Honey Leon did not want to open the envelope she got in the mail. “Oh, boy. Here’s the tax bill,” she said recently as she slowly opened the combined bill from city, schools and library for the Labor Zionist Farband Education Center at 6328 Forbes Ave.

She was stressed to see the bill was for $5,400, and did not include the 80 percent tax exemption — the county found that 20 percent of the building is home to a caretaker and taxable — Mrs. Leon fought for last year after the county asked the organization to justify its 100 percent property tax exemption.

Even then, Mrs. Leon, 86, a board member, and for more than 20 years the manager of the building the education center has owned in Squirrel Hill since 1958, knew no matter what the numbers were, it would be more than the labor rights organization has ever had to pay in the past. “We’ve been tax-exempt forever,” she said. “We’re a non-profit. It’s never been a question.”

For the last two years, though, it has been a question for the owner of every property in the county that claimed a charitable property tax exemption in Allegheny County. The process is far from being completed and many of the biggest potential legal battles over properties owned by the county’s largest health care, university and senior homes have yet to be waged.

But the initial results have already paid off for local governments. After the county sent out two letters in 2013 asking the owners of 2,800 parcels that claimed a charitable tax exemption to respond and tell it why they deserved an exemption, 20 owners self-reported they were taxable, and another 170 didn’t respond and automatically went back on the tax rolls as a result.

That put $59 million in new property back on the tax rolls — at least for 2014. And most of those property owners have already paid, pumping nearly $200,000 in new property tax revenue into the county’s coffers. More than $1 million combined has also gone to local municipalities and school districts — with a promise of at least double that if delinquent tax payers pay up.

The review has already shown a result, said Jerry Tyskiewicz, director of administrative services for the county, which is overseeing the review, “if for no other reason you get those 190 properties to go back on the tax rolls for nothing more than the price of a postage stamp.”

The review has also caught the attention of other counties in Pennsylvania, who say they are contemplating their own charitable reviews. “We’ve looked at the procedures Allegheny County has used,” said Tom Leiden, Cambria County’s solicitor. “We want to see how theirs goes.”

Small groups feel the pain

Allegheny County’s process has created a strain on many of the smaller non-profits in the county. Some, like the Labor Zionists, say they had never been questioned about their status in the decades since they got their first exemption, and they found the prospect of either of answering the county’s questions themselves daunting, or paying to hire a lawyer to do it for them impossible.
“I mean, this HUP test, who understands it?” asked Robin Pascarella, a board member for the Fairhill Recreation Center in Sewickley Hills, which lost its tax exemption last year and had to give its property to a conservation group. “We’d have to hire a lawyer to defend us, and many small non-profits can’t afford that.”

The HUP test is named after the defendant in the 1985 Pennsylvania Supreme Court case that led to the five-part test the court reaffirmed in a 2012 case that determines whether a property deserves a charitable tax exemption. In its letters to property owners in 2013, the county asked owners to answer the five prongs of the test.

Both Fairhill and another charity, the Fox Chapel Area Land Trust, both appealed the loss of their tax-exempt status last year after not responding to the letters, and both lost for the same reason. The county said they did not fulfill one of the five prongs of the test, that they did not identify a “substantial and indefinite class of persons who are legitimate subjects of charity.” In short, they could not show that many people were benefiting from the land they owned.

“I don’t know why the county is going after us,” said Dan Altman, the land trust’s past president who participated in the appeal. “They are wasting resources. We aren’t their battleground. The bigger non-profits are their battleground.” The land trust, which is now in court appealing the county’s ruling, owns about 35 acres in the Fox Chapel area that the county says is worth about $1.8 million and would cost the trust nearly $50,000 in annual property taxes that Mr. Altman said it does not have.

Despite the consternation for some nonprofits, the countywide review “needs to be done,” said Janet Burkardt, an attorney whose firm represents Pittsburgh Public Schools and many other school districts and has been keeping an eye on the review. “This is a massive undertaking for a county this size and it is important.”

The review put into motion a 2007 county ordinance that said the county should do a review of all property that claimed a purely public charity exemption every three years. To date, the county has only fully reviewed 228 of the 2,561 parcels that sent back responses to the letters in 2013.

The owners of 170 previously tax-exempt parcels with a combined assessed value of $56 million did not respond to the initial letters and were returned to the tax rolls for 2014. A dozen of those owners filed new exemption applications or challenged and lost appeals, and some say they still intend to challenge. But all of them are expected to at least pay their 2014 taxes. Any appeals at this point would only apply to 2015 taxes and into the future.

