, according to Fund representatives with whom we spoke. A UPMC spokesperson has stated UPMC would contribute to the Fund, for 2008 and 2009, and that there has been no decision to withdraw from participating in the Fund.

<sup>48</sup>Act 1997-55 prohibits purely public charities to fund, capitalize, guarantee the indebtedness of, lease obligations of or subsidize a commercial business that is unrelated to the institution’s charitable purpose as stated in the institution’s charter or governing legal documents. The Act, however, provides an exception for such enterprise activity if the institution is requested to become involved in such activities by the Commonwealth or a political subdivision. The federal Internal Revenue Service, moreover, considers 501(c)(3) non-profit organization participation in community building activities, such as community revitalization activities and participation in local community economic development, as community benefits that meet the standards to qualify as a tax-exempt 501(c)(3).

authorized the formation of the Oakland Business Improvement District under provisions of the Municipal Authorities Act.<sup>49</sup> The University is one of several non-profits<sup>50</sup> that participate and contribute to the operation of the District, which works to make the district safe, clean, attractive and accessible.

The University also participates in the Oakland Task Force, which was initially formed at the request of the City of Pittsburgh. The Task Force is a partnership of Oakland institutions, businesses, community groups, public agencies, and the City focused on improving Oakland. The Task Force has undertaken many projects. One recent example includes the Task Force's involvement with the City, the University, the Pennsylvania Department of Transportation and others to reconstruct 11 intersections on Forbes and Fifth Avenue with new street lighting, traffic signals, and pavement improvements to improve pedestrian safety in a high traffic volume corridor. The University committed \$250,000 and provided in-kind construction management to support the Hometown Street Project component of the project.

**Economic Impact:** In 2005, local economy expenditures by the University and its related organizations totaled more than \$1.5 billion (i.e., \$944 million in direct purchases of goods and services in the local economy and \$566 million in induced expenditures). In 2005, local government revenues from sales, wage and real estate taxes attributed to the presence of the University were \$117.4 million. This number increased to \$137.8 million in 2007. In addition, the University supported over 32,000 jobs in Allegheny County, including over 11,000 full and part time faculty and staff at its Pittsburgh campus.

## 2. Non-Profit General Acute Care Hospitals and Private Four-Year Colleges and Universities

The Commonwealth is the home to many nationally recognized non-profit medical and educational institutions. In recent years, some of these institutions have been financially secure. All Commonwealth medical and educational institutions, however, are not in such a position (as shown in Exhibits 2 and 3).

- Fewer than one-quarter of the municipalities that host non-profit acute care hospitals host institutions with operating margins<sup>51</sup> at or above the statewide margin (+ 3.99 percent in FY 2005-06), and

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<sup>49</sup>Act 1945-164.

<sup>50</sup>Carnegie Mellon University and the University of Pittsburgh Medical Center are also participants.

<sup>51</sup>A hospital's operating margin is the ratio of its patient care expenses to its patient care revenues. Hospitals rely on their margins to replace equipment, renovate and replace outdated facilities, purchase state-of-the-art equipment, invest in teaching and research, support community health care programs, and provide free care and care to low-income and uninsured patients. Hospital operating margins are useful tools in considering hospital financial health, though they are not necessarily adequate for making definitive judgments about a hospital's financial health. Nonetheless, health care experts concur that reasonable hospital margins are required to ensure a hospital's continued viability. Within the hospital industry a reasonable margin is generally thought to be at least four percent.

Exhibit 2

**Municipalities by Fiscal Distress Score and  
Nonprofit Acute Care Hospital Operating Margins**

<b>Municipalities by PEL Fiscal Distress Score</b>	<b>Municipality With a Hospital With an Operating Margin at or Above the 2005-06 Average Margin Statewide</b>	<b>Municipality With a Hospital With an Operating Margin Below the 2005-06 Average Margin Statewide</b>	<b>Municipality With Hospitals With Mixed Operating Margins</b>	<b>Municipality With a Hospital With an Unknown Operating Margin</b>
Z-Score greater than or equal to minus 1.5	<ol style="list-style-type: none"> <li>1. Lancaster</li> <li>2. York</li> </ol>	<ol style="list-style-type: none"> <li>1. Allentown</li> <li>2. Altoona</li> <li>3. Braddock Borough</li> <li>4. Bradford</li> <li>5. Coaldale Borough</li> <li>6. Connellsville</li> <li>7. Corry</li> <li>8. Darby Borough</li> <li>9. Greensburg</li> <li>10. Greenville Borough</li> <li>11. Harrisburg</li> <li>12. Jeannette</li> <li>13. Johnstown</li> <li>14. Kane</li> <li>15. Lebanon</li> <li>16. McKeesport</li> <li>17. Meadville</li> <li>18. New Castle</li> <li>19. Norristown Borough</li> <li>20. Scranton</li> <li>21. Sharon</li> <li>22. South Renovo Borough</li> <li>23. Susquehanna Borough</li> <li>24. Titusville</li> <li>25. Uniontown</li> <li>26. Warren</li> <li>27. Washington</li> <li>28. Wilkes-Barre</li> <li>29. Williamsport<sup>a</sup></li> </ol>	<ol style="list-style-type: none"> <li>1. Erie</li> <li>2. Philadelphia</li> <li>3. Pittsburgh</li> </ol>	<ol style="list-style-type: none"> <li>1. Bellevue Borough</li> </ol>

**Exhibit 2 (Continued)**

Municipalities by PEL Fiscal Distress Score	Municipality With a Hospital With an Operating Margin at or Above the 2005-06 Average Margin Statewide	Municipality With a Hospital With an Operating Margin Below the 2005-06 Average Margin Statewide	Municipality With Hospitals With Mixed Operating Margins	Municipality With a Hospital With an Unknown Operating Margin
Z-Score from minus 1.499 to plus 1.499	<ol style="list-style-type: none"> <li>1. Bern Township</li> <li>2. Bethlehem</li> <li>3. Butler Township</li> <li>4. Chambersburg Borough</li> <li>5. Coal Township</li> <li>6. Dubois</li> <li>7. East Norriton Township</li> <li>8. Ephrata Borough</li> <li>9. Falls Township</li> <li>10. Gettysburg Borough</li> <li>11. Harrison Township</li> <li>12. Mahoning Township</li> <li>13. Muncy Creek Township</li> <li>14. Monroeville Borough</li> <li>15. Ross Township</li> <li>16. Salisbury Township</li> <li>17. Sayre Borough</li> <li>18. Snake Spring Township</li> <li>19. Todd Township</li> <li>20. Troy Borough</li> <li>21. Waynesboro Borough</li> </ol>	<ol style="list-style-type: none"> <li>1. Blakely Borough</li> <li>2. Bloomsburg</li> <li>3. Brighton Township</li> <li>4. Bristol Township</li> <li>5. Brookville Borough</li> <li>6. Carbondale</li> <li>7. Carroll Township</li> <li>8. Clearfield Borough</li> <li>9. College Township</li> <li>10. Coudersport Borough<sup>a</sup></li> <li>11. Cranberry Township</li> <li>12. Derry Township</li> <li>13. Doylestown Township</li> <li>14. East Franklin Township</li> <li>15. East Pennsboro Township</li> <li>16. East Stroudsburg Borough</li> <li>17. Elder Township</li> <li>18. Ellwood City Borough</li> <li>19. Fountain Hill Borough</li> <li>20. Hanover Borough</li> <li>21. Hazleton</li> <li>22. Honesdale Borough</li> <li>23. Huntingdon Borough</li> <li>24. Jefferson Hills Borough</li> <li>25. Jersey Shore Borough</li> <li>26. Kelly Township</li> <li>27. Kennedy Township</li> <li>28. Latrobe Borough</li> <li>29. Lehighon Borough</li> <li>30. Lower Paxton Township</li> <li>31. Loyalsock Township<sup>a</sup></li> <li>32. Media Borough</li> <li>33. Meyersdale Borough</li> </ol>		<ol style="list-style-type: none"> <li>1. Cheltenham Township</li> <li>2. Ridley Park Borough</li> </ol>

**Exhibit 2 (Continued)**

Municipalities by PEL Fiscal Distress Score	Municipality With a Hospital With an Operating Margin at or Above the 2005-06 Average Margin Statewide	Municipality With a Hospital With an Operating Margin Below the 2005-06 Average Margin Statewide	Municipality With Hospitals With Mixed Operating Margins	Municipality With a Hospital With an Unknown Operating Margin
	22. West Reading Borough 23. White Township	34. Millcreek Township 35. Monroe Township 36. Montrose Borough 37. Mount Lebanon Township 38. Mount Pleasant Borough 39. North Strabane Township 40. North Towanda Township 41. Palmerton Borough 42. Pine Township 43. Plains Township 44. Pottsville 45. Quakertown Borough 46. Roaring Springs Borough 47. Sewickley Borough 48. Snyder Township 49. St. Marys 50. Somerset Borough 51. Tunkhannock Borough 52. Upland Borough 53. Upper Darby Township 54. Wellsboro Borough 55. West Chester Borough <sup>a</sup> 56. West Rockhill Township 57. Windber Borough 58. Young Township		
Z-Score greater than or equal to plus 1.5	1. Derry Township 2. Lower Merion Township 3. Middletown Township 4. Willistown Twp.	1. Abington Township 2. Eulalia <sup>a</sup> 3. Spring Garden Township 4. West Goshen <sup>a</sup>		1. Radnor Township 2. Springfield Twp.

<sup>a</sup>Municipalities with a general acute care hospital in multiple municipalities.

Source: Developed by LB&FC staff from Pennsylvania Economy League and Pennsylvania Health Care Cost Containment Council data.

Exhibit 3

**Municipalities by Fiscal Distress and  
Endowment\* of Private Colleges and Universities**

<b>Municipalities by PEL Fiscal Distress Score</b>	<b>Endowment Less Than \$250,000,000</b>	<b>Endowment \$250,000,000 or Greater</b>	<b>Endowment Unknown</b>
Z-Score greater than or equal to minus 1.5	Allentown (2 of 2) Chester Erie (2 of 2) Meadville Reading (1 of 2 <sup>a</sup> ) Scranton (2 of 2 <sup>b</sup> ) Washington <sup>c</sup> Waynesburg Wilkes-Barre (2 of 2) Williamsport	Easton Lancaster Philadelphia (2 of 9) Pittsburgh (1 of 5)	Beaver Falls Greenville Greensburg Harrisburg York <sup>d</sup>
Z-Score from minus 1.499 to plus 1.499	Anville Aston Chambersburg Cheltenham Cresson Dallas Dunmore <sup>b</sup> East Washington <sup>c</sup> Elizabethtown Huntingdon Loretto Moon New Wilmington Selingsgrove Upper Allen	Bethlehem (1 of 2) Carlisle Gettysburg Lewisburg <sup>e</sup>	Clarks Summit Grove City La Plume Unity
Z-Score greater than or equal to plus 1.5	Collegeville New Britain Upper Saucon	East Buffalo <sup>e</sup> Lower Merion (2 of 3 <sup>f</sup> ) Haverford <sup>f</sup> Radnor (1 of 3 <sup>g</sup> ) <sup>h</sup> Swathmore	Bryn Athyn East Whiteland Lower Gwynedd McCandless Spring Garden <sup>d</sup> Tredyffrin <sup>g</sup>

\*Endowment data are from the 2007 National Association of College and University Business Officers Endowment Study.

<sup>a</sup>Endowment data only available for one of two colleges and universities.

<sup>b</sup>Marywood University is located in multiple municipalities.

<sup>c</sup>Washington and Jefferson College is located in multiple municipalities.

<sup>d</sup>York College of Pennsylvania is located in multiple municipalities.

<sup>e</sup>Bucknell University is located in multiple municipalities.

<sup>f</sup>Haverford College is located in multiple municipalities. Endowment data only available for two of three.

<sup>g</sup>Cabrini College is located in multiple municipalities.

<sup>h</sup>Endowment data only available for one of three.

Source: Developed by LB&FC staff.

- fewer than one-quarter of the municipalities that host private colleges and universities are host to institutions with relatively large endowments prior to the 2008 financial crisis.

Exhibits 2 and 3 show that six (Easton, Erie, Lancaster, Philadelphia, Pittsburgh, and York) municipalities with high fiscal distress scores on PEL's distress indicator host at least one major non-profit organization that may be considered financially secure. The exhibits also show that only two municipalities in high fiscal distress (i.e., Easton with one private university and Lancaster with one non-profit general acute care hospital and one private university with a substantial endowment) have all of their major non-profit institutions in financially strong positions.

For the most part, municipalities that have one financially strong major non-profit institution will also have others that are not in such a strong position. Philadelphia, for example, hosts 16 non-profit general acute care hospitals, but only two had operating margins in FY 2005-06 at or above the statewide average margin. While it hosts nine private universities, only two had substantial endowments in 2007. Similarly, three of Pittsburgh's six hospitals had operating margins below the statewide margin, in FY 2005-06, and only one of its five private universities had a substantial endowment in 2007.

For some municipalities with a disproportionate number of major non-profits, the financial status of the municipality appears to mirror the financial performance of some of their tax-exempt institutions. Scranton, for example, has been designated as a financially distressed municipality for purposes of Act 47. It hosts three non-profit general acute care hospitals. All three had operating margins well below the average for hospitals statewide. One of Scranton's three hospitals, moreover, had an operating margin of minus 4.85 percent in FY 2005-06. Scranton's two private universities, moreover, do not have substantial endowments.

With differences in the fiscal status of the host municipalities and their major non-profits in mind, LB&FC staff contacted major non-profit tax-exempt institutions, in particular those in municipalities in high fiscal distress, to identify the ways in which they were attempting to assist their host municipalities. As discussed below, we reviewed the assistance provided by institutions in 16 municipalities from Northwest, Northeast, Southeast, Central, and Southwestern Pennsylvania. Such municipalities accounted for about 25 percent of the state's non-profit general acute care hospitals and public and private colleges and universities. Typically, such municipalities hosted multiple institutions. Six of the 16 municipalities were selected because they represented municipalities with:

- High fiscal distress scores on an indicator developed by the Pennsylvania Economy League and financially strong hospitals and universities.
- High fiscal distress scores and without financially strong hospitals and universities.

