Anchor Institution Expenditures Relative to the PILOT Program

WITH US FOR US
BUILDING COMMUNITY POWER IN BALTIMORE

Prepared by 1199SEIU

Please direct all inquiries to mddc@1199.org.

Baltimore City, like many Rust Belt American cities, has seen drastic economic divestment over the past 60 years. At its peak in 1950, Baltimore had a population of 950,000 with a strong economy based on heavy industry and manufacturing. Since that peak, the city has seen that manufacturing base leave and its population dwindle to the 563,000 it is today. This population decline and economic decline have eroded the city's tax base.Today, Baltimore has limited financial resources to support its high-needs population.

In addition to its poor economy, the City of Baltimore also struggles with poor public health outcomes and a relatively low quality of life for its residents. 24% of Baltimore's population lives below the poverty line, compared to just 9.9% of Maryland residents at-large.[1] A 2023 study found that Baltimore has the highest number of overdose deaths per capita in the country, with 174.1 drug overdoses per 100,000 people.[2] In addition to high drug use among its population and poor public health, Baltimore struggles with housing affordability. A 2022 Abel Foundation study found that 57% of Baltimore residents spent more than 30% of their income on housing, and 30% of residents spent more than 50% of their income on housing. These numbers illustrate that Baltimore has the fifth highest cost of housing burden in the country.[3] Unfortunately, Baltimore City's government does not have the resources at its disposal to help fix these problems on its own.

The City of Baltimore is fortunate to have over 5,000 non-profit organizations based in its city limits.[4] These non-profit organizations include charities, educational institutions, animal services, community-based organizations, healthcare, and advocacy organizations. These non-profit organizations receive federal, state, and local tax exemptions, and are required to be "organized and operated exclusively for charitable purposes."[5] Under this guiding principle, non-profit organizations bring innumerable benefits to Baltimore City and its residents through their work.

Most of Baltimore's non-profit organizations are very small operations, but there are a select few that bring in millions of dollars annually and employ between hundreds and thousands of individuals. The largest Baltimore-based non-profits, often referred to as anchor institutions, include

Baltimore City's anchor institutions can contribute financially to their communities through PILOT programs (payment in-lieu of taxes)

globally recognized universities and hospitals. The term "anchor institution" indicates that these organizations are economic engines deeply rooted in the communities they serve, so deeply rooted that they are extremely unlikely to ever move away.

Baltimore City has 14 of these anchor institutions, which collectively employ tens of thousands of people and bring in billions of dollars in revenue annually. Despite this very large economic footprint, these anchor institutions, just like all other non-profit organizations, are exempted from dozens of federal, state, and local taxes. This means that anchor institutions benefit from city services such as police, fire, transportation services, and snow removal without helping to cover those costs.

To offset the tax exemptions afforded to them, Baltimore City's anchor institutions can contribute financially to their communities through PILOT programs (payment in lieu of taxes) and hospital community benefits spending. PILOT contributions are informal, voluntary agreements between anchor institutions and municipalities to cover the cost of municipal services. Hospital community benefits are formal, IRS-mandated programs which require non-profit hospitals to contribute money and resources towards community health. Currently, Maryland law requires all hospitals in the state to be non-profit organizations; therefore, Baltimore's hospitals must all participate in the community benefits program.

In Baltimore, anchor institutions make a collective, voluntary contribution of $6 million a year to the city government. According to the city government, however, this number does not come close to covering the value of services anchor institutions receive and is only a fraction of what they would have to pay in local property taxes as for-profit entities.

1 https://www.bhsbaltimore.org/learn/by-the-numbers/

2 https://www.wbaltv.com/article/opioid-epidemic-database-baltimore-deaths/44869671#

3 https://abell.org/wp-content/uploads/2022/02/cd-doublecrisis516.pdf

4 https://www.baltimoremagazine.com/profile/maryland-nonprofits/

5 https://www.irs.gov/charities-non-profits/exempt-organization-types#:~:text=Organizations%2organized%20and%20operated%20exclusively,501(c)(3).

While hospitals are required to spend money on local community benefits and charity care to offset their tax exemptions, those expenditures are only a small fraction of these hospitals' annual spending.

