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SUBJECT	City Council Bill 19-0174R – Anchor Institution's PILOT Agreement for Real Property Taxes	

CITY of BALTIMORE

MEMO

TO

DATE:

The Honorable President and
Members of the City Council
City Hall, Room 400

December 17, 2019

The Department of Finance is herein reporting on City Council Bill 19-0174R, Anchor Institution's PILOT Agreement for Real Property Taxes, the purpose of which is to request a briefing on the efficacy of the 2016 PILOT agreement and the feasibility of options for reopening and renegotiating the agreement.

Background

In the State of Maryland, nonprofit institutions are exempt from paying property taxes on the assessed value of their property. Per Maryland State law Section 7-202, property is not subject to property tax if it "is necessary for and actually used exclusively for a charitable or educational purpose benefitting the general welfare of the people of the State…". This exemption applies to nonprofit hospitals, religious and charitable institutions, and educational institutions, among others. These institutions are still subject to other local taxes or fees that are based on consumption such as water and wastewater fees, energy taxes, telecommunication taxes, and parking taxes.

Despite these institutions being exempt from property taxes, the City provides General Fund funded services, including public safety, street management, street lighting, snow removal, and public right-of-way cleaning and landscape management, among others. For this reason, the City's recent practice has been to ask larger nonprofits to make voluntary contributions to the City's General Fund. Between Fiscal 2011 and 2016, the City had an agreement with the largest institutions for voluntary payments that declined over the term of the agreement, beginning with $5.4 million in Fiscal 2011 and ending at $1.4 million collectively in Fiscal 2016.

The City negotiated a new ten-year agreement for Fiscal Years 2017 to 2026 and signed a Memorandum of Understanding (MOU) with the fourteen member institutions that are part of either the Maryland Hospital Association or the Maryland Independent College and University Association. The combined amount of payments from all members totals $6.0 million annually for the ten-year agreement.

Policy Considerations

The City is disproportionately affected by the State law exempting nonprofit institutions from paying property taxes. Based on Fiscal 2018 data from the State Department of Assessment and Taxation, more than 30% of Baltimore's assessed property value is tax-exempt, which includes property owned by governments, nonprofits, and religious institutions. Baltimore also has nearly 19% of all the tax-exempt property in the entire State of Maryland. For comparison, many rural counties report much smaller percentages of exempt properties, such as Queen Anne's (9.4%), Calvert (8.7%), Talbot (6.4%), and Worcester (5.9%). Even more urban counties such as Prince George's (10.9%) and Baltimore County (9.4%) report far lower rates of tax-exempt property than Baltimore City. This disparity creates a significant disadvantage for the City when setting tax rates and collecting revenue. For perspective, if Baltimore City could tax all of the exempt property, it could maintain existing service levels and reduce the Real Property Tax rate from $2.248 to $1.55 per $100 of assessed value.

Even if State law were changed to allow taxation of nonprofit entities, there are a still a number of important policy questions that would need to be answered: Are certain institutions (such as religious institutions) exempt? What tax rate should be set for institutions? Should there be a minimum assessed value subject to taxation, to protect smaller institutions? And, should nonprofits be allowed to count other tangible community contributions against their assessment?

The City attempted to answer some of these questions during the negotiation of the current MOU by developing a framework for calculating a fair request from the nonprofits. First, the City set a threshold to exempt smaller institutions with lower assessed property values. Next, the City calculated a baseline taxable amount based on the determination that 44% of the General Fund budget is comprised of services that are utilized by nonprofit entities. Then, the City offered up to a 75% credit to account for tangible community benefits and contributions made by these institutions, versus the baseline amount. Community benefits and contributions were discussed with each institution individually and varied significantly between each entity. The City ultimately accepted a collective contribution amount from the institutions that was well below the proposed contribution, even net of a generous community contribution credit. The below table shows different payment scenarios under different rates (equivalent property taxes, estimated City service percentage, and current contribution), updated using current Fiscal 2020 assessed values:

Non-Profit Contribution - Taxable Analysis

Colleges and Universities	NET EXEMPT ASSESSMENT	EQUIVALENT PROPERTY TAXES	EST'D CITY SERVICE PERCENTAGE (44%)	CURRENT CONTRIBUTION
Johns Hopkins University	$862,520,358	$19,389,458	$8,531,361	$1,860,426
Loyola College	$234,361,400	$5,268,444	$2,318,115	$329,630
Maryland Institute College of Arts	$116,281,000	$2,613,997	$1,150,159	$69,554
Notre Dame of Maryland University	$50,578,400	$1,137,002	$500,281	$44,272
Total Colleges and Universities	$1,263,741,158	$28,408,901	$12,499,917	$2,303,882
Hospitals				
Johns Hopkins Hospital & Medical Center	$1,776,049,110	$39,925,584	$17,567,257	$1,399,972
University of Maryland Medical Center & Midtown	$746,803,832	$16,788,150	$7,386,786	$930,158
MEDSTAR (Harbor-Union Memorial-Good Samaritan)	$187,450,812	$4,213,894	$1,854,113	$558,322
SINAI Hospital	$176,250,730	$3,962,116	$1,743,331	$316,116
Mercy Hospital	$443,578,132	$9,971,636	$4,387,520	$226,208
St. Agnes Hospital	$201,895,300	$4,538,606	$1,996,987	$190,462
Bon Secours Hospital	$22,641,300	$508,976	$223,950	$74,880
Total Hospitals	$3,554,669,215	$79,908,964	$35,159,944	$3,696,118
Combined Contribution	**$4,818,410,373**	**$108,317,865**	**$47,659,861**	**$6,000,000**

Conclusions

The City values its partnerships with the anchor nonprofit institutions. But, due to the restrictions of State law, we are limited in our ability to compel these institutions to make larger contributions to the City's General Fund. The result is that these institutions significantly under-contribute for their share of City-provided services.

Further, in the context of the current discussion about Kirwan education funding, we believe it is the right time to reconsider the State law that exempts nonprofits from property taxes. There is a growing belief among many residents and stakeholders that improvements must be made to Maryland's educational system. However, with a need for major investment to meet the recommendations of the Kirwan Commission, the question becomes who will foot the bill? The preliminary Kirwan workgroup calculations would require Baltimore to contribute an additional $138 million in Fiscal 2022 and the equivalent of $266 million in Fiscal 2020 dollars by the end of the ten-year phase-in. This staggering amount represents nearly 24% of the City's discretionary budget. Generating additional contributions from nonprofit entities would help in meeting the City's growing contribution.

The Department of Finance supports this resolution and we look forward to sharing our perspective at the hearing for City Council Bill 19-0174R.

cc: Henry Raymond
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