- Low fiscal distress scores and financially strong hospitals and universities.
- The most non-profit tax-exempt institutions.

The remaining 10 municipalities were selected, in part, to assure that all regions in the state were represented in the analysis, and because they typically hosted more than one hospital or university. The non-profit hospitals and private universities we reviewed assist their host municipalities in a variety of ways.

### **Municipalities With High Fiscal Distress Scores and Financially Strong Non-Profit Institutions—Easton and Lancaster**

***Easton:*** The City of Easton is host to Lafayette College. Lafayette, a private liberal arts and engineering college, has a student body of about 2,300 students that come from 37 states and 57 countries, and ranks in the top 50 liberal arts colleges in the nation. The College is the only major non-profit organization in the City of Easton, and is its largest employer.

***Police and Security:*** The College provides for its own campus security, employing eight full-time and 17 part-time police officers to patrol the campus, including 12 sworn officers with arrest powers. The City would have to increase its municipal police force by 20 percent to replace police services of the College’s sworn police officers.

***Payment of Realty Taxes:*** The College pays realty taxes on approximately 55 properties that it owns in the City. In 2007, the college paid over \$350,000 for such properties to the city, county, and school district.

***Other Contributions:*** The College plays a major role with the Greater Easton Development Partnership. One major initiative of the Partnership has been to provide “downtown ambassadors” to keep Easton streets clean and safe. Lafayette College provides more than one-third of the financing (\$300,000 out of \$820,000) for Easton’s downtown ambassador program. The ambassadors enhance downtown cleanliness by removing litter, weeds, and graffiti; performing landscaping; and painting light poles, utility boxes, and tree grates. They provide information for visitors and assist the public. To increase safety, they patrol the city streets on foot and bicycle and provide an additional presence to deter crime and report unwanted activities to local authorities. The “downtown ambassadors” support other municipal programs, including Easton’s Main Street Program (See Finding F for additional information on the Main Street and other community revitalization programs.) Easton’s “downtown ambassador” program is similar in many respects to programs offered through Neighborhood Improvement Districts (discussed on page 37). It differs, however, from such districts in that it is financed entirely through private donations.

The College has also participated in the Bushkill Creek Corridor Revitalization project along with the City,<sup>52</sup> Easton Redevelopment Authority, and Delaware and Lehigh National Heritage Corridor. For its part, the College invested \$9 million of its funds to acquire and beautify properties that are the gateway to the campus from downtown Easton. Currently, the College is involved in the acquisition and redevelopment of underutilized commercial properties to be anchored by the College's Visual Arts Center<sup>53</sup> and renovated and converted for new commercial uses. The amount of College funds to be committed to the multi-million dollar project is yet to be determined, although the state has provided \$3 million to the City to support the project.

LB&FC staff spoke with the mayor of Easton who expressed the city's need for additional revenue. He indicated the College and its students did a lot for the City. He noted he would like to see the College voluntarily provide, or the Commonwealth require the College to pay, the municipality \$50 per semester for each enrolled student for municipal police, fire, parks, and street maintenance. Such a student fee would generate about \$250,000 annually for the municipality, and might help the City avoid designation as an Act 47 distressed community, according to the Mayor.<sup>54</sup>

**Lancaster:** The City of Lancaster hosts two major non-profit institutions: Franklin and Marshall College and the Lancaster General Hospital. Franklin and Marshall College is a four-year liberal arts college with approximately 2,100 students, and ranks in the top 50 for liberal arts colleges in America.

The Lancaster General Hospital is a large tertiary care hospital with over 550 set up and staffed beds, accounting for almost 70 percent of all general acute care admissions and almost 85 percent of all live births in Lancaster County, according to Pennsylvania Department of Health data. The hospital's health system (with nearly 7,000 full and part-time employees) is the largest employer in Lancaster County.

**Police and Security:** Franklin and Marshall College employs its own police and security force, which includes 20 sworn police officers with arrest powers.<sup>55</sup> Each week, it also contracts for 18 hours of police service from the City of Lancaster. To replace Franklin and Marshall's sworn police officers, the City of Lancaster would need to increase its sworn police force by 12 percent.

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<sup>52</sup>The City of Easton received \$9 million through the state's Redevelopment Assistance Capital program for this program.

<sup>53</sup>The City of Easton charges a 5 percent tax on admissions to places of entertainment. The College pays such taxes for events that it sponsors.

<sup>54</sup>The city manager of another distressed municipality with whom we spoke advised us that the city benefits from the presence of a state-owned university, and that his city would financially benefit if the university was permitted to pay a student fee to the municipality for each student it enrolled.

<sup>55</sup>Lancaster City employees 168 police officers, according to Department of Community and Economic Development data.

Lancaster General Hospital employs its own security. Such security officers are not sworn police officers with arrest powers. If necessary, however, they can detain a person on hospital property and request the assistance of the Lancaster City police.

*Payment of Realty Tax:* Both the college and the hospital pay realty taxes on property they own but do not use for their public or private charity mission. In 2008, Franklin and Marshall College paid about \$350,000 in realty taxes to three municipalities, two school districts, and the county. Twenty-three percent of such payments were made to the City of Lancaster. The College has also agreed that any off campus property acquired in the next five years will be left on the tax rolls.

In FY 2007-08, Lancaster General Hospital paid \$1.65 million in realty taxes to the county, several municipalities, and several school districts. Nine percent of such payments were made to the City of Lancaster. The hospital reports that its strong financial performance has allowed it to maintain on the tax rolls all of its properties other than the main hospital campus properties, even though some of its other properties are used to further the hospital's charitable mission and would be eligible for tax-exempt treatment.

*Other Contributions:* Both the college and the hospital make a variety of contributions to the City of Lancaster. In addition to providing its own police and security force, Franklin and Marshall College, for example, makes:

- annual cash and in-kind donations to the City,
- capital investments in a city-owned park and adjacent neighborhoods, and
- investments to entice employees to live in and improve homes in the City.

In response to a request of the City Mayor, Franklin and Marshall College annually provides a contribution<sup>56</sup> to the City. In 2008, the requested contribution was equivalent to 30 percent of the amount it would otherwise have paid on the assessed value of its tax-exempt property. In 2008, the approximately \$160,000 donation consisted of \$116,545 in cash and \$44,655 in in-kind services to maintain a city-owned park adjacent to the campus. Such contributions are equivalent to \$75 per student per calendar year.<sup>57</sup>

In addition to maintaining the city-owned park, the College donated \$325,000 in recent years to repair and enhance the city park. It also invested about

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<sup>56</sup>The Mayor refers to the contribution as a PILOT. We, however, refer to such payments as contributions as the payments are made to the City but not other local taxing bodies.

<sup>57</sup>This calculation does not take into account the cost of police and security services annually incurred by the College. When such costs to the College for police and security services are taken into account, the College is effectively providing the City with one-third more than it would have paid the City in realty taxes for its tax-exempt property, and contributing the equivalent of more than \$300 per student.

\$3 million to enhance the safety of the surrounding neighborhood by installing traffic calming devices, emergency phones, and CCTV security monitoring devices.

The College also supports a “City Life program” for its employees to encourage them to live in neighborhoods east of the College. To date, the College invested approximately \$500,000 in 50 such properties. As discussed below, the College and Lancaster General Hospital are the founding members of the James Street Improvement District and are involved in other major economic development initiatives in the City, including reclaiming of industrial “brownfields” in the City.

Lancaster General Hospital provides support to the City in ways that are similar to the College. The hospital makes:

- annual cash contributions to the City, and
- investments to encourage its employees to reside in and improve residences adjacent to the hospital campus.

Routinely, the hospital has made cash contributions to the City in response to requests from the City Mayor. In FY 2007-08, the hospital provided \$1.2 million in cash to the City of Lancaster.<sup>58</sup> This contribution is equivalent to \$2,120 per set up and staffed general acute care hospital bed. Such a contribution is significantly higher than the typical realty payments of for-profit hospitals to Pennsylvania municipalities.<sup>59</sup>

Lancaster General Hospital operates a neighborhood housing program for its employees. Known as “Home in the City,” the program provides full-time employees buying their primary residence in city neighborhoods surrounding the hospital with low cost mortgage insurance, settlement assistance loans of up to \$10,000 for down payments and closing costs, and deferred payment loans of up to \$2,500 for exterior improvements to real estate. The hospital’s share of the two loan programs is forgiven at 20 percent per year over five years for those who continue as hospital employees.

*James Street Improvement District:* The James Street Improvement District—a non-profit special purpose district funded entirely with voluntary contributions

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<sup>58</sup>Lancaster General Hospital for more than a decade has provided direct financial support to the Lancaster School District. In FY 2007-08, it provided \$1.2 million in cash and health services to the school district. It also provides health services for students and district employees, and student education programs.

<sup>59</sup>LB&FC staff estimate for-profit general acute care hospitals in Pennsylvania make average realty payments to municipalities of about \$700 per set up and staffed bed. The estimate is based on data for more than half of the for-profit general acute care hospital set up and staffed beds. It is also based on county assessment office data on realty tax payments to municipalities by for profit general acute care hospitals in Beaver, Clinton, Lancaster, Montgomery and Philadelphia counties. The estimate may understate the average payment as data were not available to complete the analysis for for-profit general acute care hospitals in Chester, Columbia, Cumberland, Greene, Mercer, Northampton, Northumberland, and Schuylkill counties. Statewide for-profit general acute care hospitals’ set up and staffed beds represent about 8 percent of all set up and staffed beds.

was founded by Franklin & Marshall College and Lancaster General Hospital in 2003. In 2007, the James Street Improvement District entered into a management agreement to administer the functions of the Lancaster Downtown Investment District--a public municipal authority funded by assessments on property owners in a specific area of the downtown and by voluntary contributions.

The James Street Improvement District expends over one-third of its total budget (of about \$1.5 million) on public safety in the City of Lancaster, and the Downtown Investment District<sup>60</sup> expends about 20 percent of its total budget (of \$500,000) for such services.<sup>61</sup> Such investments provide for 16 bike “ambassadors” that patrol Northwest and Downtown portions of the City. Such ambassadors provide a secure presence for Lancaster residents, workers, students and visitors. While unarmed, they are equipped with two-way radios and serve as a visible deterrent to crime, provide direction and assistance, and can call for help in an emergency. They also respond to community needs through contact with public agencies, including the police.

Since 2005, the James Street Improvement District has also served as the Elm Street program manager on behalf of the City of Lancaster. (See Finding F for additional information on the Pennsylvania Department of Community and Economic Development’s Elm Street Program.) In addition to encouraging investment in façade improvements and investment in pedestrian lights, the program provided for 13 surveillance cameras in cooperation with other local community groups that monitor the cameras and contact police to report suspicious activity.

The James Street Improvement District also convenes “safety partners” bi-monthly to share information. Such meetings provide a forum to link local police departments with security specialists from the private sector that are working in the City.

The James Street Improvement District, along with the Downtown Investment District, is also involved in public space maintenance, including provision of trash receptacles in parts of the City. In cooperation with the City of Lancaster, it also helps to market the City, and promote economic development.

*Economic Development Initiatives:* In cooperation with the Economic Development Company (EDC) of Lancaster County, Franklin and Marshall College and Lancaster General Hospitals are involved in a major economic development initiative with the City of Lancaster—the “Northwest Gateway/Armstrong Project.” The project site, which is being redeveloped by EDC for the college and the hospital, formerly housed more than 200 unused manufacturing buildings for Armstrong

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<sup>60</sup>In FY 2007-08, the Lancaster Downtown Investment District had revenues of about \$500,000 of which 60 percent was from property assessments and 33 percent from contributions from tax-exempt organizations.

<sup>61</sup>Over half of the Downtown Investment District expenses are for public space maintenance.

World Industries. To develop this “brownfield” site, old industrial buildings needed to be demolished and environmental clean-up initiated. In addition to clean up of the Armstrong World Industries site, the project calls for the relocation and consolidation of a Norfolk Southern rail yard in the northwest part of the City, which also requires environmental clean-up of a municipal dump site last used in the 1960s.

In many communities deteriorating industrial sites are left vacant as the cost to redevelop them is often prohibitive. Thus far, the college and the hospital have contributed \$12 million toward demolition and clean-up of Lancaster City “brown-field” sites. According to the President of the EDC of Lancaster County:

Without two organizations that have such a strong community interest, redevelopment like this could not happen. No private party would have undertaken this project because of the upfront costs.

Lancaster General, moreover, has agreed to continue to pay property taxes on any facility it may construct on the reclaimed land.

LB&FC staff spoke with the Mayor of Lancaster who indicated “we’re lucky to have Lancaster General and Franklin and Marshall.” He also indicated that he appreciates the support he receives in response to his request from non-profits and churches. A substantial portion of property in the City, however, is held by the county and school district, which do not provide contributions. He noted that property in Lancaster City is, in his view, undervalued by the County assessment office,<sup>62</sup> and the City has reduced realty tax revenue as a result. Further, he noted that his City needs additional revenues in view of current and legacy costs for police and fire services. He supports a legislative proposal that would provide approximately \$250 million in revenues to municipalities with a high proportion of tax-exempt property.

### **Municipalities With High Fiscal Distress Scores and Without Financially Strong Major Non-Profit Institutions—Scranton and Wilkes-Barre**

**Scranton:** The City of Scranton—the Commonwealth’s seventh most populous city in 2000—was designated a fiscally distressed municipality under Act 47 in the 1990s. It hosts five major non-profit institutions, including three non-profit general acute care hospitals, one university, and part of the campus of a second university.

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<sup>62</sup>A similar view was expressed by the manager of a distressed municipality in western Pennsylvania with whom we spoke. The City Manager expressed concern about the assigned assessed value of both commercial and tax-exempt property in the municipality after having negotiated a PILOT agreement with a regional hospital health system.