Currently, anchor institutions are not contributing enough to community benefits spending, the only enforced mechanism by which they can give back to the city. This paper examines both community benefits spending in Baltimore and PILOT expenditures to paint a full picture of anchor institutions' contributions to the Baltimore community.

This phenomenon is not exclusive to Baltimore. According to a 2023 US Senate Committee on Health, Education, Labor, and Pensions study 12 of the nation's largest non-profit hospital systems dedicated less than 2% of their total revenue to charity care. Instead, tax-exempt non-profit entities often direct their funding towards significant compensation packages for senior executives and investments in multi-national corporations, calling into question their solely charitable objectives.[6]

Baltimore City PILOT

In 2016, Baltimore City entered a 10-year Memorandum of Understanding (MOU) with the Maryland Hospital Association (MHA) and the Maryland Independent College and University Association (MICUA) on a Payment in Lieu of Taxes (PILOT) program for MHA and MICUA members located in Baltimore City. The agreement, covering all 14 of the city's anchor institutions, requires a total, collective, annual payment of $6 million per year to the city. Over the 10 years of the MOU, the city will receive $60 million collectively from these institutions.

Per the terms of the MOU, a nonprofit organization can make financial contributions to essential city services while preserving its tax-exempt status. In return, the city guarantees that it will not seek to impose any new tax or assessment targeted at PILOT participants.

The difference between anchor institutions' current contributions and what they would pay were they not tax-exempt is stark. In 2022 alone, that difference was $101,209,075 in real property taxes, including taxes on buildings and land, as shown in the chart below. These institutions are, additionally, exempt from paying personal property taxes. Personal property taxes are levied on for-profit businesses for the furniture, fixtures, office equipment, industrial equipment, machinery, tools, supplies, and more that they keep housed in their business spaces.

6 "Executive Charity: Major Non-Profit Hospitals Take Advantage of Tax Breaks and Prioritize CEO Pay Over Helping Patients Afford Medical Care" United States Senate Majority Staff Report October 10, 2023

Anchor Institution PILOT Contributions Versus Tax Exemptions 2022 [7]

Non-Profit Contribution - Taxable Analysis

Colleges and Universities	# of Properties	Net Exempt Assessment	Equivalent Property Taxes	Est'd City Service Percentage (44%)	Current Contribution
Johns Hopkins University	52	$1,023,418,870	$23,006,456	$10,122,841	$1,860,426
Loyola College	69	$250,285,200	$5,626,411	$2,475.621	$329,630
Maryland Institute College of Arts	25	$161,140,400	$3,622,436	$1,593,872	$69,554
Notre Dame of Maryland University	2	$52,446,700	$1,179,022	$518,761	$44,272
Total Colleges and Universities	148	$1,487,291,170	33,434,306	$14,711,094	$2,303,882
Hospitals					
Johns Hopkins Hospital & Medical Center	59	$1880545330	$42274659	$18600850	$18600850
University of Maryland Medical Center	135	$543710744	$12222618	$5377952	$5377952
MEDSTAR (Harbor-Union Memorial-Good Samaritan)	11	$196153102	$4409522	$1940190	$1940190
Sinai Hosptial	5	$7196128	$131769	$71178	$71178
Mercy Hospital	15	$439799070	$9886683	$4350141	$4350141
St. Agnes Hospital	1	$211559535	$4755858	$2092578	$2092578
Bon Secours Hospital	5	$2831900	$63661	$28011	$28011
Total Hospitals	231	$3281795809	$73774770	$32460899	$3696118
Combined Contribution	379	$4769086979	$107209075	$47171993	$6000000

Baltimore City PILOT Assessment by Institution[8]