So far, the owners of 83 of those parcels have paid their local taxes, pumping $153,000 of new tax dollars into the county’s coffers in 2014, and more than $1 million to local school districts and municipalities. Those paying up included the McKeesport Little Theater, which paid taxes for the first time on its small theater that the county valued at $508,000; the new owner of the Rock Airport in West Deer, which the county values at nearly $13 million; and The Community of the Crucified One, a church in Homestead. The church, which owns multiple properties in Homestead, paid taxes last year on two homes it owns, valued at $37,300 and $48,200. Both homes have been tax-exempt since at least the 1990s, said Jonathan Stewart, the church’s bishop and himself a civil attorney, functioning as a place for visiting missionaries to stay, occasional youth events and even small worship services. “But we had a change in status in how we used those,” he said, saying the change happened “recently.”

The county stands to collect another $141,000 from the now-delinquent property owners of the other 87 non-responding parcel owners who have yet to pay — with another $1 million-plus to local school districts and municipalities if they do pay. The delinquent list includes a nationally known non-profit, Elderly Housing Development & Operations Corp., which has yet to pay any of the taxes it owes on three senior housing complexes in Pittsburgh that the county values at more than $13 million. A spokeswoman for the corporation, based in Fort Lauderdale, Fla., said EHDOC “has engaged counsel” but she would not comment any further.
Also not yet paying are 10 of the volunteer fire departments who did not respond to the county’s letters. Much of that property might very well be exempt. But those that want to regain their tax-exempt status are struggling to give the county the answers they need to continue the exemption.

Joe Wissel, the chief of the Heidelberg Volunteer Fire Department, said it was a blow to his department when it found out it lost its exemption on five parcels the county values at about $480,000, including its office and fire station. “We’ve always been a tax-exempt fire department,” he said. The department has been trying to get the IRS to approve it for 501(c)(3) charitable status, something the county has asked for documentation of. In addition, the department lost all of its paper records in the 2004 Hurricane Ivan flooding, and it has taken years to try to rebuild its records. In the disarray, the department never saw the county’s two letters in 2013. “It’s been multiple pieces of the puzzle we’ve had to try to put together,” he said.

The self-reporters

In addition to the non-responders who have paid their taxes, there are another 20 parcels whose owners in 2013 self-reported to the county and conceded without a review that their parcels were taxable, not exempt. That resulted in at least $46,000 in new revenue to the county last year, and several hundred thousand dollars more to local municipalities and school districts.

Many of the non-responders and self-reporters “were probably properties that should have been taxable for a long time, but they weren’t going to raise a hand and say, ‘Hey, we’re taxable,’” said Allegheny County Solicitor Andrew Szefi.

One of those who never raised its hand was UPMC. The health-care giant has owned the land and a building that is home to a physicians’ practice on Russilton-Dorseyville Road in West Deer since it bought St. Margaret Memorial Hospital in 1996. Originally built by St. Margaret in 1977, the small clinic on five mostly wooded acres initially qualified as tax-exempt because it was built as a rural doctors’ office at time.

But in 2000, the physicians working at the clinic bought the practice and made it their own private, for-profit entity and began renting out the site from UPMC — a change that property attorneys say clearly would have required UPMC to begin paying taxes on the property. Despite that, UPMC continued not paying taxes on the 1.5 acre parcel that the clinic — valued now at $518,200 — sits on, until the county sent out its letters in 2013.

The letters prompted UPMC senior associate counsel Bryant Wesley to send the county a letter in October 2013 that merely said, without explanation, that UPMC “does not object to this parcel being re-categorized from exempt to non-exempt.” UPMC finally paid West Deer ($1,000), the county ($2,402) and Deer Lakes School District ($11,148) last year. UPMC would not explain why it did not pay taxes for the prior 14 years, except to say in a statement: “We carefully reviewed the list and determined that this property no longer met the guidelines.”

No matter how obvious it may seem that UPMC or any other land owner should have been paying taxes in the past, there is no recourse to recoup back taxes in such cases. “And you wouldn’t want there to be” an ability to do that, Ms. Burkardt said. “Because you wouldn’t want it to go the other way either” if a property owner could prove they should have been getting a tax exemption for years in the past. “That’s why it is so good the county is doing this,” she said. “It’s their responsibility to find it.”