Considering Payments in Lieu of Taxes (PILOTs) from Tax-Exempt Hospitals and Universities

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I. Introduction

Suppose New York City needed several hundred million dollars to deal with a specific crisis or perhaps to start or expand an initiative. It could cut the budget of other programs, raise the City's property tax – the one tax largely under the City's control - or appeal to Albany for more aid or the authority to impose or raise a tax. Cities such as Boston, New Haven, Chicago, and Providence have tried an additional option: collecting payments from wealthy hospitals and universities that are exempt from the local property tax.

New York State, like most states, exempts religious, charitable, and educational institutions from any property tax. This exemption is required under the New York State Constitution. It is implemented through the state's real property tax law, making altering or removing the exemption a daunting process. A number of other cities with large amounts of charitable property and similar limits on taxing it make up some of the resulting lost tax revenue by encouraging their universities, hospitals, and charitable institutions to make voluntary payments based loosely on what they would have owed under the property tax. These payments are made in lieu of tax liability, hence the acronym PILOT, or "payments in lieu of taxes."[1]

While New York City has not pursued this option, it could be an alternative or interim step towards generating revenue from at least some of the largest and wealthiest of these institutions.

Using data from the City Department of Finance's Fiscal Year 2024 assessment roll, we estimate that if PILOT agreements providing for annual payments of a portion of the exempted property tax were reached with the wealthiest private universities and colleges and non-profit medical facilities – those with total property holdings of $500 million or more - the City could receive hundreds of millions of dollars in new revenue, depending on how such agreements are structured. (See Figure 1.) There are 14 institutions in the city that currently meet these criteria. They account for more than twice the amount exempted for the city's remaining 202 universities and hospitals.

[1] PILOTs from charitable institutions should not be confused with PILOTs used in some economic development projects. In the latter, typically the City or State either owns or acquires the land, rendering it exempt from property tax. The developer then makes PILOTs at a discount to what the tax would be if privately owned, thereby providing an incentive for the project.

Figure 1

Largest Tax Exempt Private University and Hospital Institutions Ranked by Total Value of Exempt Property - Fiscal Year 2024

Millions of dollars

Institution	Exempt Market Value	Exempt Assessed Value	Tax Exempted
New York and Presbyterian Hospitals	$3,861	$1,735	$184
Columbia University	3,606	1,594	174
New York University	3,569	1,557	166
Memorial Sloan Kettering Institution	1,420	631	68
Mount Sinai Hospital	1,341	587	63
NYU Langone	1,108	499	53
Fordam University	1,006	452	48
The Rockefeller University	861	387	42
St. Luke's/Roosevelt Hospital	753	339	36
St. JoHn's University	747	327	35
Cooper Union	714	321	34
Montefiore Medical Center	659	295	32
Royal Charter Properties	635	263	30
Long Island Jewish Medial Center	617	278	29
SubTotal: Institutions With Over $500 million	$20,898	$9,264	$993
Remaining Universities and Hospitals	$9,511	$4,331	$464
Total Universities and Hospitals	$30,408	$13,595	$1,457

*Royal Charter Properties is a non-profit developing and managing housing for staff at leading hospitals

Source: Nes York City Department of Finance

MARKET VALUE

The City's property tax valuation approach starts with an estimate of the full market value of every piece of property in the city annually. (There are over 1.1 million parcels.) The method used to value properties differs by type of property. Generally, the City uses either comparable sales for homeowner property or income for income-producing property.

In the case of tax-exempt charitable and other institutional properties there are relatively few sales and limited information on their income-producing potential. These limitations, combined with the knowledge that there is no tax revenue at stake, means the City has had little incentive to spend significant resources in generating annual fair market value estimates for these properties. While recent years have brought some improvement, a long period of relative neglect still leaves many of these properties well below the values of their taxable counterparts, at least when there are reasonable comparable properties available, such as faculty housing. A cautious estimate of the extent of under-valuation is that these properties are undervalued by around 25 percent.

For the most part, in this brief we use Department of Finance estimates when discussing full value. The one exception is when we discuss the proposal to establish a process for large universities and hospitals to make regular PILOT payments.