Institution	Annual Pilot Payment	Payment in 7 Years Since Inception
Grace Medical Center	$74,880	$524,160
Johns Hopkins Hospital & Bayview	$1,399,972	$9,799,804
Medstar Good Samaritan	$149,348	$1,045,436
Medstar Harbor Hospital	$206,358	$1,444,506
Medstar Union Memorial Hospital	$202,616	$1,418,312
Mercy Medical Center	$226,208	$1,583,456
Sinai Hospital	$316,116	$2,212,812
St. Agnes Hospital (Ascension Health Alliance)	$190,462	$1,333,234
UMMC & Shock Trauma & Rehab	$746,576	$5,226,032
UM Midtown	$183,582	$1,285,074
Johns Hopkins University	$1,860,426	$13,022,982
Loyola University	$329,630	$2,307,410
MICA	$69,554	$486,878
Notre Dame of Maryland	$44,272	$309,904

Anchor Institution Financials Relative to PILOT Commitments

Since the agreement's inception, participants have contributed a mere 0.041% of their collective operating expenses towards the PILOT. Between 2016-2022, only 0.040% of all operating revenues went towards PILOT contributions.

Furthermore, in that same period, PILOT participants made more than $2.9 billion in operating income. In contrast, their PILOT commitment over that same period totaled $42,000,000, or 1.57% of their total operating income.

Johns Hopkins University alone made a total of $1,087,225,000 in operating income during these years, but its PILOT commitment over the same period was just 1.20% of that amount at $13,022,982.

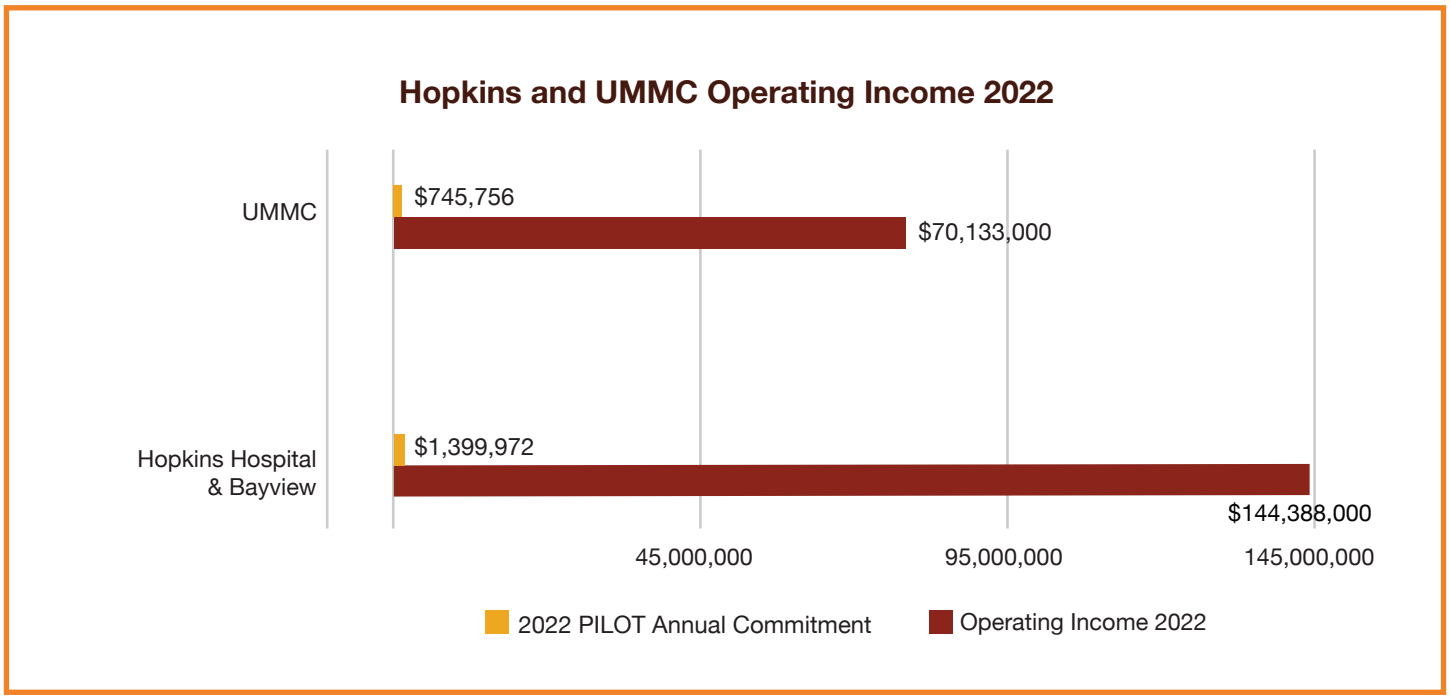
The difference between Johns Hopkins Hospital Bayview Medical Center and UMMC's operating incomes and their PILOT commitments is staggering. In 2022, Johns Hopkins Hospital Bayview Medical Center's PILOT commitment was just 0.97% of its operating income that year. Over the seven-year period since the PILOT began, the institution's commitment amounted to 1.27% of its total operating income.