The City's three non-profit general acute care hospitals are among the 10 largest employers in Lackawanna County. They account for 84 percent of all set-up and staffed acute care beds in Lackawanna County, about 90 percent of all admissions, and 100 percent of all live births, according to Pennsylvania Department of Health data. Each of the three hospitals had operating expenses that exceeded patient revenues every year since 2000, according to Pennsylvania Health Care Cost Containment Council data.

The City's two universities include the University of Scranton and Marywood University. The University of Scranton is a private co-educational Jesuit university located in the City of Scranton with an undergraduate enrollment of approximately 4,000 students. Its endowment in 2007 was less than one-half the average endowment of private colleges and universities in Pennsylvania, about 85 percent less than the endowment of Lafayette College in Easton, and 67 percent less than the endowment of Franklin and Marshall College in Lancaster. Marywood University is partially located in the City of Scranton, and is a Catholic liberal arts university with about 2,000 undergraduates. Its endowment is substantially less than private colleges and universities in Pennsylvania, and 75 percent less than that of the University of Scranton.

*Police and Security:* Each of Scranton's hospitals and universities employs its own security force. While the three hospitals employ their own security forces, only one hospital employs sworn officers with arrest powers. A second hospital, which is the region's designated trauma center, however, contracts with the City of Scranton to provide a police officer at the hospital. Typically, the hospital pays the City for an average of 50 hours of police coverage each week, with such payments averaging \$52,000 annually.

The University of Scranton employs its own police and security force, which includes 16 sworn police officers. The City of Scranton would need to increase its police officers by more than 10 percent to replace the officers employed by the University. Marywood University also employs its own security force; but its security staff do not include sworn officers.

*Realty Tax Payments:* All of the hospitals and universities pay realty taxes on properties they use for purposes other than their charitable mission. One hospital paid over \$200,000 in realty taxes of which 26 percent went to the City. A second paid approximately \$600,000 in realty taxes with approximately 16 percent going to the City. The third hospital paid between \$215,000 and \$300,000 in realty taxes; however, it was not able to identify the exact amount paid to the City.

The University of Scranton also paid real estate taxes on certain properties. Such taxes totaled over \$55,000 in 2008. Marywood University pays realty taxes on one property in the City of Scranton. Such taxes totaled just over \$2,600 in 2008.

*Other Contributions:* Each of the three hospitals reported making contributions of \$35,000 to the City in 2000. Currently, none are making such a contribution. One, however, reported the City has approached it about making a contribution, and discussions are ongoing.

Marywood University does not make a cash contribution to the City of Scranton. Since 1983, however, the University of Scranton has contributed over \$1.5 million to the City, including \$110,000 in 2007.

In September 2008, moreover, the City, City Council, and the University announced that the University would fund a streetscape project near the University campus. The project is estimated to cost more than \$1 million. It will provide new sidewalks, period street lighting, landscaping, and safety improvements through widening of city street turn lanes.

***Wilkes-Barre:*** Wilkes-Barre hosts four major non-profit tax-exempt institutions, including two private four year colleges and universities and two general acute care hospitals. The two small colleges each have student bodies of approximately 2,000. In 2007, King's College had an endowment less than one-quarter of the average endowment of private colleges and universities statewide, while Wilkes University's endowment was less than 20 percent of the average endowment of colleges and universities statewide.

Wilkes-Barre General Hospital is the largest hospital and the largest employer in Luzerne County. It accounts for about 44 percent of all set up and staffed general acute care beds in the county, 44 percent of all admissions, and about 50 percent of all live births. Geisinger South Wilkes-Barre,<sup>63</sup> while a major employer, is much smaller. It accounts for 18 percent of all set up and staffed beds in the county, 15 percent of all admissions, and no longer operates an obstetric unit. Since 2001, both hospitals have had operating expenses in excess of patient care revenues, according to Pennsylvania Health Care Cost Containment Council data. In late 2008, Wilkes-Barre General Hospital announced plans for its acquisition by a for-profit hospital corporation based outside of Pennsylvania.

***Police and Security:*** The two hospitals and the two colleges have their own security forces; but they do not include sworn police officers. As discussed below, however, the two colleges participate in Wilkes-Barre's neighborhood improvement district, which contracts with the City for police officers to patrol the district.

***Payment of Realty Taxes:*** All four non-profit institutions pay realty taxes on certain property they hold in the City of Wilkes-Barre. Geisinger Health System

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<sup>63</sup>Formerly known as Mercy Hospital Wilkes-Barre, the hospital was acquired by the Geisinger Health System in December 2005. Mercy Hospital Wilkes-Barre had a minus 3.10 three year average total margin for the three years prior to its acquisition.

pays \$24,000 on property it holds; Wilkes University pays \$22,000; and King's College pays approximately \$15,000. Wilkes-Barre General Hospital was unable to provide the amount of real estate taxes it paid for property held within the City.

*Other Contributions:* For more than 15 years, the City of Wilkes-Barre has had in place a program requesting contributions from its non-profit organizations. Wilkes-Barre General Hospital accounts for the largest program contribution. Together, the two hospitals and the two universities account for over half of the more than \$600,000 in voluntary contributions the program annually generates for the City.

Wilkes-Barre General Hospital also assists the City through property acquisition, according to City officials with whom we spoke. At the request of the City, the hospital will "buy up run down property" and pay for the removal of deteriorated buildings on such property. In this way, such costs are not borne by the City.<sup>64</sup>

Despite their limited endowments and thin financial margins, the college and university have assisted the City in other important ways. King's College has acquired and helped renovate older properties near its campus at a cost of \$40 million. In 2001, for example, it acquired an old apartment building across the street from its campus and turned it into a student residence. Currently, it is working with a private developer and a non-profit development organization to purchase and tear down older structures to be replaced by a \$20 million four-story multi-function building which will combine apartments, classrooms, a day care center, and retail space. The College's leasing of a significant amount of the new building space has allowed for such development within the City.

To help revitalize Wilkes-Barre's downtown and lure other retailers into the downtown, King's College and Wilkes University closed their campus bookstores to attract a Barnes & Noble to the downtown. In addition to closing their bookstores, they contributed \$300,000 in loans toward the construction of the Barnes & Noble store in a restored downtown building.<sup>65</sup>

In 2005, Wilkes University also assisted the City by agreeing to buy a former telemarketing center after the telemarketer closed operations and left the City responsible to pay off a \$14 million bond on the center. By agreeing to buy the

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<sup>64</sup>Similar practices are reported in other municipalities. One college in a distressed municipality, for example, reported being asked to assume control of a City owned property on condition that it incur all costs associated with tearing down all structures on the property. Another college in a municipality that is not in financial distress reported purchasing property at the request of the municipality since the municipality wished to secure the property for public use, but did not have sufficient funds to cover the entire purchase cost.

<sup>65</sup>The College and University also participate in the Commonwealth's Keystone Innovation Zone (KIZ) program with a consortium of schools in northeastern Pennsylvania.

building, the University relieved the city of a \$1 million annual debt service payment which the City would have had difficulty making in view of its financial status. Wilkes University renovated the call center and renamed it “University Center on Main.” The building currently houses recreation facilities and student service offices.<sup>66</sup>

The college and university annually provide about \$100,000 to “Wire Free Wilkes-Barre.” In addition, they are both key participants in the Downtown Wilkes-Barre Improvement District.

*Downtown Wilkes-Barre Business Improvement District:* In 2007, Wilkes-Barre City Council adopted an ordinance creating this neighborhood improvement district. The district is administered by the Diamond City Partnership, a non-profit organization whose mission is to revitalize downtown Wilkes-Barre.

In addition to marketing the City, the District provides additional cleaning and security in its downtown service area. Its “Clean Team” operates six days a week providing sidewalk cleaning and trash removal, and regular graffiti removal. The District provides routine maintenance and beautification in public spaces, including improved lighting. Approximately, one-third of the District’s total budget (of \$540,000) goes toward supplemental cleaning.

Over 40 percent of the District’s budget goes for supplemental security services. Such supplemental security includes uniformed ambassadors and “special detail patrols.” The District contracts with the City to provide police officers for such special detail patrols in the District to supplement the one officer on foot patrol in the District during the day shift. As part of the agreement with the District, the City committed to coordinating its regular police patrols with the special detail patrols funded by the District, and not to reduce its level of police service in the District unless there is a citywide reduction in the force.

The District’s revenue comes from grants (including Main Street Grant funding), assessments on commercial property, and voluntary contributions from tax-exempt property owners. For commercial property owners, including those who are in designated Keystone Opportunity Zones, the required assessment is equal to 2.57 percent of the property’s County real estate tax assessment value. Commercial assessments account for about 44 percent of the District’s revenues, and voluntary contributions for 31 percent.

Non-profit institutions within the footprint of the District provided the start-up funds required to establish the District, according to the District manager with

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<sup>66</sup>For more detailed information on King’s College and Wilkes University’s efforts to assist Wilkes-Barre see Karin Fischer’s article “Struggling Communities Turn to Colleges,” *Chronicle of Higher Education*; 5/16/2008, Vol. 54, Issue 36.

whom we spoke. Both the King's College and the Wilkes University, moreover, voluntarily pay 2.57 percent of the assessed value of their tax-exempt property to support the District and serve on its board of directors.<sup>67</sup>

The Wilkes-Barre City Mayor and others have praised the support they receive from the City's non-profit organization. One city official advised the LB&FC staff that given the many needs of its citizens, it is unclear how the City would be able to respond without the support of the non-profits. The City, however, is financially in a precarious position and in need of additional financial support, especially in light of its police and fire pension obligations. Costs to build in the City, moreover, are significantly higher than outside of the City, thus making it difficult for the City to compete with neighboring municipalities in attracting commerce.

### **Municipality With a Low Fiscal Distress Score and Fiscally Strong Non-Profit Institutions—Lower Merion Township**

Lower Merion Township is located in Southeastern Pennsylvania and part of "Main Line" Philadelphia. The township hosts two private four year colleges (Bryn Mawr and Rosemont) and a part of a third (Haverford). Bryn Mawr and Haverford both had endowments in 2007 substantially above the average endowment for private four year colleges statewide. Rosemont, with one of the lowest student enrollments in the state, had an endowment substantially below the average endowment statewide.

Lower Merion Township also hosts two non-profit general acute care hospitals—Main Line Hospital Bryn Mawr and Main Line Hospital Lankenau—that had operating margins above the statewide margin in 2006. Bryn Mawr accounts for 15 percent of the county's set up and staffed general acute care beds and 16 percent of its admissions. Similarly, Lankenau accounts for 16 percent of the county's beds and 18 percent of admissions. The hospitals are the largest employer in Lower Merion Township.

*Police and Security:* The three colleges and two hospitals have their own security forces. Their security staffs, however, do not include officers with arrest powers.

*Volunteer Fire:* The three colleges annually contribute to their volunteer fire companies, and Bryn Mawr College also contributed to the purchase of a fire truck for a volunteer company. Similarly, Bryn Mawr hospital contributes to its local volunteer fire company.

*Realty Tax Payments:* All three colleges report paying realty taxes on certain properties they own. Bryn Mawr pays almost \$100,000 in realty taxes

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<sup>67</sup>Wilkes-Barre General Hospital and Geisinger Wilkes-Barre are not located within District boundaries.

on three properties, with over 75 percent going to the school district. Rosemont pays approximately \$3,500 in realty taxes for on-campus property that it leases for a telecommunications tower. Eighty-three percent of the payment goes to the school district. Haverford pays over \$250,000 in realty taxes to six local governments, with Lower Merion Township receiving about five percent of such payments.

Lankenau and Bryn Mawr hospitals pay substantial realty taxes for property that is not used for their public charity mission. In all, the two hospitals annually pay approximately \$1.2 million in property taxes, with the school district receiving 76 percent of such payments.

*Other Contributions:* All three colleges contribute to the Foundation for Community Service, which in turn provides funding to Lower Merion Township. They also contribute to community groups, including the Fraternal Order of Police and a group refurbishing an historic theatre. Haverford has also been involved, outside of Lower Merion Township, in helping to improve a municipality's street façade through replacement of street lighting. Similarly, the hospitals contribute to various community programs, including annual contributions to Bryn Mawr Beautification, and contributions to the Bryn Mawr Film Institute.

The hospitals provide training for EMTs and are involved in drunk driver screening on behalf of the community. The hospitals have also paid for significant roadway and traffic improvements in the vicinity of the hospitals.

Since the hospitals are frequently involved in upgrading their facilities, the township has realized substantial revenues from building permits and licenses associated with such improvement projects. Last year, the hospitals paid almost \$450,000 in building permits and licensing fees associated with such projects.

### **Municipality With the Most Major Non-Profit Tax-Exempt Institutions—Philadelphia**

Philadelphia hosts more major tax-exempt institutions than any other municipality in the Commonwealth. With 25 major non-profit tax-exempt institutions,<sup>68</sup> it has twice as many institutions as Pittsburgh. Only four of the 25 institutions have been financially secure in recent years. The four include the:

- University of Pennsylvania,
- Drexel University,
- The Hospital of the University of Pennsylvania, and
- Thomas Jefferson University Hospital.

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<sup>68</sup>The 25 include nine private four-year colleges and universities and 16 non-profit acute care hospitals. In addition, Philadelphia hosts a state affiliated university.

The University of Pennsylvania, with an endowment of over \$6 billion, accounted for over one-third of the total endowment of all private four year colleges and universities in Pennsylvania in 2007. During that year, Penn ranked fourth in the nation in fundraising.<sup>69</sup>

Penn differs from other private colleges and universities in Pennsylvania not only in the size of its endowment, but also in other ways. Its student body consists of 10,000 undergraduates and about 10,000 graduate and professional students, with international students accounting for 13 percent of its first year undergraduate class.<sup>70</sup> Penn is also a member of the Ivy League, ranking fourth in the League behind Harvard, Princeton and Yale.

