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Struggling for revenue, local governments look to nonprofits

Matt McClain/The Washington Post - Ken Falke and his wife helped start the Boulder Crest Retreat for Military and Veteran Wellness in Loudoun County and now face a roughly $20,000 tax bill.

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By Susan Svrluga, E-mail the writer

Not only did they donate 37 acres in a beautiful part of Loudoun County, but Ken Falke and his wife also gave $1 million to help start the Boulder Crest Retreat for Military and Veteran Wellness, a rural haven where wounded service members can relax and recover with their families.

Falke assumed that the retreat would be exempt from property tax, as is common with nonprofit groups across the country.

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Instead came the first half of a roughly $20,000 tax bill. And a question many local governments nationwide are wrestling with as they try to make up money lost during the Great Recession: Should nonprofit organizations have to pay taxes or other fees?

This month, after a heated debate, the Loudoun County Board of Supervisors voted to once again consider tax breaks for new nonprofits, after years of denying them. “It’s going to be Christmas in Loudoun County,”

Supervisor Matthew Letourneau (R-Dulles) said before voting against the measure, warning that the board could be inundated with requests.
For charities, a tax bill means another overhead expense taking away from their mission of helping those in need. But for cash-strapped local governments — especially those in places such as the Washington area, where much of the land is used by governments, churches, universities, hospitals and nonprofit organizations that don't pay property taxes — it's hard to keep cutting off revenue.
"The recession hit," said David L. Thompson, vice president of public policy for the National Council of Nonprofits. "And all of a sudden, nonprofits that were the anchor of the community and greatly praised by policymakers — 'Come to our city. Look at the great nonprofits we have!' — started being treated as scofflaws not paying their fair share."
Virginia has a law, unique in the country, he said, that gives local governments the authority to grant or deny property-tax exemptions to some types of nonprofits. (Other types of nonprofits, including churches and schools, are automatically exempt.) Most Northern Virginia counties no longer grant the exemptions, so nonprofits such as new soup kitchens and health clinics opening up have to pay taxes on the property they own. Other places across the country have found other ways of getting more money from nonprofits, including fees for city services.
In Loudoun County, which debated the issue this month, some supervisors said the county needs every dollar. Taxing nonprofits, they said, was good fiscal management.
But others said some nonprofits fill gaps in government services — helping the homeless, the elderly, the mentally ill — and should, as a result, be exempt.
"We should, as a community, thank them for the good work they do and not have them worrying about paying property taxes when they're out there trying to fundraise," Chairman Scott K. York (R) said.
Most nearby counties stopped granting those types of exemptions. Fairfax County requires many new nonprofits to pay property taxes, as does the city of Alexandria. In Arlington, the county didn't eliminate the ability to apply for an exemption but passed a resolution stating that it thinks that all who benefit from county services should pay taxes — and hasn't granted any exemptions since 2002.
In Prince William, as in many counties, nonprofits request funding during the budget cycle rather than a permanent property tax break. The county granted $2.4 million in fiscal 2014 for 34 "community partners," based on needs the government has identified as a priority.
"It gives the board a little more flexibility in bad times," said Steven Solomon, chief financial officer for Prince William County, "rather than have it be automatically exempted forever."
Nonprofits are one of the -fastest-growing sectors of the economy, booming even during down times. Some are shoestring operations, but others have massive endowments, prime real estate, sleek headquarters and lobbyists. Many have ardent supporters who can pack public hearings to pressure local politicians. And with the recession forcing public officials to scramble for revenue, local governments around the country have been looking at ways to get money from nonprofits.
A couple of years ago, Boston officials began asking some nonprofits for "payments in lieu of taxes." Other cities followed or began imposing fees for services such as water, trash removal and public safety.
It comes up in Baltimore fairly often, said Henry Bogdan, director of public policy for Maryland Nonprofits. "Whenever the economy goes bad for a while and government revenues drop off, you'll find certain localities who, under fiscal duress, will look at large nonprofit institutions and say, 'I wish we could get some money out of them.' "
In 2009, researchers estimated that property tax revenue forgone because of the charitable tax exemptions totaled between $17 billion and $32 billion in the United States.
Nearly two-thirds of nonprofit leaders said in a national survey that in the past two years, they have been hit by new payments to local governments, whether payments in lieu of taxes, user fees or special-use taxes, said Lester Salamon, director of the Center for Civil Society Studies at Johns Hopkins University.
The nonprofit industry "continued to grow right through the recession," he said. "It generates $39 billion in revenue. . . . So what [Virginia] has to decide is if it wants to choke off that impact."
The decisions on whether to grant exemptions are often controversial, said Terry Rephann, a regional economist with the University of Virginia's Weldon Cooper Center for Public Service, with some convinced that the nonprofits merit the breaks by helping the community. "But the argument could be made [that some of these] act a lot like for-profit organizations. Some, like in the medical and social services, compete with for-profit