II. The Charitable Exemption

The tradition of exempting charitable and educational institutions from taxation dates from the 19th and early 20th centuries, when government played a very limited role in providing services directly to citizens. In its place, charities and other non-governmental institutions emerged to provide health care, cash assistance, and a myriad of other services. With government largely spared from these responsibilities it made sense to exempt from taxation the private institutions that were providing the services. However, as governments picked up more of the direct responsibility for funding or providing services, particularly after the New Deal, the case for charitable exemptions was weakened, although the model of exempting charities remained firmly in place.[2]

A broad range of religious, charitable, and other non-profit institutions, including museums, concert halls, hospitals, colleges, and universities, are exempt from property tax under Article 16 of the New York State Constitution. It prohibits taxing "real or personal property used exclusively for religious, educational or charitable purposes as defined by law." Even though hospitals are not explicitly mentioned in Article 16, they are also shielded from taxation since hospitals in New York State are considered charitable institutions, required to provide medical care to all. The charitable exemption reduces the market value of real property in New York City subject to tax by $98 billion; this is 25.2 percent of the total exempted.

[2] The charitable exemption is not the only subsidy available to these institutions. For example, they can access low-cost financing when constructing or expanding facilities through the Dormitory Authority of the State of New York (DASNY).

(See the "Market Value" section on page 4)

This brief focuses on Article 16 exemptions for medical and higher education institutions that removed $30.4 billion in market value from the City's tax roll this year. This was equal to about eight percent of all exempted value. These foregone revenues or "tax expenditures" (which is what the property owners would have owed if all their properties were fully taxed) amount to $1.5 billion.[3] Note that if the city tax base grew by such a large amount, tax rates would be adjusted, although this brief assumes no change in the overall tax burden. (See the Appendix for information about other New York City property tax exemptions.)

Figure 2 lists exempt properties by type of property. Hospital buildings have an estimated total exempt market value of $14.5 billion, creating a tax expenditure of $689 million. College and university academic buildings, with $10.2 billion exempt value, had a tax expenditure of $482 million. Dorms and faculty, staff, and student housing (largely apartment buildings) account for another $4.9 billion in exempt value. There is also $833 million exempted for non-profit nursing home properties.

Figure 2

Types of Exempt Properties Owned by Private Universities and Hospitals - Fiscal Year 2024

Millions of dollars

Exemption Type	Exempt Market Value	Exempt Assess Value	Tax Expenditure
College Academic Buildings	$10,158	$4,539	$482
College Dorms	1,651	734	82
College Faculty/Student Housing	1,778	7,549	88
Medical Facility	14,483	6,501	689
Hospital Staff Housing	1,506	671	77
Nursing Home	833	374	40
Total Exemptions	$30,408	$20,368	$1,457