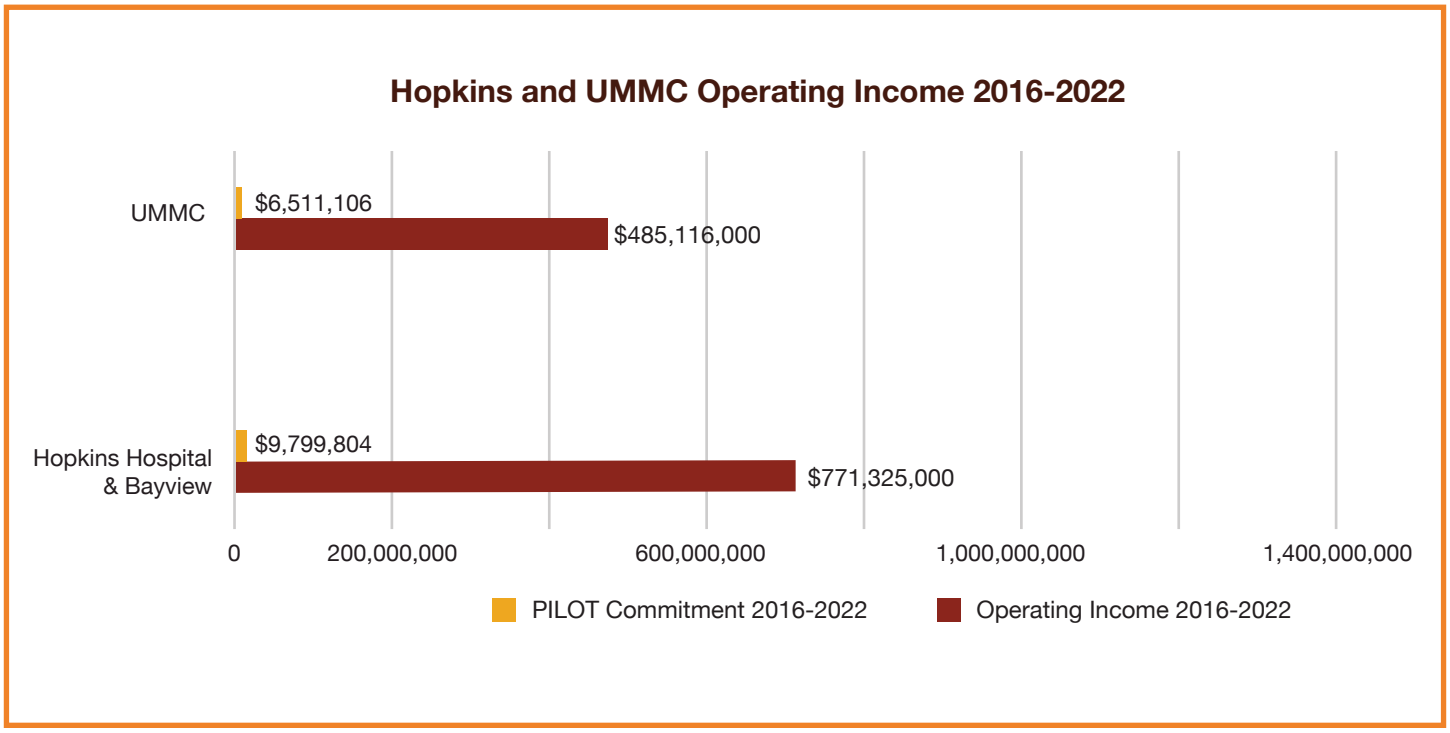
Similarly, in 2022, UMMC's PILOT commitment was a mere 1.06% of its operating income. Over the seven-year period since the PILOT began, its commitment amounted to 1.08% of its total operating income.

