

Report Highlights

Tax-Exempt Property and Municipal Fiscal Status

Senate Resolution 363 of 2008 directed the LB&FC to study the impact of tax-exempt real property on the fiscal health of Pennsylvania municipalities. It is not possible to assign value to Pennsylvania's tax-exempt property as counties do not have standard ways to define and record such property and the State Tax Equalization Board is not responsible for determining its market value. We were, however, able to analyze assessment data and gather information for several municipalities across the state, with a focus on fiscally distressed municipalities with large shares of tax-exempt property. We found:

- **Real estate property taxes are an important source of revenue** for PA cities, boroughs, and townships, generally accounting for between 9-28% of local municipal total revenue.
 - **Governments and religious organizations are the major holders of tax-exempt property.** Tax-exempt property held by local government (i.e., counties, municipalities, authorities, and school districts) accounts for 50% or more of all tax-exempt property in 9 of the 11 fiscally distressed municipalities we reviewed. Federal and state property combined accounted for less than 10% of such property in 8 of the 11 municipalities. Churches also account for a high share of tax-exempt property, often in the range of 10-20%.
 - **Only 7% of PA municipalities host non-profit acute care hospitals and public and private universities.** Of these 7%, only one-quarter have high fiscal distress scores. This is because many of the host municipalities are townships, which tend to be fiscally healthy. Over 80% of the cities that host such institutions, however, are in distress.
 - **The fragile fiscal status of many municipalities is often mirrored by the fiscal status of their tax-exempt institutions.** Only six distressed municipalities (Easton, Erie, Lancaster, Philadelphia, Pittsburgh, and York) host one or more non-profit hospitals or universities that may be considered financially secure relative to their peers statewide.
 - **Host municipalities, hospitals and public and private universities have developed a variety of approaches to strengthen their communities,** including providing public safety services, paying realty taxes on property that is not used for purely public charity purposes, making voluntary financial contributions, and investing in community revitalization projects. Some institutions also make payments in lieu of taxes (PILOTS), but in these cases the school district generally receiving most of the payment.
 - **Connecticut and Rhode Island** provide state funding to local governments that host certain hospitals and universities, but not local government property. **Wisconsin** provides payments for state buildings for essential services (e.g., police) paid for through local realty taxes, when such services are not provided by the institution itself.
 - **Pennsylvania provides significant financial tools and support for municipalities.** These include authorization for certain local taxes, earmarked state tax and fee revenues, state property tax rebates, provision of certain police services, and making PILOTS to municipalities for certain state-owned property.
- Recognizing the need to help stabilize municipalities that host medical and educational institutions key to the state's economic development strategy, several proposals have been offered. They include:
- Mandating PILOTS from public and other tax-exempt organizations;
 - Distributing state tax revenues to municipalities with a high percentage of tax-exempt property;
 - Requiring payment of a fee for essential municipal services; and
 - Sharing of a regional revenue source such as a local sales tax.
- The report outlines some of the advantages and disadvantages of these approaches.