The University's professional schools are among the top five in the nation. They include the Wharton School of Business, the Annenberg School for Communications, the School of Design (architecture and urban planning), the School of Medicine, the School of Dental Medicine, and the schools of nursing and veterinary medicine. Penn's faculty, post-doctoral and graduate students engage in close to \$1 billion in academic research, with funding for much of such research provided by The National Institutes of Health centers for biomedical research.<sup>71</sup>

Philadelphia's other private four-year higher education institution with a substantial endowment is Drexel University. In 2007, Drexel University ranked seventh in terms of its endowment among Pennsylvania's private colleges and universities. With an enrollment of 13,000 undergraduates and 7,000 post graduate and professional students, Drexel is the 16<sup>th</sup> largest private university in the United States, and has the third largest private engineering college in the nation. In 2002, Drexel was united with MCP Hahnemann University<sup>72</sup> to create the Drexel University College of Medicine; and in 2006, it established a School of Law.

The Hospital of the University of Pennsylvania (which is affiliated with Penn) and Thomas Jefferson University Hospital—the only two Philadelphia hospitals with operating margins above the statewide margin in 2005-06—are also distinct from most other Pennsylvania non-profit general acute care hospitals. Both are major academic medical teaching hospitals. Thomas Jefferson University Hospital has the largest number of set up and staffed hospital acute care beds in

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<sup>69</sup>Penn's distinguished living alumni include individuals such as Warren Buffett, Donald Trump, and one of the founders of Cisco Systems.

<sup>70</sup>Approximately 40 percent of admissions are Asian, Hispanic, African, or Native American.

<sup>71</sup>Each of Penn's health science schools ranks in the top five in NIH funding.

<sup>72</sup>In the first half of the 1990s, the Allegheny University of Health Sciences took control of the Medical College of Pennsylvania (MCP) and Hahnemann University to form one of the largest medical schools in the country. Subsequently, in the late 1990s, the Allegheny Health Education and Research Foundation (AHERF), the parent company of the Allegheny University of Health Sciences, filed for bankruptcy, and Tenet Health Care Corporation (a private for-profit company) acquired the Philadelphia assets of AHERF. Tenet Health Care Corporation created MCP Hahnemann University. In 2002, Tenet Healthcare agreed to merge MCP Hahnemann University with Drexel for 20 years.

Philadelphia, accounting for 16 percent of such beds and 15 percent of admissions. The Hospital of the University of Pennsylvania is the next largest, accounting for 12 percent of the county's set up and staffed beds and 13 percent of admissions. Both hospitals are affiliated with major health systems that also operate within and outside of Philadelphia.

In the 1990s, the four institutions participated in Philadelphia's Voluntary Contribution Program to assist the financially strapped City. More recently, they have been engaged in other approaches to improve the social and economic position of the City.

*Philadelphia's Voluntary Contribution Program:* In the mid-1990s, when faced with major fiscal challenges, the City of Philadelphia established a Voluntary Contribution Program to obtain financial support from its non-profit institutions. At the time the program was established, there was considerable legal uncertainty about the types of non-profit institutions that qualified as "purely public charities" under the Commonwealth's Constitution and that were exempt from realty tax payments. Such uncertainty arose as there was no uniform understanding of the general criteria that had been set forth by the Pennsylvania Supreme Court to determine if a non-profit institution qualified as a "purely public charity." The 67 county assessment offices and the local courts all interpreted the Supreme Court's criteria differently, despite the uniformity clause in the state's Constitution.

The City designed its Voluntary Contribution Program to explicitly exclude places of public worship, cemeteries, public property, and veterans' organizations. It also excluded non-profit organizations that the program's board determined (based on review of institution IRS 990 filings and other documents) were purely public charities (e.g., child welfare shelters, shelters for the homeless, workshops for the disabled, etc.).

The remaining non-profits that were included in the City's Voluntary Contribution Program were primarily non-profit hospitals and private four-year colleges and universities. Initially, such institutions were requested to provide a cash contribution equal to 33 percent of what the institution would have paid in property taxes if the institution's property were fully taxable. One-third of the contribution, however, could be in-kind rather than cash. Later, the program evolved to allow for what it termed "hardship" level contributions of \$10,000 per year in recognition of the insecure financial position of certain institutions, and the mayor's desire not to cause harm to such institutions as a result of the City's program.

In 1996, Philadelphia's Voluntary Contribution program received \$8.7 million in cash contributions.<sup>73</sup> By 1999, the amount of cash receipts had been reduced to

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<sup>73</sup>Fifty-five percent of such funds went to the Philadelphia School District and the remainder to the City's general fund.

\$4.7 million. Such cash contributions declined and the Program was scaled back, according to the Program's chief administrator, as:

The economic world of the health care industry in Philadelphia ha[d] changed dramatically since 1994. The many mergers and acquisitions, the bankruptcy of the Allegheny Health System, the financial hemorrhaging of the University of Pennsylvania health care system, and the closing of stand-alone hospitals, coupled with the drastic change in reimbursement formulas and amounts, have changed a robust economic segment into one that is retrenched and not sure of its future.<sup>74</sup>

In response to the changed financial status of the major contributors,<sup>75</sup> the City offered to waive its share of the contribution and granted further cash contribution exemptions for specific institutions, asking only that cash contributions be made to assist the children of Philadelphia.

At about the same time as the financial status of major health care institutions dramatically changed, the General Assembly enacted Act 1997-55. Act 55 identified explicit criteria for determining if a non-profit organization met the general criteria to be considered a "purely public charity," and advanced a charitable purpose or relieved government of a burden it would otherwise incur. The act, which was subsequently upheld by various decisions of the Pennsylvania Supreme Court, also encouraged "purely public charities" to make voluntary contributions, and permitted such contributions to local governments to be used in part to demonstrate that they were meeting certain of the explicit criteria set forth in the statute.

With the agreement of the City, many universities and hospitals did not renew their agreements with the City when they expired. When the University of Pennsylvania's health system encountered significant financial problems requiring it to reduce its workforce by almost 10 percent, for example, the University of Pennsylvania (and its affiliates) requested and the City agreed not to renew its participation in the Voluntary Contribution Program, according to a University representative with whom we spoke.

The University representative with whom we spoke also noted several of the challenges that were encountered in attempting to develop voluntary contribution agreements directly linked to property assessments. University property, for example, often includes many historic structures that the community values and requires the University to preserve. Such structures, however, can have higher assessed property values and are significantly more costly to maintain than modern

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<sup>74</sup>Glancey, D., "PILOTs: Philadelphia and Pennsylvania," in E. Brody et al., *Property-Tax-Exemption for Charities*, The Urban Institute Press, Washington, D.C., 2002, p. 230.

<sup>75</sup>Many of the hospitals and health systems listed as participants in the Voluntary Contribution Program are no longer in existence.

structures. Many major non-profit institutions, moreover, provide their own services. The University of Pennsylvania, for example, has its own police force, provides traffic control on city streets in the area of the University, and pays for the cost of area upgrades to local sewer and water systems when engaged in construction and renovation.

While Voluntary Contribution Program Agreements were not renewed in the late 1990s, the major non-profits institutions continued to provide financial support and introduced new approaches to revitalize and aid the City. The University of Pennsylvania, for example, introduced a variety of programs in West Philadelphia. Known as the “West Philadelphia Initiatives,” the University sought to make West Philadelphia a more attractive place to live and work by purchasing goods and services from local businesses, hiring local residents, and encouraging staff to purchase housing in West Philadelphia. Through partnership with others, the University encouraged retail development, improved safety and security, invested in a new elementary school, and provided free clinics run by its professional schools of Dental Medicine, Law, Medicine and Nursing. In addition, it developed partnerships with neighboring residents to develop solutions for community problems. Some of the key “West Philadelphia Initiatives” involve the University and its partners in the University City District.

*University City District:* The University City District is a special-services district, which is similar to a Neighborhood Improvement District, but differs in that it receives no funding through mandatory property assessments. Started in 1997, the University City District is funded primarily through voluntary contributions from area institutions, including universities and hospitals, other non-profit organizations, businesses, individuals, and civic organizations. The largest share of the District’s 2007 annual budget (of approximately \$7 million) comes from contributions from its board. The University of Pennsylvania, Drexel University, and the University of Pennsylvania Health System are among its largest contributors.<sup>76</sup> The District’s mission is to improve the quality of life in its neighborhood by providing reliable maintenance and safety services, marketing, and neighborhood improvement projects.

To provide for safety, the District’s 42 uniformed, unarmed public safety ambassadors patrol the District seven days a week from 10:00 a.m. to 3 a.m. in cooperation with the Philadelphia and University of Pennsylvania Police Departments and the security forces of Drexel University and the University of the Sciences in Philadelphia. The ambassadors’ high visibility helps deter crime. In partnership with the University of Pennsylvania, the ambassadors provide escort services to meetings, public transportation, or home 24 hours a day seven days a week. The ambassadors assist during emergency situations, and certain trained ambassadors

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<sup>76</sup>Other major non-profit contributors include the University of the Sciences in Philadelphia, The Science Center, Children’s Hospital of Philadelphia, and the National Board of Medical Examiners.

routinely assist the District's Homeless Outreach Teams by providing assistance and transportation to local shelters and hospitals. The ambassadors also report and track public hazards.

In addition to the public safety ambassadors, the University City District has a Public Safety Partnership working to disrupt crime and drug traffic. It relies on strong working relationships among the Philadelphia police department,<sup>77</sup> the University of Pennsylvania police,<sup>78, 79</sup> AMTRACK police, the Philadelphia School District police, the security offices of the major institutions in the District, and community organizations, block associations, and neighborhood activists. Serious crime has been reduced by 20 percent since the inception of the District, according to the current City Mayor.

As part of its efforts to improve safety, the District has installed new street lamps, pedestrian lights, business façade and residential lighting to illuminate the area in the evening. In 2006, for example, in conjunction with the major non-profit institutions and PECO, the Philadelphia Streets Department installed 300 new light poles.

The District provides Public Space Maintenance teams<sup>80</sup> that work seven days a week from 8:00 a.m. to 4:30 p.m. picking up trash, cleaning, maintaining,

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<sup>77</sup>The University District Operations Center has adjacent to it a police substation with 25 Philadelphia police officers. The substation is staffed seven days a week between 8 a.m. and 2 a.m.

<sup>78</sup>The University of Pennsylvania Police employs 175 full-time staff, including 116 sworn police officers. It is the largest private police force in the Commonwealth. All of its officers meet Commonwealth requirements and have arrest powers. Its police department is also supplemented by 450 contracted security officers. Drexel University has 122 security officers (without arrest powers). Drexel University also contracts with the Philadelphia Police Department to provide commissioned law enforcement police officers to patrol its main campus during the hours of 7:00 p.m. to 3:00 a.m. seven days a week, 365 days a year. The University of the Sciences in Philadelphia also has a security force (without arrest powers), and contracts with the Philadelphia Police Department to patrol its campus during the evening.

<sup>79</sup>The University of Pennsylvania also has a Department of Fire and Emergency Services, which operates in partnership with the City of Philadelphia's Department of Licenses and Inspection and the Fire Department to ensure compliance with all city, state and federal fire and building code requirements. It, for example, conducts routine inspections of buildings and fire alarms, supervises mandatory evacuation drills, and reviews all plans for construction, renovation and installation of fire protection and sprinkler systems. The University also has its own student-run medical emergency response team to provide pre-hospital care and complement the emergency medical care by the University of Pennsylvania Police Department and the Philadelphia Fire Department.

<sup>80</sup>The District works to employ public space maintenance workers who are transitioning from public assistance to full-time employment through partnerships with neighborhood social service agencies.

and enhancing the District. Such teams are also involved in eliminating graffiti, identifying and removing abandoned automobiles and fighting illegal dumping.<sup>81</sup>

The District regularly sponsors community clean up days. It also sponsors a summer jobs program that employs local high school students in community revitalization efforts such as cleaning lots and public parks, removing weeds and litter, cleaning streets, planting flowers, watering trees, and other community projects.

To improve the quality of life in the District, in 2001, the University partnered with the School District of Philadelphia and the Philadelphia Federation of Teachers to develop a model university-assisted school, which has received national recognition. The Penn Alexander School (one of the top ten elementary schools in Philadelphia) is located on a five-acre, park-like setting in a state-of-the art facility in West Philadelphia.<sup>82</sup> The University of Pennsylvania subsidizes the school with an operating contribution of \$1,000 per student to keep the student-teacher ratio low. The University further works with the students to provide enriched educational experiences and provides professional development opportunities for the teachers.

The District has utilized Department of Community and Economic Development Main Street funding as part of its efforts to revitalize some of its commercial corridors. It also has sponsored many neighborhood revitalization initiatives.

To improve public transport in the District, in cooperation with SEPTA, the District developed LUCY—a public transit loop through University City. The route loop runs through University City serving 30<sup>th</sup> Street Station, the major non-profit institutions, and the VA Medical Center. Employees of the University of Pennsylvania, its health system, and the VA Medical Center need only use valid institutional IDs to use the transit loop, which operates Monday through Friday from approximately 6:00 a.m. to 7:00 p.m.

The University of Pennsylvania has played a major role in promoting economic development within the University District, including, for example, retail and hotel development and other commercial development. Such real estate development has created jobs and transformed land and helped return it to the tax role. In

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<sup>81</sup>The District also works with the Philadelphia Community Court. On average 40 persons per week are assigned by the Court to the District to assist the District's public space maintenance crews. Those who cannot perform physical work due to disability are assigned clerical work. Persons sentenced by the Court to perform community services may include those adjudicated for offenses such as retail theft, summary offenses, criminal mischief/vandalism, graffiti, possession of an instrument of crime of graffiti, possession of an instrument of crime, theft from auto, disorderly conduct, theft of services, possession of drugs or drug paraphernalia, theft, etc. The partnership between the Court, the University District and the Center City District provides an alternative to incarceration or probation for certain minor crimes that might otherwise result in probation which puts the offender back on the street without punishment.