Furthermore, in that same period, PILOT participants made more than $2.9 billion in operating income. In contrast, their PILOT commitment over that same period totaled $42,000,000, or 1.57% of their total operating income.

7 This chart was acquired from the Baltimore City Department of Finance, it is not our data.

8 Baltimore City MOU


Hopkins and UMMC Operating Income 2022
UMMC
$745,756
$70,133,000
Hopkins Hospital & Bayview
$1,399,972
$144,388,000
45,000,000
95,000,000
145,000,000
2022 PILOT Annual Commitment
Operating Income 2022


Hopkins and UMMC Operating Income 2016-2022
UMMC
$6,511,106
$485,116,000
Hopkins Hospital & Bayview
$9,799,804
$771,325,000
0
200,000,000
600,000,000
1,000,000,000
1,400,000,000
PILOT Commitment 2016-2022
Operating Income 2016-2022

Executive Compensation[9]

Anchor Institution	Title	Bonus Compensation Over a Period of Seven Years	Bonus Compensation Relative to Pilot Commitment
UMMS	President and CEO, UMMS	$7,733,138	118.77%
Johns Hopkins Hospital	President	$4,123,260	42.08%
Johns Hopkins University	CEO and Dean of Medical Faculty	$3,833,883	29.44%

Anchor Institution	Title	Total Compensation Over a Period of Seven Years	Total Compensation Relative to Pilot Commitment
Johns Hopkins University	CEO and Dean of Medical Faculty	$21,317,825	1.64x
UMMC	President and CEO, UMMC	$12,380,420	1.90x
Johns Hopkins University	President	$18,754,464	1.44x
UMMS	President and CEO, UMMS	$20,791,823	3.19x
Johns Hopkins Hospital	President	$16,279,384	1.66x
Mercy Medical Center	President	$8,839,721	5.58x

Some anchor institutions' senior executives receive significantly more money in compensation than their employers pay towards the PILOT.

In some cases, anchor institutions spent more on just bonus compensation for their senior executives than they did on PILOT contributions.

The institution expected to make the highest PILOT contribution overall per the MOU is Johns Hopkins University. The $13,022,982 the University was expected to pay since the PILOT's inception may sound substantial, but it is still well below the total compensation its CEO and dean of medical faculty received over the same period.

Between 2016-2022, Johns Hopkins University's CEO and dean of medical faculty made 1.64x the seven-year PILOT commitment. In 2022 alone, then-CEO and Dean Paul Rothman made 2.23x the annual PILOT commitment.

Over the same period, the UMMS president and CEO made 3.19x their employer's PILOT commitment. In 2022 alone, then-UMMS President and CEO Mohan Suntha made 3.74x UMMS's annual PILOT commitment.

9 To conduct this research, data was pulled from IRS 990 filings

University Endowments and Investments

Endowments of Unversities participating in the PILOT program as of 2022. [10]

Universities	Total Endowment
Johns Hopkins University	$8,244,472,000
Loyola University	$301,817,000
MICA	$109,355,771
Notre Dame of Maryland	$49,321,528

A university endowment is a fund comprised of money or other financial assets donated by an individual or group invested in supporting that university in perpetuity. Endowments are comprised of hundreds or thousands of individual donations, each with its own type of restriction. University endowment funds are funneled into investment pools through which they can receive investment returns. Endowments are used to support the university's performance through faculty support, scholarships, or general operating support. The Board of Trustees of a university usually manages and invests individual endowment funds. Endowment funds provide financial stability to institutions, protecting them from fluctuating market conditions.[11]

Johns Hopkins University has an endowment investment pool (EIP) through which it manages its assets. As stated in its 2022 audited financial disclosures, "The University relies on a total return strategy under which investment returns are achieved through both appreciation (realized and unrealized) and yield (interests and dividends). Investments are diversified by asset class, as well as by investment manager and style, with a focus on achieving long-term return objectives within prudent risk constraints."