firms."
In Loudoun, where property taxes make up almost 90 percent of tax revenue, one supervisor often questions why part of the expansive Howard Hughes Medical Institute's Janelia Farm Research Campus was granted an exemption. In 2013, that meant $2.8 million in forgone property-tax revenue for that organization alone.
Because local governments are so reliant on property tax revenue, exemptions can have a big impact.
"Property taxes are extraordinarily important to the county," bringing in almost 78 percent of the revenue, said Kevin Greenlief, director of the Department of Tax Administration for Fairfax County. "It drives the entire budget."
In the District, more than a third of the property is tax-
exempt. A tax commission is proposing a new tax per employee to the D.C. Council as part of a package of changes to eke out revenue from large nonprofits such as hospitals and colleges and balance out the tax burden.
In Norfolk, where officials are projecting a $20 million shortfall for fiscal 2015, the City Council recently decided to stop taking new requests for exemptions. It wasn't a difficult decision, said Sharon McDonald, commissioner of revenue. "No, no, no, no. It was, 'This is something we don't have a choice in doing.' "
In Richmond, almost a quarter of the real estate is owned by nonprofits — about $6 billion worth — so the tax burden falls more on individuals and businesses than it does in some other places. Every time a university buys another $50 million office building or a state agency expands, said James D. Hester, the city assessor of real estate, the taxes are redistributed to others. "That's an issue that's discussed almost every year."
In 2007, the City Council voted to stop allowing property-tax exemptions for nonprofits.
In 2012, that was lifted after a group restoring a landmark historic theater downtown pleaded that it couldn't stay afloat with the property-tax bill. The City Council was flooded with requests for tax exemptions from other groups, many of which were granted, Hester said. In a public hearing, it was hard for politicians to vote no when people were pleading their case, he said.
"They opened the door — and everybody came through it," Hester said.
This year, the council shut it again.
In Loudoun, that kind of rush of applicants is what worried some supervisors. "Where's the money going to come from?" Letourneau asked. The board is bracing for a tight budget.
But other supervisors argued that they should help the organizations that help residents — and save the county money in the process. York, the board chairman, said that there are good organizations that deserve a tax exemption and that he doesn't think the forgone revenue would be nearly as much as the potential cost to take on the services that the nonprofits provide.
After the vote, several nonprofit leaders were elated. Like them, Falke said his nonprofit, Boulder Crest, will apply for an exemption this spring. He's hoping that it won't have to pay the second half of that $20,000 bill.

College Towns Carry the Burden of Reduced Property Tax Rolls

Details

Written by Larry Kaplan
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The Atlantic's *Cities* website, as part of a weeklong "America 360" series on Providence, Rhode Island, recently focused on the city's ambivalent relationship with the large nonprofit institutions that give it vitality and contribute to its civic growth, but which at the same time accelerate the erosion of its tax base.