<sup>82</sup>The University of Pennsylvania owns the land on which the school was constructed and leases it to the School District of Philadelphia for \$1 per year.

10 years since its creation, the University District has helped bring nearly \$4.5 billion in investment to West Philadelphia. The Mayor of Philadelphia has described the University City as “an asset to Philadelphia and the region,” and “one of our city’s great success stories for economic development, job opportunities, and sheer livability.”

According to a 2006 economic impact study, the University of Pennsylvania and its health system contribute almost \$10 billion to the state’s economy each year through its salaries, purchases, research, construction projects, taxes and indirect and induced expenditures. Such an economic impact represents nearly 2 percent of the state’s economy.

*Center City District:* Thomas Jefferson University and its hospital are the largest private employer in Center City Philadelphia, and a participant in the Center City District—a private-sector-directed municipal authority formed under the Commonwealth’s Municipal Authorities Act. The Center City District operates under plans and budgets approved by the City of Philadelphia and property owners. The Center City District has been approved to operate and make debt-service payments through 2025.

The Center City District performs many of the same functions as the University City District. The Center City District, for example, has “community service representatives.” It also has a police substation located in the District, which is open seven days a week, and provides patrol officers, including those deployed on bicycles. The District assists the police with crime tracking and mapping, and provides financial support for the operating costs of the substation.

The Center City District provides streetscape maintenance and homeless outreach. It also participates in the Community Court (discussed in footnote 81).

The Center City District differs from the University City District in that its operations are primarily supported through assessments on property owners in the District. Tax-exempt properties in the Center City District are not assessed. They, however, make voluntary contributions for their tax-exempt property within the District for the benefits of the District services they receive. They support the District by way of sponsorship income and diversified fee-for-service activities. Approximately 25 percent of the Center City District’s total revenues and support (of \$17.6 million) is from its non-assessment income. Further, the District receives support from non-profit organizations through its affiliate non-profit—the Center City District Foundation. The Foundation, for example, provides support for the Community Court and assists the homeless in the Center City District.

Thomas Jefferson University Hospital is part of a major health care and corporate structure.<sup>83</sup> In addition to participating in the Center City District, the hospital alone provides an annual cash contribution to the City and School District of Philadelphia. It also pays almost \$600,000 in realty taxes. In addition, the hospital and university have almost 100 security officers, who are not sworn police officers.

## Other Municipalities

LB&FC staff looked at 10 other municipalities including three with one major tax-exempt institution, four with two such institutions, and three with three or more such institutions. The 10 municipalities with 21 tax-exempt institutions included seven highly distressed municipalities, and one fiscally strong municipality. Of the 21 institutions, only six performed financially better than their peers. Two of the municipalities are in northwestern Pennsylvania, two in the southwest, three in south central, one in north central, and two in southeastern Pennsylvania. We found:

- All institutions in all 10 municipalities pay realty taxes on property that they own and use for other than purely public charitable purposes. Such total realty tax payments range from about \$3,600 to \$675,000.
- Seven of the 10 municipalities had tax-exempt institutions with their own security force that included sworn police officers. The municipalities with such institutions would have to increase their existing police force by 3 percent to as high as 79 percent to replace the sworn police officers employed by the tax-exempt institutions. Four of the seven municipalities would need to increase their police force by more than 20 percent to provide for replacement.
- Eight of the 10 municipalities received contributions from one or more of their tax-exempt institutions. One of the two municipalities that did not receive contributions had a PILOT program in place that included the municipality, the county and the school district. The value of the cash and in-kind contributions ranged from \$11,000 to a high of \$400,000.
- PILOT agreements were in place in three of the 10 municipalities. Under such PILOTs, payments were made to the municipality, county, and school district, with payments ranging from about \$132,000 to about \$870,000. School districts accounted for the largest share of the PILOT agreements.
- Eight of the nine hospitals in the 10 municipalities made contributions and/or PILOT payments. Such contributions and PILOTs to the municipality ranged from \$18,530 to \$295,000.

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<sup>83</sup>Thomas Jefferson University Hospital is affiliated with 11 exempt institutions and three non-exempt entities, according to IRS 990 documents.

- Only one of the nine hospitals in the 10 municipalities made no contribution or PILOT payment to the municipality. The one hospital is located in a municipality in high fiscal distress. The hospital is the primary acute care hospital in a rural county, the second largest employer in the county; and has had operating expenses in excess of its patient revenues in three of the past six years.
- Eight of the 12 universities in eight municipalities provide contributions to the municipality. Based on incomplete data, such annual contributions ranged from \$11,000 to \$167,000. Three of the four colleges did not have large endowments. The fourth college provided a significant subsidy for its community's theatre, as described below.

The 10 municipalities illustrate the variety of arrangements that are developed with non-profits by their communities. In one municipality, for example, the hospitals, in addition to other financial support for local governments, expend \$800,000 annually to subsidize the regional ambulance company. In this way, the municipality itself can avoid the expense of operating such a service.

At times, municipalities turn to non-profits for support in helping maintain the character of their communities. One municipality, for example, requested one of its non-profits to purchase and restore a burned down and abandoned building on the town square and an abandoned downtown theatre requiring significant restoration. Following the request of the municipality and other community groups, the non-profit invested \$7 million to restore and develop the two downtown properties. Annually, the non-profit provides a \$400,000 subsidy to keep the community theatre open. In addition, it pays realty taxes (and hotel and other taxes) on the restored properties that it acquired and developed.

Municipalities also rely on their major non-profits for support with economic development. One of the distressed municipalities relies on its university to help fund its business improvement district and to help capitalize a revolving loan fund to provide low interest financing to businesses building or expanding in the municipality.

Hospitals and private colleges and universities are important to the state and regional economies. Hospitals are often the largest employers in their communities. In 2007, they had an \$84 billion direct and indirect impact on the state's economy. Hospitals support employment for approximately 625,000 Pennsylvanians, including 286,000 hospital employees. Private colleges and universities, moreover, had over an \$18 billion direct and indirect economic impact in 2004.

## E. Some States Distribute Revenues to Local Municipalities That Host Certain Tax-Exempt Properties

Many states, including Pennsylvania, have in place PILOT programs that provide payments to local governments for state parks and other state land, which mirror in some way a program of the federal Department of Interior. (The federal programs and Pennsylvania's PILOT for state parks and game lands are discussed in detail in Finding F.) Six states, moreover, specifically share state revenues with local municipalities based on the presence of certain types of tax-exempt property. Such states include: Connecticut, Delaware, New York, Rhode Island, Vermont, and Wisconsin.

Comparing states and their programs is complex, in view of their differing revenue structures. Four of the states (Connecticut, New York, Vermont, and Rhode Island) that distribute funds to local municipalities based on the presence of certain tax-exempt property, for example, are highly reliant on realty taxes for tax revenues, having some of the highest rankings in the nation for state and local property taxes per capita.<sup>84</sup> Comparisons are further complicated by differences in states and how they divide responsibilities across state and local governments and among local governments. In Connecticut, for example, local education is the responsibility of local municipalities<sup>85</sup> rather than independent school districts. Nonetheless, the six states offer a variety of approaches to distributing revenues to municipalities with tax-exempt property.

The six state programs typically distribute state revenues based on the presence of certain public property. In two (Connecticut and Rhode Island) of the states private hospitals and colleges and universities are also included.

**Connecticut** has the largest programs of the six states we reviewed. To provide relief to local municipalities, the state makes payments in lieu of taxes for certain non-profit hospitals and universities and certain state properties based on the fair market value of such properties. Connecticut does not have county government, and it has staff responsible for challenging fair market value claims submitted by municipalities. The amount of the state payment is dependent on the type of property (e.g., 100 percent for a state correctional facility, 45 percent for other state facilities, etc.) and the amounts appropriated by the state legislature. In 2008, the state distributed to municipalities over \$120 million in general fund revenues for its private hospital and college PILOT, and \$83 million for state government property. In Connecticut, local government accounts for 60 percent of all tax-exempt property based on assessed value, and such property is not included as part of the state's PILOT programs.

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<sup>84</sup>Wisconsin ranks 11<sup>th</sup>, Pennsylvania 20<sup>th</sup>, and Delaware 43<sup>rd</sup>.

<sup>85</sup>Local governments in Connecticut have the option of forming regional schools, and there are 17 such districts, according to the U.S. Census Bureau.

**Rhode Island** has a program similar to its neighboring state of Connecticut. The Rhode Island program, however, is limited to public and non-profit hospitals, certain educational institutions, and state correctional facilities. In recent years, the state distributed \$27.8 million for this program.

**Vermont** provides about \$3.5 million in payments to municipalities that host state-owned buildings, state correctional institutions, and the state's capital. Much of the funding for this program comes from the state's share of an optional local sales tax, which a limited number of municipalities levy.

**Delaware** makes "compensatory payments" for state properties located in the three municipalities that serve as county seats. Approximately \$3.5 million was appropriated in 2005 for such payments with the largest share directed to the county seat with 50,000 residents (i.e., the City of Wilmington). Other municipalities with state property do not participate in the program.

**New York** makes "transitional payments" for defined periods when the state acquires certain previously taxed property that accounts for two percent or more of the municipality's taxable assessed value. As the amount of the transition payments decline over time, New York projected three towns would receive a total of approximately \$19,000 under this program for 2007.

A second "transitional payment" program is in place for cities with a population of 75,000 or more<sup>86</sup> when state property acquisition or improvements result in a decrease in the value of taxable property and the value of other state-owned property (excluding public authority property) is equal to or exceeds 25 percent of the city's total assessed value. New York reports total expenditures for this program of less than \$100,000 per year.

New York makes payments to its state Capital, as it had to acquire taxable land to create the Empire State Plaza. The annual payment amount is capped at approximately \$23 million through FY 2010-11 and \$15 million from FY 2011-12 through FY 2032-33.

**Wisconsin** has in place a municipal services program. The program reimburses for fire, police and solid waste handling provided to state buildings, including the state's public hospitals. The state payments are based on the part of the cost for such services that are reimbursed through local realty taxes. The actual cost for such services and their sources of financial support must be documented by the state. The amounts that are paid to municipalities, moreover, are reduced when the state institution self-provides services such as police services. Wisconsin spends \$22 million annually for such municipal service payments.

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<sup>86</sup>Fewer than ten cities in New York State have populations exceeding 75,000.

## F. Pennsylvania Provides Revenues to Municipalities in a Variety of Ways to Enable Their Provision of Essential Services.

As discussed earlier in this report, real estate taxes are an important source of general revenue for local municipalities in Pennsylvania. According to the Department of Community and Economic Development, total tax revenues account for more than 40 percent of all municipal revenues, and real estate taxes make up about one-third of municipal tax revenues.

Pennsylvania municipalities reported more than \$11.4 billion in total revenue for 2005. As shown in Table 15, tax revenue for all municipalities accounted for \$5.3 billion or over 46 percent of the total revenue. Major components of this tax revenue included real estate taxes, earned income taxes, and real estate transfer taxes.

Table 15

<b>Municipal Revenues for 2005</b>	
(\$ Billions)	
<u>Revenue Source</u>	<u>Tax Revenue</u>
Total Revenue .....	\$11.4
Tax Revenue .....	5.3
Real Estate Tax .....	1.8
Earned Income Tax .....	2.1
Realty Transfer Tax .....	0.5
All Other Local Taxes .....	0.9

Source: Developed by LB&FC staff from Department of Community and Economic Development municipal reports.

### Key Sources of Local Tax Revenue Other Than Real Estate Tax

The General Assembly has authorized municipalities to levy certain taxes other than those on real estate. Some statutes enacted by Pennsylvania's General Assembly allow municipalities to levy taxes and use the revenue generated as they see fit. In other cases the General Assembly provides authorization for local taxes in which the revenue is restricted for specific purposes.

The Sterling Act of 1932 gave the City of Philadelphia the authority to levy taxes on persons, transactions, occupations, privileges, subjects, and personal property. The city, however, cannot collect a tax on anything preempted by a state tax or license fee. The City of Philadelphia collected over \$2.4 billion in total taxes for FY 2007.

Taxing authority was extended to political subdivisions other than Philadelphia by Act 1947-481. Act 481 was replaced by the Local Tax Enabling Act, Act 1965-511, as amended.<sup>87</sup> In general, local governments can levy local taxes in a number of areas such as earned income, realty transfer, per capita, business gross receipts, amusements, mechanical devices, and hotel rooms. Within legislatively established maximum tax rates or other restrictions as discussed below, in certain circumstances “home rule” local governments and the courts can provide for exceptions to the specific criteria established in statute.

**Earned Income Tax.** The earned income tax, also known as local income tax, is levied on wages, salaries, commissions, net profits, or other compensation. Generally municipalities and school districts may enact an earned income tax limited to 1 percent.<sup>88</sup> Where both the municipality and school district impose the tax on the same wage earner the 1 percent maximum rate is divided between the two taxing districts. A jurisdiction can collect this tax from residents who are not paying an earned income tax to another local municipality and non-residents who work within their boundaries but do not pay an earned income tax in their jurisdiction of residence. Local municipalities (not including Philadelphia) reported over \$1 billion in revenue from earned income tax collections for 2005. Separately, Philadelphia, which has first claim on the earned income tax of those working in Philadelphia and not residing there, reported collecting an additional \$1.3 billion in earned income tax for 2005.<sup>89</sup>

**Real Estate Transfer Tax.** The Commonwealth of Pennsylvania imposes a 1 percent transfer tax on the value of real estate sold within the state. Additionally, Pennsylvania law also allows cities, boroughs, townships and school districts to impose local real estate transfer taxes. All transfer taxes levied by local taxing authorities may not total more than an additional 1 percent. Certain home rule municipalities are permitted to levy higher transfer taxes. For example, the City of Philadelphia imposes an additional 3 percent transfer tax and the City of Pittsburgh charges an additional 2 percent<sup>90</sup> in addition to the 1 percent charged by the state.

