

Clinic and UH worth a lot, but taxed a little

Sunday, April 09, 2006

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The Northeast Ohio real estate owned by hospital giants University Hospitals and The Cleveland Clinic is worth more than \$1.5 billion, according to county auditors, but the hospitals are taxed on just \$550 million because of their nonprofit status.

If all the holdings were taxable, an extra \$23 million a year in taxes would be collected in Cleveland, with \$13 million going to the cash-strapped public schools. That would have made up almost one-third of a \$46 million school tax proposal voted down by residents last year.

An analysis by The Plain Dealer found that if all real estate owned by the hospitals were taxed, school districts, cities and counties from Amherst to Ashtabula would reap \$45 million a year, \$32 million more than is billed now.

And the hospitals don't even pay all of the \$14 million that is billed; they continuously fight to exempt more properties from taxes and to reduce the taxable value of others.

The hospitals argue that they provide a vital community service and that their vast army of employees pays millions of dollars in income taxes. Losing their tax exemptions would damage their viability and endanger one of Northeast Ohio's most successful economic engines, they argue. The Clinic, for example, has \$3.3 billion in annual revenue and employs more than 34,000 people in Northeast Ohio.

Their critics counter that the hospitals do relatively little charitable work and operate like for-profit enterprises. The hospitals own profit-generating parking garages and thriving medical office complexes -- buildings that generate taxes when run by for-profit businesses -- which suggests that such taxes should be paid on the hospitals' property, critics say.

Cuyahoga County Treasurer James Rokakis said the exemptions put an extra burden on those who do pay taxes. That problem is amplified in Cleveland, where more than a third of all property - owned by hospitals, churches, schools and governments - is exempt.

"Between the Clinic and UH, they're spending over \$1 billion in construction," Rokakis said. "When you ask them to contribute an insignificant amount of money" to help the schools, they balk.

Rokakis, who once suggested that the Clinic should give \$3 million and University Hospitals \$1.5 million each year to the Cleveland schools, rejected the argument that the hospitals generate lots of wage taxes for municipalities.

"That comes out of the employees' paychecks," not from the hospitals, Rokakis said. And it doesn't help the schools, he said.

A top Clinic official said the hospital pays its dues.

"We have spent hundreds of millions of dollars over the years adding facilities to this campus," said Michael O'Boyle, the Clinic's chief operating officer. "We have a few thousand and thousands of jobs both here and throughout the region. No one entity, not the Cleveland Clinic or anybody else, can solve every problem."

University Hospitals is adding facilities to benefit the region, too.

"Two of the biggest projects are a new emergency room and a new neonatal intensive care unit," said Jeff Boutelle, senior vice president of communications. "Neither of those things are money makers."

He said extra taxes would have been a burden. The hospital system had a decade of operating losses until 2004.

Tax-free hospital sites rise as schools hit hard times

The value of the hospitals' vast holdings hit such heights only in the last decade, at the very time many school districts and municipalities found themselves tapped out. The untaxed holdings suddenly have governments brooding, wondering how to change the rules and get extra cash from the hospitals. As suddenly, the hospitals want more holdings exempt from taxes.

The situation is a reversal of fortunes. Back in the 1920s, it was the city that was robust and the fledgling hospitals that were scraping by. Cleveland City Hospital precursor to University Hospitals opened in a house in downtown Cleveland in 1866 and subsisted on charity, government contracts and fees for the next 50 years. The Clinic opened its doors in 1921 and survived its early years on goodwill.

As the century progressed, Cleveland's population peaked, then waned. The Hough riots in 1966 and the order to desegregate the schools accelerated later sped up the steady stream of residents out of Cleveland and, later, Cuyahoga County.

The growth of the two hospital systems, especially the explosive building boom of the Clinic in the 1990s, coincided with the collapse of the Northeast Ohio economy. Corporate headquarters moved, and steel and auto plants closed.

For a while, the school-funding crisis was limited to Cleveland, where years ago school officials started fighting tax exemptions. But the fight has spread as the Clinic and University Hospitals expanded beyond Cleveland and, later, beyond Cuyahoga County, buying hospitals, opening medical centers and building doctors' offices region-wide.

"What used to be a problem of the cities is now migrating to the suburbs," said Evelyn Brody, law professor and editor of the book, "Property Tax Exemption for Charities: Mapping the Battlefield."