Hopkins disclosed 12 total holdings in its 2023 SEC filings. One of its top holdings is with BlackRock Institutional Trust Company, represented by the exchange-traded fund iShares TR. Hopkins's top three holdings are ISHARES TR (Class: ISHS 1-5YR INVS) with a value of $1,482,745, ISHARES TR (Class: MSCI ACWI ETF) with a value of $117,539, and SPDR SER TR (Class:S&P OILGAS EXP) with a value of $82,484. These exchange-traded funds invest primarily in banking, surveillance technology, multi-national corporations, and fossil fuels. Hopkins' third-highest holding, SPDR SER TR (Class:S&P OILGAS EXP) stated in its annual report that the ongoing war in Ukraine contributed to oil and gas holdings' strong financial performance in 2023.

Very few universities are taxed on returns on investment from their endowments. There is currently a 1.4% federal tax on investment return income for colleges with endowments larger than $500,000 per student. It is unlikely that Hopkins would qualify to pay this tax.

10 To conduct this research, data was pulled from audited financial statements.

11 https://www.acenet.edu/Documents/Understanding-College-and-University-Endowments.pdf

Community Benefits Background in Maryland & Baltimore

Community Benefits are not merely suggestions made by municipalities—non-profit hospitals cannot maintain tax-exempt status without making these charitable contributions. The Hilltop Institute's 2022 Hospital Community Benefits Report notes that "in 1969, the IRS issued a Ruling 69-545 which established the 'community benefit standard' for non-profit hospitals."[12] The IRS defines "community benefit standard" as a "test the IRS uses to determine whether a hospital is organized and operated for the charitable purpose of promoting health."[13]

According to the Hilltop Institute, a community benefits expenditure is a "planned, organized and measured activity that is intended to meet identified community health needs within a service area." Examples include partnerships with community organizations, financial contributions, mission-driven health services, and charity care. In Maryland, the Health Services Cost Review Commission (HSCRC) is required to collect hospital community benefit information and compile it into a publicly available report.

The HSCRC is an independently functioning department within the Maryland Department of Health that oversees hospital reimbursement rates and is responsible for all hospital financial oversight and public reporting. Through this rate-setting mechanism, the HSCRC subsidizes hospitals' community benefit spending.

This subsidy means that hospitals can claim that they are contributing towards community benefits while not spending any of their own money.

In addition, Hospital Community Benefits spending is subdivided into direct costs and indirect costs. Direct costs account for the exact dollar amount a hospital spends on a Community Benefit Program that community members see. Indirect costs are those that are not attributed to products or services. They cover human resource expenses, insurance, and other overhead costs that a community member would never see. Hospitals claim both direct and indirect expenses as Community Benefits expenditures.

In Maryland, FY2022 community benefit expenses represented roughly 6.2% of operating expenses. This percentage, however, does not account for indirect costs, meaning that an even smaller amount of money was spent directly on community benefits.

Anchor Institution	2022 Total Hospital Operating Expense	2022 Total Community Benefits Expense	2022 Total Net CB as % of Operating Expense
Grace Medical Center	$43,098,140	$3,965,483	8.63%
Johns Hopkins Bayview Medical Center	$773,596,000	$102,988,357	6.42%
Johns Hopkins Hospital	$2,920,138,000	$331,053,361	5.19%
Medstar Good Samaritian	$311,646,463	$24.587,973	4.49%
Medstar Harbor Hospital	$218,397,738	$23,340,077	6.83%
Medstar Union Memorial Hospital	$500,756,162	$38,264,449	3.39%
Mercy Medical Center	$549,134,673	$73,520,594	8.46%
Sinai Hospital	$912,336,095	$91,908,449	6.28%