The realty transfer tax is imposed on the value of real estate when the title to the property is transferred. All transfer taxes are collected by the County Recorder of Deeds, who then remits payment to the Commonwealth and local taxing authorities. In FY 2007-08 the Commonwealth collected more than \$429.5 million in realty transfer taxes.

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<sup>87</sup>53 P.S. §6901 *et seq.*

<sup>88</sup>The 1 percent limit may be exceeded for municipalities that are home rule, financially distressed, have financially distressed pension systems, purchase open space, or opt into the Optional Occupation Tax Elimination Act (Chapter 4 of Act 1965-511, as amended). Certain school districts may also exceed the 1 percent cap under limited circumstances.

<sup>89</sup>The \$1.3 billion includes \$300 million from the PICA tax. The PICA tax, established in 1991, is a one and one-half percent tax on the earned income of Philadelphia City residents. Revenue from the PICA tax is dedicated to repay bonds issued by the Pennsylvania Intergovernmental Cooperation Authority.

<sup>90</sup>The City of Pittsburgh School District also imposes an additional 1 percent transfer tax for a total of 3 percent.

**Local Services Tax.** The name of the Emergency and Municipal Services Tax (EMST) was changed to the Local Services Tax (LST) by Act 2007-7 which amended the Local Tax Enabling Act of 1965. Municipalities and school districts may impose the tax on persons employed within their jurisdiction at a combined rate of no more than \$52 per year. At least 25 percent of the revenue from this tax must be used for police, fire, and/or emergency services. The remaining revenue may also be used for road construction and/or maintenance; reduction of property taxes; or property tax relief through homestead/farmstead exclusions.

**Local Sales Tax.** Local governments in Pennsylvania were not authorized to levy local sales taxes until the Pennsylvania Intergovernmental Cooperation Authority Act of 1991, as amended,<sup>91</sup> authorized Philadelphia to levy a local sales tax. The City of Philadelphia levies a 1 percent sales tax on the same tax base as the state sales tax. The tax is collected by Pennsylvania's Department of Revenue and remitted to the city. These local sales tax revenues are used for general city purposes. In FY 2007 the City of Philadelphia collected over \$132.5 million in local sales tax.

Pennsylvania's General Assembly authorized a local 1 percent sales tax for Allegheny County in 1993 when it enacted the Allegheny Regional Asset District Act, Act 1993-77, as amended.<sup>92</sup> Some of this tax revenue is earmarked for specific purposes, such as debt obligations, while other parts are available for general government purposes and other tax reduction. Allegheny County imposed its 1 percent sales tax beginning in 1994. This tax is also collected by Pennsylvania's Department of Revenue with one quarter of the revenue going to Allegheny County government. An additional one quarter of the revenue goes to the local municipalities in Allegheny County, and the remaining one half goes to the Allegheny Regional Asset District (RAD).

The Regional Asset District provides funding to civic, cultural and recreational entities, libraries, parks, and sports facilities. About 20 percent of the RAD revenues go to "multi-year" assets to pay for debt service for the Sports and Exhibition Authority, including its Regional Destination Financing Plan (Stadium) debt service and Mellon Arena debt service. The largest share of the RAD revenues (73 percent) is targeted to "contractual assets," which include county libraries and parks, the City of Pittsburgh's parks, and the Pittsburgh Zoo and Aquarium, which were previously funded by local governments. Typically, the remaining funds are for relatively small one-year grants for many civic and cultural organizations.

Allegheny County is required to use the revenue it receives to eliminate the personal property tax, reduce real estate taxes, and fund a low income senior citizen tax relief program. The City of Pittsburgh receives about 50 percent of the

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<sup>91</sup>53 P.S. §12720.101 *et seq.*

<sup>92</sup>16 P.S. §6101-B *et seq.*

non-earmarked municipal revenue, in part since the distribution formula is weighted toward less affluent municipalities.<sup>93</sup> The City of Pittsburgh must use the revenue it receives from the 1 percent tax to eliminate the personal property tax, to reduce the amusement tax, and to fund a senior citizen tax relief program.

Other local municipalities that receive revenues from the 1 percent sales tax must use two-thirds of the revenue to reduce taxes. The balance of municipal funds can be used for any type of municipal function.

The proceeds from the 1 percent Allegheny County sales tax were almost \$160 million in 2007. The Regional Asset District received almost \$80 million while Allegheny County received almost \$40 million. An additional \$40 million was shared by local municipalities located within Allegheny County, with the City of Pittsburgh receiving over \$20 million of the municipal share for 2007.

**Liquor Sales Tax.** In 1994, the City Council of Philadelphia passed an ordinance authorizing the School District of Philadelphia to impose a ten percent tax on certain sales of liquor and malt and brewed beverages sold in the School District of Philadelphia. Sales from Pennsylvania State Liquor Stores and malt beverage distributors are excluded from the tax. Proceeds from this tax go to the School District of Philadelphia. In FY 2007-08 the Philadelphia School District received over \$41.5 million in revenue from the liquor sales tax.

In 2007, Allegheny County Council passed an ordinance providing for the imposition of a ten percent county tax on the sale at retail of alcoholic beverages within Allegheny County. As in Philadelphia, sales from Pennsylvania State Liquor Stores and malt beverage distributors are excluded from the tax. In December 2008, the tax was reduced to seven percent. Proceeds from this tax must be used for the required local match provision for mass transit.<sup>94</sup> As of late January 2009, Allegheny County had collected over \$37 million for the 2008 local liquor tax.

## Revenue Sharing

Although general revenue sharing does not exist at the state level in Pennsylvania, Pennsylvania state government has established several specific

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<sup>93</sup>The municipal distribution is determined using a legislative formula that includes total tax revenue, total market value of taxable real estate, and population for the individual municipality compared with all municipalities in the county. Municipalities with lower tax revenues and lower real estate values receive a proportionally larger share of the available municipal sales tax revenue. In recent years, the severely distressed municipalities in Allegheny County accounted for 40 percent of the population and 67 percent of the total municipal sales tax allocation. Municipalities with the best fiscal status accounted for 10 percent of the population and about four percent of such allocation. Excluding Pittsburgh, the severely fiscally distressed municipalities in Allegheny County with 19 percent of the population received 34 percent of the municipal sales tax allocation, and municipalities with the best status and 13 percent of the population received 8 percent of the revenues.

<sup>94</sup>Allegheny County also instituted a \$2 per day rental car fee that is also used for the mass transit funding match. Almost \$5.9 million was collected for this tax for 2008.

circumstances that allow such sharing of revenue collected by the state with local municipal governments.

In some cases, the Commonwealth levies and collects a tax which is then distributed to local municipalities. Some examples of this type of tax include the Liquid Fuels Tax, the Foreign Fire Insurance Tax, and the Public Utility Realty Tax. In other situations the Commonwealth collects a fee which is then shared with local municipalities. These would include Liquor License fees and municipal recycling fees. Table 16 shows recent municipal revenues from these sources.

Table 16

<b>State Revenue Earmarked for Municipalities</b>	
(\$ Millions)	
<u>Revenue Source</u>	<u>Municipal Share</u>
Liquid Fuels Tax .....	\$295.7
General Municipal Pension System Aid .....	206.5
Foreign Fire Insurance Tax .....	68.0
Recycling/Waste Mgt Grants .....	41.0
State Police Fine Revenue .....	14.5
Ad Hoc Post Retirement Adjustment .....	11.0
PURTA .....	8.4
Liquor License Fund .....	4.5

Source: Developed by LB&FC staff from various state agency reports.

## Liquid Fuels Tax

The Liquid Fuels Tax Municipal Allocation Law<sup>95</sup> provides municipalities other than counties with an annual allocation from Pennsylvania’s Motor License Fund. This allocation provides funding for the maintenance and repair of streets, roads, and bridges for which the municipality is responsible. The Pennsylvania Department of Transportation administers these funds.

Liquid Fuels Fund allocations to municipalities other than counties include: 20 percent of the receipts from the state’s 11½ cent liquid fuels tax; 12 percent of the 153.5 mills of the oil franchise tax; and \$30 million of the \$500 million allocated for roads and bridges under Act 2007-44.

Liquid Fuels tax funds are allocated to municipalities based 50 percent on the ratio of municipal road mileage to total state road mileage and 50 percent on the ratio of municipal population to the total state population. According to PennDOT’s

<sup>95</sup>72 P.S. §2615.5.

Bureau of Municipal Services, Pennsylvania municipalities received almost \$295.7 million in fuels tax revenue in FY 2007-08. In FY 2007-08 these payments ranged from a high of \$22.8 million to the City of Philadelphia to a low of \$1,440 to Worthville Borough.

In order to qualify for the annual liquid fuels tax allocation a municipality must submit annual reports to the Department of Transportation and DCED. At the municipal level the funds must be deposited into a special account and may only be used for approved expenditures. These expenditures include the construction, reconstruction, maintenance, and repair of public roads or streets for which the municipality is responsible. The funds may also be used for the purchase of road equipment, traffic and street signs, traffic signals and controls, and the salary and benefit costs of municipal road crews.

### **General Municipal Pension System State Aid**

The Municipal Pension Plan Funding Standard and Recovery Act (Act 1984-205, as amended)<sup>96</sup> helps municipalities defray the cost of various municipal, police, and fire pension plans. Revenue for this program comes from a two percent tax on casualty insurance premiums sold in Pennsylvania by out-of-state insurance companies.<sup>97</sup> The fund also receives monies from the Fire Insurance Tax Fund discussed below.

The Auditor General is responsible for administering the General Municipal Pension System State Aid Program. The Public Employee Retirement Commission reviews the pension system reports submitted by municipalities and certifies the municipal pension cost data submitted by the municipalities when applying for state pension aid. Funds are distributed to municipalities<sup>98</sup> which provide pension coverage for one or more full-time employees through a plan that has been maintained for at least three years.

Monies in the fund are divided among eligible municipalities based on a unit value system. Municipalities calculate their units by counting each police and fire employee as two units and each non-uniformed employee as one unit. A statewide unit value is determined by dividing the total available funds generated by the insurance tax by the total number of units in all eligible municipal plans. The allocation for each municipality is then calculated by multiplying this unit value by the municipality's total units.<sup>99</sup> The Auditor General's office reimbursed 1,510 municipal pension plans for over \$206.5 million in 2008.

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<sup>96</sup>53 P.S. §895.101 *et seq.*

<sup>97</sup>Out-of-state or foreign insurance companies are insurance companies which write insurance policies in the state of Pennsylvania but are not incorporated in the Commonwealth.

<sup>98</sup>Authorities and counties are not eligible.

<sup>99</sup>Philadelphia cannot receive more than 25 percent of the total aid available in any year.

No municipality may receive state aid for more than 100 percent of its pension cost in any year. In those cases where a municipality's pension cost is lower than its unit value allocation, the municipality can have its entire pension cost covered in that year. This occurred in 703 municipalities for their 2008 reimbursement. Over 1,100 municipalities reported no pension costs for 2008.

The Special Ad Hoc Municipal Police and Firefighter Post-retirement Adjustment Act (Act 1988-147, as amended by Act 2002-64)<sup>100</sup> provided a cost of living increase in pensions for police officers and firefighters who retired prior to January 1, 1985 (Act 147), or prior to January 1, 1996 (Act 64). These payments are also funded from the taxes on out-of-state insurance company premiums. For 2008, the Auditor General reported ad-hoc payments of over \$11 million.

## **Foreign Fire Insurance Taxes**

The Foreign Fire Insurance Tax Distribution Law,<sup>101</sup> governs the allocation of state aid from the foreign fire insurance premium tax. The Commonwealth receives a two percent tax on gross premiums paid by insurance companies which write fire insurance policies in the state but are not incorporated in the Commonwealth of Pennsylvania. These funds are deposited into the Fire Insurance Tax Fund. Monies from this fund are then paid to municipalities according to a formula which is based on the municipality's population and market value of taxable real estate in the municipality as established by Pennsylvania's State Tax Equalization Board.

If fire protection in a municipality is provided by paid firefighters, the allocation from this fund is deposited in the General Municipal Pension System State Aid program as discussed above. When fire protection is provided by volunteer firefighters, the allocation is distributed to the municipality which must in turn distribute the monies to the local volunteer firefighters' relief association within 60 days. The total statewide volunteer firefighter relief association allocations for 2007 were almost \$68 million.

## **Public Utility Realty Tax Act**

In 1968, the Constitution of Pennsylvania was amended to provide for the state taxation of public utility realty. The Public Utility Realty Tax Act,<sup>102</sup> authorized the state of Pennsylvania to levy a tax on public utilities and to distribute those revenues to local tax authorities in lieu of local real estate taxes on public utility property. The original PURTA tax was based on the depreciated book value of the utility real estate. In FY1996-97, \$137.2 million was paid into the PURTA fund by Pennsylvania utilities.

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<sup>100</sup>53 P.S. §896.101 *et seq.*

<sup>101</sup>53 P.S. §§895.710-895.707.

<sup>102</sup>Act 1979-27, as amended, 72 P.S. §8101-A *et seq.*

As part of the deregulation of the electric power generation industry, PURTA was amended by Act 1999-4 to exempt property indispensable to the generation of electricity from the PURTA tax. Power generating utilities became subject to real estate tax by local municipalities.

The method used to value utility real estate was also changed by Act 1999-4. Retroactive to tax years 1998 and 1999, the utility property value is now based on the fair market value of the property. The fair market value is defined as the assessed value of the realty as adjusted by the common level ratio<sup>103</sup> of the county in which the realty is located. Public utilities were given a one-time opportunity to file a retroactive appeal on the assessment value of their property. Many Pennsylvania utilities took advantage of this opportunity to reduce their real estate tax base.

The cost of transmission and distribution of electricity by companies in Pennsylvania continues to be regulated by the Public Utility Commission, and the land and structures owned by public utilities and used in providing these services are still subject to the PURTA tax. Other utilities, such as telecommunications and water, are also subject to this tax.<sup>104</sup> The tax is calculated using a formula that includes total tax receipts, tax rates, and the value of public utility real estate in the municipality.