"The big exempt organizations - hospitals, universities, churches - were all in the center of the city. Now that they're migrating outward, it's a suburban issue," she said.

Hospitals increasingly find themselves in tax exemption battles in the suburbs.

"They're buying doctors offices that were taxable, and the next day they're claiming they should be exempt," said Lorain County Auditor Mark Stewart. "If they want the exemption, they should stay in downtown Cleveland. These are satellite doctors' offices. They're money-making enterprises."

Mentor fought off an attempt in the early 1990s by University Hospitals to exempt its Metropolitan Medical Building from real estate taxes. The hospital bought the building from a for-profit doctors group. The use did not change, but because the hospital is nonprofit, it wanted the building exempted.

Mentor schools are fighting University Hospitals anew, this time over the value of the hospital's Lake County holdings. The auditor's office values them at \$13 million, the hospital at \$5 million. Hundreds of thousands of tax dollars are at stake.

The Lake County Board of Revision denied the request. The hospital has appealed.

The two hospital systems regularly fight to reduce taxes, by chopping the appraised value of real estate or seeking to have it declared tax-exempt. At least two dozen such requests are pending in Cuyahoga County.

Attorney David See, who represents school districts such as Cleveland, Beachwood, Solon and Independence, said the requests hit schools hard because they get the major share of real estate taxes.

Part of the Clinic's battle plan is to document what it calls the community benefit of its presence in Northeast Ohio. In a 44-page report last year the Clinic says that in 2004, it provided benefits worth \$349 million.

Included is the Clinic's self-reporting of \$92 million in charity medical care. Also included is \$115.2 million "through its subsidy of medical education programs" and \$15.9 million in community outreach, which covers food donation, self-help programs, community spiritual care and health education.

O'Boyle said the Clinic has agreed to give \$10 million to Cleveland schools in dollars or services. "It's real and it's a huge commitment, and no one else has stepped up to make the same kind of commitment that we're aware of," he said.

Critics say such reports are shields to evade taxes.

"Tending to the sick is not charitable," said attorney Tim Armstrong, who represents the Elyria school district in a fight with Community Health Partners and University Hospital's Ireland Cancer Center. The battle is over a tax exemption request on a medical office building.

"Health care is such a big industry," Armstrong said. "It's the healthiest industry in town, and it's rising free."

Tax exemptions are under a microscope nationwide

The tax-exempt status of hospitals is under fire nationwide. Hospitals with for-profit subsidiaries such as hotels and biomedical business spin-offs are in conflict with what people think a charity should look like, critics say.

Some say the charitable purpose that sparked creation of hospitals a century ago - the desire to heal the sick at low cost - has vanished. Some state officials are working to bring it back.

Illinois lawmakers recently considered requiring nonprofit hospitals to devote at least 8 percent of their operating costs to charity care or pay the state the difference. Other states require hospitals to report charity care or community benefits annually.

The Internal Revenue Service commissioner has said his office sees little difference in the charity care and community benefits of for-profit and not-for-profit hospitals. Congressional leaders want to tie federal tax exemptions to charity care.

Elsewhere in the nation, cities have come up with ways to get extra money out of giant nonprofit hospitals. Cambridge and Boston have long-term arrangements with their nonprofit organizations, including hospitals, to donate payments in lieu of taxes a portion of the taxes they would owe if they were for profit.

Connecticut and Rhode Island use the state budgets to make payments in lieu of property taxes to cities, to cover some taxes lost on college, hospital and state property. Neither idea has caught on in Ohio.

County treasurer Rokakis tried to sell hospitals and other nonprofit entities payments in lieu of taxes nearly two years ago, but his bid fell flat.

"I raised the issue as treasurer, the collector of property taxes, because I know the struggles of Cuyahoga County homeowners," Rokakis said. "It's a legitimate public policy issue."

A new front in the intensifying war with the hospitals may be in the county auditors' offices. Auditors have the power to put tax-exempt property back on the tax rolls any time, forcing the owners to reapply for tax-exempt status.

Lorain's auditor, Stewart, said he's been contemplating putting all hospital property back on the tax rolls since last year when the state tax commissioner sided with Beachwood in a fight over the tax-exempt status of a Cleveland Clinic medical office.