The story starts out with the tale of the old Rhode Island Hospital Trust bank, built downtown nearly a century ago, but long out of business. Today, the building houses the library of the Rhode Island School of Design (RISD), a nationally renowned art school. It's just one of the ways in which local nonprofits are reclaiming older buildings and parcels of land throughout the city, and properties like it are everywhere, says the article: "Grand banking halls without the banks, ornate department stores that no longer sell a thing. The city's primary growth industry now—higher education—has moved in."

"That's been a positive story for a struggling downtown. But it comes at a cost," the article explains, because universities and hospitals, which are at the center of many economic revitalization plans, don't pay property taxes as nonprofit organizations: "That means cities like Providence are leaning on an industry whose growth, by definition, slowly chips away at the local tax base."

Last year, nearly 40 percent of the total property value in Providence was tax-exempt, including not just the four major schools, but also hospitals, churches, cultural institutions, and government buildings. When the city faced a fiscal crisis in 2011, RISD, Brown University, Johnson & Wales, and Providence College were the wealthiest institutions in town. The city, facing a $110 million budget deficit, estimated that those four schools and the three major hospitals in town would have paid more than that in annual tax revenue, if not for their nonprofit status.

The online article by staff writer Emily Badger reports that the city and schools ultimately went through difficult and contentious negotiations that balanced the city's financial needs against the resources of the nonprofits. But the two sectors are at odds in other college towns across America sustained by property taxes (it is less of an issue in California and some other states, where property taxes make up a much smaller percentage of local tax revenues). Providence illustrates a temporary solution, but it raises questions about the long-term viability of a community built around nonprofits being capable of funding itself and providing a home for its important institutions at the same time.

The issue first surfaced in Providence in 2003, when the city was facing a $60 million deficit. It negotiated a 20-year agreement with the four schools to contribute $48 million over time to the city, partly in recognition that their expanding campuses were taking property off the tax rolls. Then, in 2011, the city went back for more, in the belief that it was facing bankruptcy. But by then the universities' finances had begun to erode due to the effects of the Great Recession—for example, Brown lost a third of its endowment when the stock market collapsed in 2008, and it still hasn't fully recovered.

Badger's piece said that some critics questioned whether higher education should retain its nonprofit status at all. And the federal government has begun pressuring colleges and universities to lower tuition in response to the outcry over skyrocketing student loans. In Providence, the four schools resisted reopening their 2003 agreement, and they started out discussions with some conditions: They would not come to the table without the rest of the city's nonprofits, such as the hospitals; they wanted the Rhode Island Legislature to increase state contributions to municipalities that are nonprofit centers; and they wanted the city to negotiate concessions with unions and retirees.
Eventually, the schools decided on a strategy that was transactional—they weren't giving away anything unless they received something in return, saying that such an agreement could help them argue that they were keeping their nonprofit status intact. Ultimately, each of the colleges negotiated their own deals; for example, additional payments in exchange for

acquiring city-owned property at a discount, or leases on new parking spots.

The city will not get the full amount it would have collected if the universities and hospitals were any other kind of property-holder, says *The Atlantic – Cities*, but it did get about half of what it initially wanted from the seven big tax-exempt nonprofits. The payments are publicly described as "voluntary," which is typical of the way PILOTs, or payment in lieu of taxes, are characterized.

This is a national issue, and *NPQ* has covered similar situations in municipalities large and small. Earlier this year, the city of Pittsburgh sued the University of Pittsburgh Medical Center, PA's largest employer and the richest nonprofit in town, trying to strip it of its status. Boston has a less contentious payment program that it stresses is voluntary.

The article points out that the new arrangement "underscores one of the reasons these ad-hoc local deals are ultimately unsustainable, both for the host cities and for the schools that agree to them. When these agreements expire, Providence will likely still have an economy built on nonprofits."

But there is another, more fundamental issue here: the spectacle of two institutional sectors of American society, government and nonprofit institutions, battling it out over scarce financial resources. The irony is that both sectors are pledged to provide public benefits that help the very same communities and the people in them. They should be working together, rather than at cross-purposes.—Larry Kaplan

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