In 2007, over \$28 million was distributed from revenue generated from the PURTA tax. Local municipalities received \$8.4 million from the PURTA tax while school districts received \$16.3 million, and counties received \$3.3 million.

## **Liquor License Fund**

Under the Pennsylvania Liquor Code,<sup>105</sup> liquor license fees for hotel, restaurant, and club liquor licenses and license fees for retail dispensers of malt and brewed beverages are collected and deposited into the Liquor License Fund. This fund receives all license fees except for \$100 from each license, which is credited to the State Stores Fund. Liquor license fees and malt beverage license fees for clubs are uniform throughout the state, while most license fees for hotels and restaurants vary according to the population of the municipality in which the establishment is located. License fees range from \$125 to \$700 annually.

All of the fees deposited in the Liquor License Fund are returned to the municipalities in which the licensed establishments are allocated on a semiannual basis in February and August of each year. These payments to local municipalities

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<sup>103</sup>The State Tax Equalization Board develops the common ratio by comparing the recent actual selling prices of real property in a county with the assessments of each sold property. The average of all such assessment ratios over the past year is certified as the common level ratio for the county.

<sup>104</sup>Public utilities furnishing sewage services and municipal authorities furnishing public utility service are exempt from this tax.

<sup>105</sup>47 P.S. §1-101 *et seq.*

have averaged about \$4.5 million in recent years, with just over \$4.5 million in license fees returned to local municipalities in FY 2006-07. Since the PLCB was established in 1933, over \$400 million in liquor license fees have been returned to local governments.

## **Recycling and Waste Management Grants**

Act 1988-101, as amended,<sup>106</sup> the Municipal Waste Planning, Recycling and Waste Reduction Act, imposes a \$2 per ton fee on municipal waste entering landfills and resource recovery facilities. These fees are deposited in the Recycling Fund.

This fund is used by Pennsylvania's Department of Environmental Protection to provide grants to counties and municipalities for the development and implementation of municipal waste planning, recycling, and waste reduction programs and for recycling performance grants. This fund is also used to provide grants to counties for planning, recycling coordinator salaries, and other recycling related activities.

Under the recycling program development grant program, municipalities are eligible for 90 percent funding of approved recycling program costs. However, municipalities considered financially distressed under Act 47 may receive funding for 100 percent of approved costs. Applicants must submit a plan that includes strategies for reducing costs, generating revenues, and establishing incentives for waste reduction and recycling. According to DEP, 160 municipalities received \$20 million in grants for CY 2008.

All Pennsylvania local governments with a recycling program are eligible for recycling performance grants. The awards are based on the total tons recycled and the applicant's recycling rate. Applications are based on the preceding year's recycling activity. DEP reports that it received about 800 applications for CY 2006 activity and awarded \$21 million in performance grants.

## **State Police Fine Revenue**

Under current Pennsylvania law,<sup>107</sup> fines for vehicular infractions resulting from Pennsylvania State police citations are payable to the Motor License Fund. One half of this revenue is paid to municipalities using the same formula that is used for Liquid Fuels tax disbursements. This formula uses the municipal road mileage and population compared to the state totals to determine the percentage of funds allocated to each municipality. In CY 2007, over \$14.5 million in fine revenue was distributed to Pennsylvania municipalities.

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<sup>106</sup>53 P.S. §4000.101 *et seq.*

<sup>107</sup>42 Pa.C.S. §3571.

## Pennsylvania Property Tax or Rent Rebate Program

In 1971, the General Assembly established the Senior Citizens Rebate and Assistance Act, authorizing Pennsylvania's Property Tax Rent Rebate program. This program, now authorized by the Taxpayer Relief Act,<sup>108</sup> is designed to assist Pennsylvania's elderly, widows, widowers, and disabled citizens in maintaining possession of their homesteads by providing tax relief in the form of a rebate. Rebates for homeowners are calculated on the basis of real estate taxes actually paid while rebates for renters are based on rent paid.

Originally, rebates were calculated as a percentage of property taxes or rent paid for a particular claim year. The rebate percentage varied by income level with a maximum allowed income of \$7,499 and a maximum rebate of \$200. The income levels and maximum rebate amount were adjusted over time, with the most recent change in 2006. In 2006, the maximum income eligibility requirement was raised to \$35,000 for homeowners and the maximum rebate increased to \$650. Income eligibility for renters remained at the \$15,000 level. The payment schedule was also streamlined by replacing the percentages with flat rebate amounts based on income levels. Rebates are determined using the total amount of real property taxes paid or the maximum allowed rebate amount, whichever is less.

For claim year 2006, rebates to qualified claimants for property taxes or rent paid during 2006 totaled more than \$243.1 million. Pennsylvania has used Lottery revenues to provide for these rebates. Recently, state revenue from gaming facilities has allowed the program to be expanded. Qualified claimants for 2006 included 387,462 property owners who received over \$150 million in rebates, averaging \$389 per homeowner. Over \$92.5 million was also rebated to 176,931 renters. More than \$4 billion has been distributed since the Property Tax/Rent Rebate Program began in 1971.

## Property Tax Relief

The Taxpayer Relief Act of 2006<sup>109</sup> created the Property Tax Relief Fund as a method to use gaming revenues to reduce property taxes for homeowners. Licensed gaming facilities pay 34 percent of their gross revenue to Pennsylvania, with most of those funds going to the Property Tax Relief Fund.<sup>110</sup> Every school district in Pennsylvania, with the exception of Philadelphia,<sup>111</sup> is eligible for this property tax relief.

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<sup>108</sup>Act 2006-1 (Spec. Sess. 1), 53 P.S. §6926.1301 *et seq.*

<sup>109</sup>53 P.S. §6926.101 *et seq.*

<sup>110</sup>Some of the gaming revenue is also set aside to aid local communities that host the facilities, to revitalize the horse racing industry, to fund community and economic development projects, and to fund a program to prevent and treat compulsive gambling.

<sup>111</sup>Philadelphia uses the gaming funding to reduce its wage tax and will receive \$86.6 million for FY 2008-09. Scranton can use up to one half of its allocation from gaming revenue to reduce its wage tax.

For FY 2008-09 the Taxpayer Relief Program will provide almost \$613 million in property tax relief and reduce school district property taxes by 10 percent statewide. This represents an average reduction of \$190 per household. The actual amount of relief for individuals varies by school district. Homeowners will see the property tax reduction itemized on the tax bill issued by their local school district.

## **Payments in Lieu of Taxes**

One way local jurisdictions are compensated in part for real property that is tax-exempt is through payments in lieu of taxes. These payments are intended to help cover the cost of local government services such as fire and police protection, road construction, and search/rescue operations, or to offset the tax revenue lost when the property was removed from the tax rolls. Both the federal and state governments make certain payments in lieu of taxes to Pennsylvania municipalities.

### **Federal Payments**

*The U.S. Department of the Interior* administers a program by which payments in lieu of taxes are made by the federal government to local governments that have certain federal lands within their boundaries. The Department of the Interior calculates the payments according to the formulas established by law and distributes the funds appropriated by Congress. The payments began in 1977 and have averaged about \$134 million annually across the nation. These payments are intended to help local governments provide community services such as fire and police protection, hospital and public school facilities, road construction, and search/rescue operations.

For FFY 2008, payments in lieu of taxes totaled \$228.5 million and went to about 1,850 local governments across the United States. Payments are made directly to counties unless the state government chooses to receive the payments and pass them on to local governmental units.<sup>112</sup> Pennsylvania counties received \$325,067 for 653,028 federally owned acres located in 40 counties across the Commonwealth.

Payments to local governments are calculated based on the number of acres of federal entitlement land within each county or jurisdiction. These lands include the National Forest and National Park systems, lands managed by the Bureau of Land Management, land affected by the Corps of Engineers and Bureau of Reclamation water resource development projects, and certain other federal lands.

In FFY 2008, payments were generally calculated using one of the following methods:

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<sup>112</sup>Wisconsin is the only state currently employing this option.

- \$2.29 times the number of acres of qualified federal land in the county reduced by the amount of funds received by the county in the prior fiscal year under certain other federal programs; or
- 32¢ times the number of acres of qualified federal land in the county, with no deduction for prior-year payments.

Payments are then adjusted to reflect the actual total amount appropriated by Congress for the year. Payments for FFY 2008 were adjusted to 62.2 percent of the calculated amounts to match the appropriated funds available. Payments to all recipients are adjusted by the same percentage.

***The U.S. Department of Housing and Urban Development*** (HUD) administers the federal public housing program for the provision of decent and safe housing to eligible low-income families, the elderly, and persons with disabilities. HUD administers federal aid to local Public Housing Agencies<sup>113</sup> that manage the housing for low-income residents at rents they can afford.

A PHA is required to develop and operate projects in compliance with HUD statutes, executive orders, and regulations. To receive preliminary funding from HUD to plan a project the local governing body must approve the housing authority's application for such funds.

Before the PHA can receive funds to build and operate the project and amortize the loan, the local government body and the PHA must enter into a Cooperation Agreement. This agreement includes an exemption from real and person property taxes, acceptance of PHA payments in lieu of taxes, and the provision by the local governing body of the same public services and facilities normally furnished to others in the community for no additional cost.

In lieu of tax payments can be no more than 10 percent of shelter rents charged by the authority or a lesser amount as prescribed by state law or in the Cooperation Agreement. The HUD formula for in lieu of tax payments is mandated by HUD statute and regulations. The rent paid by tenants is reduced by the amount of utility expenses and the authority's PILOT payment is limited to 10 percent of this amount.<sup>114</sup> The amount paid by the PHA as a PILOT to local government is reimbursed by HUD as part of its operating subsidy.

According to the HUD regional office for Pennsylvania, neither the Philadelphia Housing Authority nor the Pittsburgh Housing Authority made Pilot payments

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<sup>113</sup>A Public Housing Agency (PHA or HA) is a state, county, municipality, or other governmental entity or agency authorized to engage in or assist in the development or operation of low-income housing.

<sup>114</sup>PHAs cannot make PILOT payments in excess of this amount. In 2006, HUD's Office of Inspector General audited the HA of the City of Newark to review payments made to the local government in excess of those identified in the cooperation agreement.

to the local government in 2008. Representatives of both housing authorities told us that the utility expenses exceeded the rents collected, so no PILOT payment was due.

HUD reported that of the 84 housing authorities in Pennsylvania submitting information for their 2009 operating subsidy, 6 reported no PILOT payments for 2008. PILOT payments by the remaining 78 housing authorities ranged from a high of \$186,406 by the Westmoreland County Housing Authority to a low of \$12 by the Centre County Housing Authority. Public housing authorities in Pennsylvania reported over \$3.5 million in PILOT payments for 2008.

## **State Payments**

Pennsylvania's General Assembly specifically authorized annual in lieu of tax payments to local governmental entities for state-owned land used for forest, water conservation, flood control and game purposes. The state pays \$1.20 per acre each to the county, the township, and the school district where the state owned land is located. The State Gaming Fund provides \$.80 per acre and individual department funds provide \$0.40 per acre for these payments. In recent years, local municipalities received more than \$4.2 million<sup>115</sup> in PILOT payments from such state agencies.

***The Department of Conservation and Natural Resources*** makes payments to local municipalities for state forest lands, Cook Forest State Park, and land purchased under the Project 70 Land Acquisition and Borrowing Act of 1964.<sup>116</sup> In 2007, DCNR made in-lieu of tax payments to townships totaling over \$2.5 million. Funding of \$0.40 per acre is provided from DCNR funds and \$0.80 per acre comes from the State Gaming Fund.

***The Pennsylvania Game Commission*** makes payments in lieu of taxes to counties, school districts, and townships for game commission lands, waters, and buildings. In 2007, the Game Commission made in-lieu of tax payments totaling over \$5.1 million. Of this total, \$1.7 million was paid to townships. Funding for \$0.40 per acre is provided from the Game Fund, and \$0.80 per acre comes from the State Gaming Fund.

***The Pennsylvania Fish and Boat Commission*** paid over \$19,000 to 30 townships in lieu of taxes in 2007. Funding for \$0.40 per acre is provided from the Fish and Boat Funds, and \$0.80 per acre comes from the State Gaming Fund.

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<sup>115</sup>This amount excludes payments to school districts and county governments. Typically, local municipalities receive about 30 percent of the total PILOT payments.

<sup>116</sup>72 P.S. §3946.1 *et seq.* The Project 70 Land Acquisition and Borrowing Act permits the state to issue bonds for the purchase of lands for public parks, reservoirs, and other conservation, recreation, and historical preservation purposes, and to coordinate those purchases with local governments. The General Assembly must approve any disposition of these lands.

**The City of Harrisburg** does not directly receive payments in lieu of taxes from the Commonwealth. However, the General Assembly annually provides a grant to the Harrisburg City Fire Department for fire protection services for the Capitol Complex in Harrisburg. For FY 2008-09, the Commonwealth appropriated \$1,253,000 to the Harrisburg Fire Department.

The Commonwealth of Pennsylvania also provides economic support to the City of Harrisburg. This support is evidenced in the Harristown Urban Renewal Project.<sup>117</sup> In the 1970s the Commonwealth agreed to a long term lease of space built by Harristown in the central business district of Harrisburg, known as the Strawberry Square complex. Based in part on this leasing commitment, favorable tax-exempt financing was obtained for the \$120 million in tax-exempt bonds issued by the Redevelopment Authority of the City of Harrisburg for the project.

Over the last five years, the Commonwealth paid over \$17 million annually for space at Strawberry Square and 333 Market Street, which house major state agencies. The \$17 million includes \$6.3 million in rent each year, \$6.6 million in operating expenses, and \$4.3 million in payments in lieu of taxes each year related to these leases.

## **Local Police Services Provided by the Commonwealth**

Although Pennsylvania cities are required to provide police services for their citizens,<sup>118</sup> other municipalities in the Commonwealth have the option of providing such services. Pennsylvania's municipalities that provide police services usually do so in one of three ways. One way is for the municipality to have its own police department and police officers. Another method is to purchase police services through a contract with the police department of another municipality. A third method is by establishing a regional police department where two or more municipalities form a single police jurisdiction.