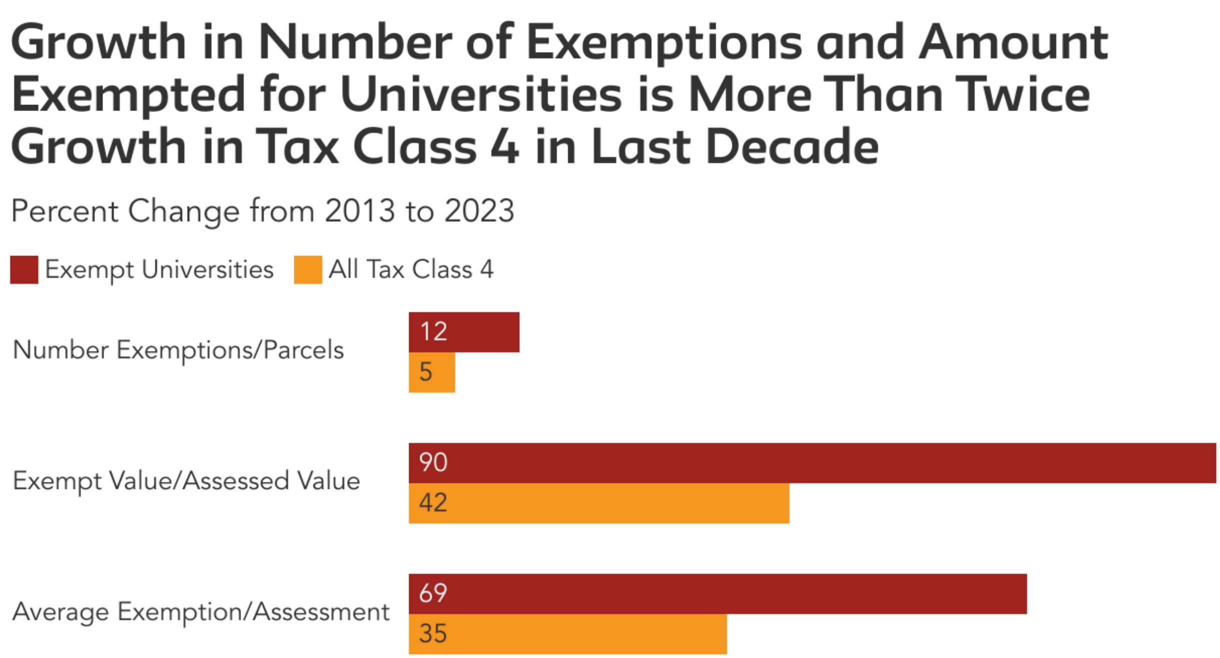
Source: New York City Department of Finance

[3] Note that as a public university, CUNY is included with the governmental exemptions rather than the charitable and educational exemptions.

III. Should Hospitals and Universities be Asked to Pay Tax or PILOTs?

Analysts and advocates looking for funds to sustain or enhance services at the local level have drawn attention to the incomes and wealth generated by private hospitals and universities.[4] They have noted the large salaries received by senior executives of some of the wealthiest institutions, and a trend towards a more corporate and profit-seeking culture at some of those institutions, suggesting that the commitment to a charitable model is fading even as they retain the charitable exemption. It is also not unreasonable to expect private institutions to pay for at least some of the public services they receive. Advocates for having large medical and education institutions pay taxes or PILOTs note that such institutions, particularly universities, expand by purchasing formerly taxable property. The aggregate cost of the charitable exemption has outpaced overall property tax growth in the city. Between 2013 and 2023, the number of education exemptions in New York grew by 12.4 percent, more than twice as fast as the 5.1 percent increase in non-residential (Tax Class 4) parcels. The value of education exemptions grew by 89.7 percent while the increase in Class 4 assessments was 55.4 percent.

Figure 3



[4] See James Parrott and Barbara Caress, "On Restructuring The NYC Health+Hospitals Corporation: Preserving And Expanding Access To Care For All New Yorkers" 2017, for the New York State, Nurses Association, https://www.nysna.org/sites/default/files/attach/419/2017/09/RestructuringH%2BH_Final.pdf.

In their defense, these major non-profit institutions usually note that their faculty and staff, who are not exempt from paying income or sales taxes, are helping to pay for some of the public services used by their employers; this argument is particularly strong in the case of New York, which is less reliant on the property tax than many other cities. Hosting such major institutions helps New York in attracting visitors, students, and scholars to the city. The institutions also often point to the benefits they generate as drivers of economic growth in their host neighborhoods, and the value of the public good generated from the research and learning that occurs on campus and in their labs.

However, while the entire region or nation may recoup those benefits, the burden of the foregone tax revenues is only borne locally. Also, tax exemption only benefits those institutions which own their property. Institutions that rent rather than own, which tend to have smaller budgets and endowments, receive no benefit from the exemption.

IV. Options

Because the charitable and education exemption is rooted in the New York State Constitution, changing or removing it is a more difficult task than altering or repealing a legislative or administrative policy would be. Amending the State Constitution requires the approval of two consecutive legislatures and then passage of a statewide referendum.

For example, an amendment would have to be approved by the current 2023-2024 legislature elected in 2022, and then approved by the 2025-2026 legislature that will be elected later this year. It would then go to the public in a referendum at the next general election. A bill to begin the amendment process has been introduced this session in the State Assembly (A08478) and the State Senate (S07797). If adopted, the legislation would allow the City to alter the charitable exemptions of private universities with the new revenue to be used to help shore up the finances of the public City University of New York (CUNY).