12 FY 2022 Hospital Community Benefit Report, The Hilltop Institute, October 2023

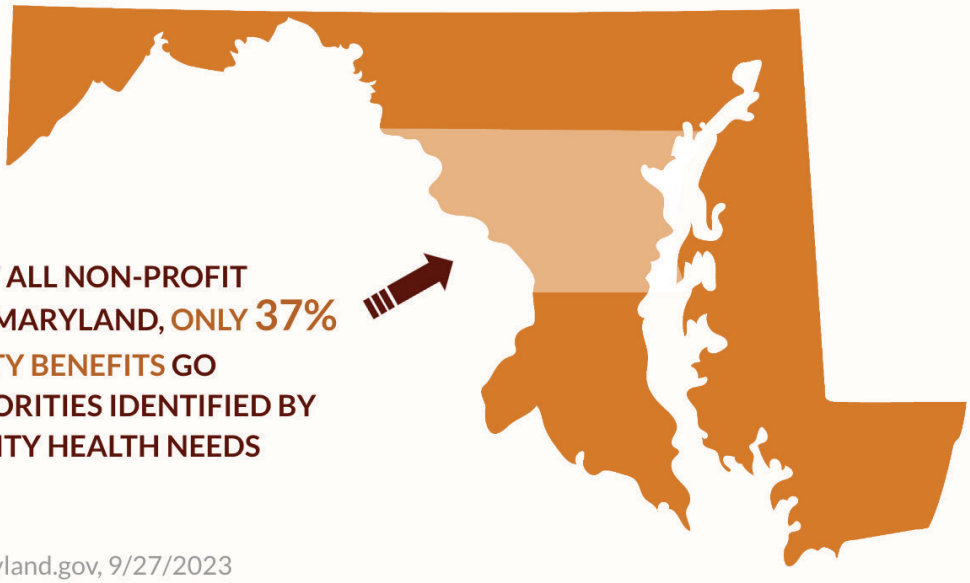
13 https://www.irs.gov/charities-non-profits/charitable-hospitals-general-requirements-for-tax-exemption-under-section-501c3

St. Agnes Hospital (Ascension Health Alliance)	$506,146,000	$45,950,554	4.65%
University of Maryland Medical Center	$1,954,590,000	$268,056,170	4.05%
University of Maryland Rehabilitation & Orthopedic Institute	$115,219,000	$8,362,550	4.63%
UM Midtown	$267,139,000	$37,051,103	10.3%

Furthermore, it appears that hospitals' Community Benefits spending is not going directly to areas of need.

Since the passage of the Affordable Care Act in 2013, in addition to the IRS community benefits standard, hospitals are required to "conduct a community health needs assessment (CHNA) every three years and to adopt an implementation strategy to meet the community health needs identified through the CHNA."[14] It is essential that CHNAs include input from members of the communities they serve. Hospitals, in turn, are required to make CHNAs widely available to the public. In theory, Community Benefits expenditures should be focused on areas of need identified in a hospital's CHNA.

Despite these lofty goals, Hilltop found that only 37% of Maryland hospitals' 2022 Community Benefits expenditures went towards areas of need identified by their CHNA.



THROUGHOUT ALL NON-PROFIT HOSPITALS IN MARYLAND, ONLY 37% OF COMMUNITY BENEFITS GO TOWARDS PRIORITIES IDENTIFIED BY THE COMMUNITY HEALTH NEEDS ASSESSMENT.

Source: hscrc.maryland.gov, 9/27/2023

14 Community Health Needs Assessment for Charitable Hospital Organizations - Section 501(r)(3) | Internal Revenue Service (irs.gov)

PILOT Programs in Other Cities

Baltimore is not the only city grappling with low PILOT contributions from its anchor institutions. Many other cities, particularly on the east coast, have had similar arrangements, and Baltimore can look to them to address this issue.

Boston has negotiated a particularly successful PILOT program. The city first assembled a taskforce in 2009 to study the need and feasibility of a PILOT agreement with its anchor institutions. The taskforce developed a PILOT assessment program which decided that any nonprofit entity with more than $15 million in property would contribute 25% of what it would have paid in real estate taxes as a taxable entity. The assessment even stipulated that an institution making direct community benefit expenditures could receive up to 50% off its PILOT assessment. In FY2023, the city of Boston received $35.7 million in PILOT contributions from participants, 76% of what the government had requested.[15]