As discussed in Finding D of this report, public safety services are sometimes provided by entities other than local municipalities such as universities. Public safety needs are also at times addressed by Pennsylvania's State Police rather than a local police force. According to statistics from the Pennsylvania State Police, about two-thirds of Pennsylvania's municipalities rely wholly or in part on the State Police for their basic police services.<sup>119</sup>

In 2006, the State Police estimated the cost of providing basic police services for municipalities with populations in excess of 5,000 at \$38.3 million. The cost of

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<sup>117</sup>The Harristown Development Corporation is a nonprofit corporation formed for the purpose, through its rental activities, of combating community deterioration and promoting development.

<sup>118</sup>Such requirements can be met through participation in regional police forces and through part-time coverage.

<sup>119</sup>State Police officers can only enforce state laws, not local laws or ordinances.

providing basic police services for these communities was established at a per capita cost of \$112.20. There is currently no charge to local municipalities for State Police services.

The Commonwealth also operates its own Capital Police Force, which is responsible for security for designated state property in Harrisburg, and in state offices in Philadelphia, Pittsburgh, and Scranton. The Force is on duty 24/7 in Harrisburg and Philadelphia. With more than 110 professionally trained officers, the Capital Police conduct bicycle, foot, K-9, and police vehicle patrols; investigate serious crimes; and at its Communication Center in Harrisburg monitor sophisticated surveillance equipment, and fire and security alarms. It also provides backup support to the Harrisburg City police. In FY 2007-08, the General Assembly appropriated \$9.9 million for the Capital Police.

### **State Programs That Aid Financially Distressed Municipalities**

In 1987, the General Assembly of Pennsylvania passed the Municipalities Financial Recovery Act, Act 1987-47, as amended, which gave the Department of Community and Economic Development the authority to declare certain municipalities as financially distressed. The Act also provided for restructuring of the debt of these financially distressed municipalities, limiting government funding for these municipalities, and allowing for consolidation or merger of municipalities to relieve the financial distress.

When a municipality applies for distressed status, DCED investigates to determine if the municipality qualifies for distressed status. When distressed status is granted, a coordinator is appointed to create a recovery plan and guide the municipality back to fiscal health. Options that are available to the distressed municipality include grants and loans to cover deficits, temporary raising of tax rates above state mandated levels, and finding ways to reduce expenditures to less than revenues.

Since the program began in 1987, 23 municipalities have been designated as financially distressed. Six of these municipalities have had that designation rescinded while 11 municipalities have been in the program for over 12 years. See Finding A of this report for a further discussion of individual financially distressed communities.

DCED also administers the Early Intervention Program that provides financial management assistance to local governments to address fiscal difficulties before they reach a crisis point. Local governments can apply for a grant to help with the development, adoption, and implementation of financial management plans, consultant services, and the development of intergovernmental cooperation initiatives and

cost sharing strategies. Thirty-three municipalities and nine counties have participated in the Early Intervention Program.

DCED's New Communities Program supports three initiatives that encourage development and revitalization of financially distressed communities. As discussed in Finding D of this report, some of these programs are used in partnership with tax-exempt organizations to help strengthen and revitalize their communities.

These New Communities Programs are designed to complement each other and help to stabilize communities so that economic and social growth can occur. In FY 2007-08, over \$17.4 million in grants were awarded by the New Communities Program.

- The Main Street Program provides technical and financial support to communities involved in downtown revitalization efforts. The goal of the program is to preserve and strengthen existing retail, local government, and business centers of Pennsylvania communities and to serve as a catalyst for small business development. Local governments, redevelopment authorities, nonprofit organizations and business improvement districts are eligible for planning, operational, façade improvement and other downtown reinvestment grants.<sup>120</sup>
- The Elm Street Program compliments the Main Street Program by providing grants for planning, technical assistance and physical improvements to residential and mixed use areas close to central business districts. Local governments, redevelopment authorities, nonprofit organizations, and business and neighborhood improvement districts are eligible for planning, operational, façade improvement, and residential reinvestment grants.
- The Enterprise Zone Program is intended to revitalize deteriorated or distressed industrial and manufacturing areas within a specific financially distressed area. Eligible applicants include local governments, redevelopment authorities, nonprofit organizations and business/neighborhood improvement districts. Grants are available for planning, operational costs and analytical studies. Grants are also provided to establish a local revolving loan fund which makes low-interest grant-to-loans to eligible applicants. Tax credits are available to businesses which make improvements to properties within the Enterprise Zone.

The Keystone Innovation Zone (KIZ) program is intended to increase collaboration between institutions of higher education, communities surrounding those institutions, and businesses to increase economic development. Administered by

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<sup>120</sup>Basic grants can cover administrative costs associated with the hiring of a manager for the program for the first five years. HB 102 (2009) would extend this to ten years with the approval of DCED.

DCED, the program provides planning and operational grants and tax credits designed to foster innovation and entrepreneurial opportunities. KIZs may be established in communities that host institutions of higher education such as colleges, universities, and associate degree technical schools. The program involves 91 institutes of higher education in 29 Keystone Innovation Zones. In September 2008, 23 Keystone Innovation Grants were awarded totaling \$3.5 million.

A Neighborhood Improvement District (NID) is a limited geographic area within a municipality in which a special assessment is levied on all taxable property for the purpose of promoting the economic and general welfare of the district. Financial contributions or in-kind services can also be solicited from tax-exempt property owners. As discussed in Finding D of this report, non-profit members often make significant contributions to Neighborhood Improvement District efforts. The NID can make improvements or provide expanded services within the neighborhood business district to improve customer service and increase patron traffic. In residential or mixed-use neighborhoods, the improvements increase the overall safety and attractiveness of the neighborhood.

### **III. Appendices**

# APPENDIX A

PRIOR PRINTER'S NO. 2301

PRINTER'S NO. 2303

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## THE GENERAL ASSEMBLY OF PENNSYLVANIA

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# SENATE RESOLUTION

## No. 363 Session of 2008

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INTRODUCED BY MELLOW AND REGOLA, JULY 3, 2008

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SENATOR REGOLA, LOCAL GOVERNMENT, AS AMENDED, JULY 4, 2008

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### A RESOLUTION

1 Directing the Legislative Budget and Finance Committee in  
2 cooperation with the Department of Community and Economic  
3 Development and the Local Government Committee of the Senate <--  
4 COMMISSION to conduct a study of the impact that tax-exempt <--  
5 real properties have on the fiscal health of Pennsylvania's  
6 municipalities.

7 WHEREAS, The growing number of municipalities in fiscal  
8 decline impacts Pennsylvanians and Pennsylvania businesses in  
9 rural, suburban and urban areas; and

10 WHEREAS, There exists in this Commonwealth a large number of  
11 important governmental institutions, not-for-profit medical  
12 facilities or institutions of higher learning that rely upon the  
13 communities in which they are located for essential government  
14 services such as public safety and vital transportation and  
15 utility infrastructures; and

16 WHEREAS, These nonprofit or tax-exempt entities contribute to  
17 the quality of life of the community through the services they  
18 provide, but their impact on local government budgets is no  
19 different than for-profit entities; and

---

1 WHEREAS, These nonprofit or tax-exempt entities rely on  
2 important government services, yet, in some cases, they do not  
3 contribute a proportional share to the costs of operating and  
4 maintaining these local government services; and

5 WHEREAS, Our Pennsylvania communities are facing an epidemic  
6 of fiscal distress as they struggle to reconcile mounting costs  
7 for public services with stagnant or declining revenue streams  
8 resulting in increasing property taxes for the residents and

## Appendix A (Continued)

9 businesses that reside in these municipalities; and  
10 WHEREAS, Communities facing fiscal problems find it  
11 increasingly difficult to maintain their infrastructure and  
12 provide essential services to their residents and businesses  
13 without increasing taxes and fees; and  
14 WHEREAS, Problems such as rising crime and crumbling streets <--  
15 combined with ever-rising taxes convince more and more residents  
16 and businesses to leave core communities, further eroding an  
17 already depleted tax base; therefore be it  
18 RESOLVED, That the Senate direct the Legislative Budget and  
19 Finance Committee, in cooperation with the Department of  
20 Community and Economic Development and the Local Government  
21 Committee of the Senate COMMISSION, to conduct a study and issue <--  
22 recommendations, including, but not limited to, the creation of  
23 new community development programs, the expansion of existing  
24 community development programs, as well as potential sources of  
25 Commonwealth financial assistance to assist Pennsylvania's  
26 municipalities; and be it further  
27 RESOLVED, That the Legislative Budget and Finance Committee  
28 report its findings and recommendations to the Senate no later  
29 than November 30, 2008.

## APPENDIX B

### Pennsylvania Municipalities That Host Tax-Exempt Non-Profit Acute Care Hospitals, Four-year Private Liberal Arts and Science Colleges and Universities, State-Affiliated Colleges and Universities, and State System of Higher Education Colleges and Universities

Cities	Boroughs	Townships	Acute Care Hospital Located in Municipality	PASSHE University Located in Municipality	State Affiliate University Located in Municipality	Private College/University Located in Municipality
Allentown*			X			X
Altoona			X			
Beaver Falls						X
Bethlehem			X			X
Bradford			X			
Carbondale			X			
Chester						X
Connellsville			X			
Corry			X			
Dubois			X			
Easton*						X
Erie*			X			X
Greensburg*			X			X
Harrisburg*			X			X
Hazleton			X			
Jeannette			X			
Johnstown			X			
Lancaster*			X			X
Lebanon*			X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
Lock Haven*				X		
McKeesport			X			
Meadville*			X			X
New Castle*			X			
Philadelphia*			X		X	X
Pittsburgh*			X		X	X
Pottsville*			X			
Reading*						X
Saint Marys			X			
Scranton*			X			X
Sharon			X			
Titusville			X			
Uniontown*			X			
Warren*			X			
Washington*			X			X
Wilkes-Barre*			X			X
Williamsport*			X		X	X
York*			X			X
	Bellevue		X			
	Blakely		X			
	Bloomsburg Town*		X	X		
	Braddock		X			
	Brookville*		X			
	Bryn Athyn					X

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
	California			X		
	Carlisle*					X
	Chambersburg*		X			X
	Clarion*			X		
	Clark Summit					X
	Clearfield*		X			
	Coaldale		X			
	Collegeville					X
	Coudersport*		X			
	Dallas					X
	Darby		X			
	Dunmore					X
	East Stroudsburg		X	X		
	East Washington					X
	Edinboro			X		
	Elizabethtown					X
	Ellwood City		X			
	Ephrata		X			
	Fountain Hill		X			
	Gettysburg*		X			X
	Greenville		X			X
	Grove City					X
	Hanover		X			
	Honesdale*		X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
	Huntingdon*		X			X
	Indiana*			X		
	Jefferson Hills		X			
	Jersey Shore		X			
	Kane		X			
	Kutztown			X		
	Latrobe		X			
	Lehighton		X			
	Lewisburg*					X
	Loretto					X
	Mansfield			X		
	Media*		X			
	Meyersdale		X			
	Millersville			X		
	Monroeville		X			
	Montrose*		X			
	Mount Pleasant		X			
	New Wilmington					X
	Norristown*		X			
	Palmerton		X			
	Quakertown		X			
	Ridley Park		X			
	Roaring Springs		X			
	Sayre		X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
	Selinsgrove					X
	Sewickley		X			
	Slippery Rock			X		
	Somerset*		X			
	South Renovo		X			
	State College				X	
	Susquehanna		X			
	Swarthmore					X
	Troy		X			
	Tunkhannock*		X			
	Upland		X			
	Waynesboro		X			
	Waynesburg*					X
	Wellsboro*		X			
	West Chester*		X	X		
	West Reading		X			
	Windber		X			
		Abington	X			
		Annville				X
		Aston				X
		Benner			X	
		Bern	X			
		Brighton	X			
		Bristol	X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
		Butler	X			
		Carroll	X			
		Cheltenham	X			X
		Coal	X			
		College	X		X	
		Cranberry	X			
		Cresson				X
		Derry	X			
		Derry	X			
		Doylestown	X			
		East Bradford		X		
		East Buffalo				X
		East Franklin	X			
		East Norriton	X			
		East Pennsboro	X			
		East Whiteland				X
		Elder	X			
		Eulalia	X			
		Falls	X			
		Ferguson			X	
		Harrison	X			
		Haverford				X
		Kelly	X			
		Kennedy	X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
		La Plume				X
		Lower Gwynedd				X
		Lower Merion	X			X
		Lower Oxford			X	
		Lower Paxton	X			
		Loyalsock	X			
		Mahoning	X			
		McCandless				X
		Middletown	X			
		Millcreek	X			
		Monroe	X			
		Moon				X
		Mount Lebanon	X			
		Muncy Creek	X			
		New Britain				X
		North Strabane	X			
		North Towanda	X			
		Patton			X	
		Pine	X			
		Plains	X			
		Potter			X	
		Radnor	X			X
		Ross	X			
		Salisbury	X			

**Appendix B (Continued)**

<b>Cities</b>	<b>Boroughs</b>	<b>Townships</b>	<b>Acute Care Hospital Located in Municipality</b>	<b>PASSHE University Located in Municipality</b>	<b>State Affiliate University Located in Municipality</b>	<b>Private College/University Located in Municipality</b>
		Shippensburg		X		
		Snake Spring	X			
		Snyder	X			
		Spring Garden	X			X
		Springfield	X			
		Slippery Rock		X		
		Thornbury		X		
		Thornbury		X		
		Todd	X			
		Tredyffrin				X
		Unity				X
		Upper Allen				X
		Upper Darby	X			
		Upper Saucon				X
		Washington		X		
		West Goshen	X	X		
		West Rockhill	X			
		White	X	X		
		Willistown	X			
		Young	X			

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\*County seat.

Source: Developed by LB&FC staff.