While the amendment process potentially allows more comprehensive changes to the charitable exemption, the length of time and political challenges involved have renewed discussion of instead negotiating PILOT payments from higher education and hospital institutions as a way to make up at least some of the revenue lost through the charitable exemption. A survey by researchers at the Lincoln Institute of Land Policy found 218 examples of PILOTs across the country; they are heavily concentrated in northeastern cities such as Boston, Providence, and New Haven.[5]

[5] Adam H. Langley, Daphne A. Kenyon, and Patricia C, Bailin, "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them." Lincoln Institute of Land Policy, 2012.

A critical distinction between regular property tax payments and PILOTs is that the latter are voluntary. This can give the institutions the upper hand in negotiating PILOT agreements, which is why they typically generate only a portion of what would be due in the absence of the charitable exemption. Also, because the agreements are subject to renegotiation every few years it can be difficult to treat them as regular recurring revenue for budgeting purposes. Another factor limiting the appeal of relying on PILOT agreements is that they commonly allow the institutions to substitute community services for cash payments in meeting the agreed PILOT target amount.

V. An Example of a PILOT Agreement

Researchers suggest that cities trying to establish a PILOT payment regime work with a range of institutions to develop the criteria determining which institutions would be included and the formula used to determine the amounts to be requested each year. For instance, in 2009 Boston convened a task force to review its then-current pattern of ad hoc agreements with individual institutions and make recommendations for a more routine process. While there has been some erosion in the reforms since then, Boston's experience suggests that if New York City were to try to develop a standard PILOT formula, bringing together representatives of the institutions and public officials would be a good way to start. While amending the State Constitution is by definition a legislative process, developing a standardized PILOT agreement is more likely to driven by the mayor.

To illustrate how a PILOT in New York City might work, we have developed a simple example of the process of calculating what an institution would owe under a possible PILOT agreement. It incorporates some of the features of agreements recently used in Boston as well as some suggestions from the Lincoln Institute.

The first step would be to adjust the Department of Finance market values, taking into account the historic undervaluation of properties receiving the charitable exemption. Our analysis concluded that such properties were undervalued by roughly 25 percent. If the City and the currently exempt hospital and higher education institutions were to develop a routine PILOT agreement process, it would likely require a joint effort by those parties to review and update all current and future assessments of these properties, as was done in Boston. If New York were to use a $500 million eligibility threshold, the adjusted exempt market value covered by the PILOT program would total $29.0 billion. Both the threshold amount and the types of institutions the City would negotiate PILOT agreements with needs to be determined.[6]

[6] Boston's PILOT program includes all non-profits, not just hospitals and universities, and has no aggregate market value threshold.

To keep the process parallel to the regular property tax as a reference, the next step would apply the appropriate assessment ratios to the adjusted market values and the City's tax rates. The final step is to apply a PILOT discount factor - the portion of the institution's tax liability if its property were fully taxable that will be paid under the PILOT agreement. To estimate this factor, we identified the share of the budget funded with taxes and other local sources that goes to providing public services the institutions depend on such as police, fire, street maintenance, snow removal, and street cleaning. Combined, these services account for about 15 percent of the City-funded budget.[7] The property tax contributes about 41 percent of City funds revenue. Scaling up the 15 percent share to reflect the property tax contribution yields a discount factor of roughly 35 percent, which we use as a middle case, bracketed by a higher discount of 50 percent and a lower rate of 25 percent as possible alternatives. We estimate that if the City and all of the institutions over the $500 million threshold were to forge agreements following this model and use the 35 percent discount factor, it could potentially generate $483 million in annual PILOT payments for the city. (See Figure 4.)