Providence has also achieved success in its PILOT program and recently negotiated one of the most generous agreements in the country. Providence's agreement totals $442 million in contributions from four colleges and universities over the next twenty years and includes a provision to create a "Quality-of-Life working group." This working group brings city Departments and participating institutions together to address quality-of-life concerns reported by neighbors and concerns of common interest raised by the city and the institutions.[16]

New Haven's PILOT program, re-negotiated in 2021, amounts to approximately $135 million over a six-year period from Yale University. Alongside an increase in payments, the new agreement also provided for a Center for Inclusive Growth to be established at the university, which will explore strategies to sustainably and equitably grow the economy. The agreement also encourages accountability from Yale in its commitment to "offset the city's loss in tax revenues for any properties Yale takes off the tax rolls in the next six years."[17]

All these cities receive substantially more in PILOT commitments from anchor institutions than Baltimore does. Yale University alone makes nearly four times the PILOT commitment that Baltimore's 14 anchor institutions make collectively. **After just three years, Yale will have paid more in PILOT contributions than Baltimore institutions are projected to pay over ten years.**

Yale University's campus in New Haven, Connecticut.
Photo Source: The Business Journals

15 https://www.boston.gov/departments/assessing/payment-lieu-tax-pilot-program

16 https://www.providenceri.gov/mayor-brett-smiley-celebrates-passage-of-historic-pilot-agreement/

17 With new $140+ million Yale pledge, Yale, New Haven promote growth, economy | YaleNews

Conclusion

As this analysis shows, institutions in Baltimore City pay only a small portion of their relative financial wealth into community benefits and the PILOT program. The marked difference between what institutions allocate towards the PILOT program and what they would pay as taxable entities leaves a large gap for the city of Baltimore and its residents to fill. Therefore, the city is well within its rights to request larger contributions from these local institutions.

The residents of Baltimore are very fortunate to have over 5,000 non-profit organizations based in the city. These non-profits, especially its anchor institutions, help fill the gaps between the needs of residents and the resources the city government is able to provide. Even still, the city and its residents are in great need. High drug use, poor public health outcomes, low wages, and high cost of living remain prevalent in Baltimore, and the city will need more investments from its government and anchor institutions to address these issues and turn the tide.

Anchor institutions in Baltimore City have the financial means to spend more to help local communities, yet they do not. This analysis does not argue that these institutions should have their tax-exempt status revoked, but rather that they should be challenged to do more to live up to their stated goals of being exclusively charitable organizations.

Appendix 1: PILOT expenditures as a percent of operating expenses (from the years 2016-2022):[18]

Anchor Institution	% of Operating Expenses dedicated to PILOT Program
Grace Medical Center	0.105%
Johns Hopkins Hospital + Bayview	0.046%
Medstar Good Samaritan	0.054%
Medstar Harbor Hospital	0.108%
Medstar Union Memorial Hospital	0.046%
Mercy Medical Center	0.030%
Sinai Hospital	0.040%
St. Agnes Hospital (Ascension Health Alliance)	0.042%
UMMC & Shock Trauma & Rehab	0.042%
UM Midtown	0.081%
Johns Hopkins University	0.030%
Loyola University	0.170%
MICA	0.082%
Norte Dame of Maryland	0.099%
Total	0.042%

Appendix 2: PILOT expenditures as a percent of operating revenue (from the years 2016 - 2022):

Anchor Institution	% of Operating Revenues dedicated to PILOT Program
Grace Medical Center	0.120%
Johns Hopkins Hospital + Bayview	0.043%
Medstar Good Samaritan	0.054%
Medstar Harbor Hospital	0.104%
Medstar Union Memorial Hospital	0.046%
Mercy Medical Center	0.023%
Sinai Hospital	0.038%
St. Agnes Hospital (Ascension Health Alliance)	0.041%
UMMC & Shock Trauma & Rehab	0.041%
UM Midtown	0.083%
Johns Hopkins University	0.029%
Loyola University	0.164%
MICA	0.076%
Notre Dame of Maryland	0.103%
Total	0.041%

Only six out of the seven years of data were available for two institutions, Grace Medical Center, and Notre Dame of Maryland.

18 To conduct this research, data was pulled from audited financial statements.