Figure 4

Potential PILOT Revenue From Universities and Hospitals With Combined Properties Over $500 Million

Millions of dollars

Step 1: Adjust Market Values for historic undervaluation	$41,717
Step 2: Select parcels above proposed $500 million threshold amount	$28,952
Step 3: Apply DOF assessment ratios	$13,029
Step 4: Apply current tax rates	$1,380
Step 5: Apply PILOT discount	
PILOT revenue at 25% of tax liability if fully taxable	*$345*
PILOT revenue at 35% of tax liability if fully taxable	*$483*
PILOT revenue at 50% of tax liability if fully taxable	*$690*

[7] Boston used 25 percent for this factor.

VI. Conclusion

New York's large hospitals and universities are important contributors to the city's vibrancy, benefiting New York in numerous ways. But they are not alone when it comes to such contributions. Yet, unlike many of the institutions and enterprises that are also critical to New York's dynamism, the hospitals and universities are exempt from paying property tax under a provision of the State Constitution. While their staff pay income and sales taxes, so do the staff of other employers. The case for having them pay, either by amending the Constitution to make them subject to the property tax or, at a minimum, negotiating voluntary payments in lieu of the property tax rests on the assumption that as consumers of public services they should contribute more to meeting the costs of those services. For these large institutions, the size of their endowments and their annual revenue indicate an ability to pay something for those services. Finally, their continued physical expansion at times comes at a direct cost to the city when they acquire tax-paying properties and remove them from the tax rolls.

Whether through a PILOT agreement or amending the charitable exemption, new revenue could be used to increase funding for CUNY and H+H, two public institutions providing services similar to those performed at private universities and hospitals; fund other service needs; or enable lower property tax rates.

Appendix: Property Tax Exemptions in New York

Roughly one-fifth of the total market value as calculated for property taxation by the Department of Finance is fully exempt and another 13 percent is partially exempt for one or more reason. (See the "Market Value" section on page 4 for a discussion of the accuracy of this measure.) The exemptions fall into the following broad categories. First, New York State, like virtually all local governments, fully exempts from property tax all parcels owned by all levels of government, along with public authorities such as the Port Authority of New York and New Jersey, and the United Nations and affiliated diplomatic missions.[8] It is unlikely that this type of property would become taxable, although some public authorities do make PILOT payments to the city. In total, government properties account for roughly a quarter of the exempt market value in the city and a combined tax expenditure this year of $4.6 billion. (See Figure A-1.)

[8] The government exemptions reported here do not include $30 billion in New York City public school property with a tax expenditure of $1.4 billion. K-12 education property is discussed below under Education and Charitable exemptions.

Figure A-1

Major Exemption Categories for New York City Property Tax - Fiscal Year 2024

Millions of dollars

Exemption Type	Exempt MV	Exempt AV	Tax Expenditure
Charitable/Non-Profit	$11,066	$4,625	$501
Higher Education	15,116	6,738	725
Health Private	16,829	7,549	806
Religious	17,368	7,344	786
K-12 Education	37,629	16,852	1,787
Government	101,574	42,553	4,595
Personal	36,953	2,702	475
Housing and Economic Development	152,946	66,915	7,828
Total Exemptions	*$389,482*	*$155,277*	*$17,504*

Source: New York City Department of Finance

The single largest exemption category is for housing and economic development. City and State law provide for a number of different exemptions, such as 421-a, J-51, the Commercial Revitalization Program, and the special discounted PILOT agreements for Hudson Yards, CitiField, and Yankee Stadium as incentives. They account for almost 40 percent of the exempt market value in the city and result in a tax expenditure of $7.8 billion this year. Another broad category of exemptions is for individuals based on conditions such as income, age, disability, veterans' status, and eligibility for the State's School Tax Reduction (STAR). Personal exemptions account for the majority of exemptions granted (almost 400,000). But given the relatively small size of each exemption, these amount to a tax expenditure of about $475 million, or less than three percent of the total for all types of exemptions.

Hospitals, K-12 and higher education properties, and religious property combined account for $98 billion in exempted market value. This is about one-quarter of the total exempted value, with a total tax expenditure of $4.6 billion. The K-12 category includes $7.9 billion in exempt market value from private independent and religious schools and $30 billion from K-12 public schools. The religious exemption covers not only church property but also yeshivas, temples, parsonages, clergy housing and dorms, and religious missions.