Definition of PILOT

• Payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes

• Report excludes payments from public institutions (public universities and public authorities) and state governments or businesses
Definition of PILOT

• Payments typically result from negotiations between local government officials and individual nonprofits, but exact arrangements vary widely both in terms of regularity of payments and

  ➢ PILOTs may be formal long-term contracts; routine annual payments, or irregular one-time payments

  ➢ Payments may go to general fund or be directed to specific programs
Heightened Interest in PILOTs

- Press accounts suggest growing interest in PILOTs since early 1990s due to:
  - Revenue pressures faced by municipalities
  - Growing scrutiny of the nonprofit sector
  - Anti-tax climate
Survey on PILOTs: Background

- Survey local officials from the top 500 jurisdictions with the largest nonprofit sectors as measured by revenues or assets. These places account for:
  - 1.7% of U.S. jurisdictions
  - 79% of nonprofit revenues nationally
  - 83% of nonprofit assets nationally
  - 43% of nonprofit organizations nationally
Survey on PILOTs: Background

• Other sources for information:
  ➢ Newspaper articles and other public sources
  ➢ Responses from post on International Association of Assessing Officers’ AssessorNet
Survey on PILOTs: Initial Results

- 154 jurisdictions in 27 states have received PILOTs
  - 53 reported in PILOTs survey (Out of 141 responses so far)
  - 101 identified in other sources
- PILOTs are most common in the northeast
  - 85 jurisdictions in Massachusetts
  - Other states where PILOTs are common:
    - PA (11), IN (7), RI (7), NJ (4), NH (4), WI (4)
States with Jurisdictions Collecting PILOTs

- Wisconsin (WI)
- Indiana (IN)
- Pennsylvania (PA)
Arguments in Favor of PILOTs

• PILOTs can provide significant, but limited revenue
• Nonprofits should pay for the public services they consume
• PILOTs can address two problems with the charitable property tax exemption:
  • Spatial mismatch
  • Imprecise subsidy
Arguments Against PILOTs

- PILOTs could lead nonprofits to raise fees or cut services
- Limited and unreliable revenue source
- PILOTs often ad hoc, secretive, and contentious
- PILOTs lead to horizontal and vertical inequities
Two Types of Problems with PILOTs

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attempts to Obtain PILOTs Highly Contentious</td>
<td>Collaborative Approach: PILOTs Serve Mutual Interests</td>
</tr>
</tbody>
</table>
Which Local Governments Should Consider Systematic PILOT Programs

- Local gov’t should consider PILOTs if:
  - Significant share of total property value owned by tax-exempt nonprofits
  - Local gov’t highly reliant on property tax

- Local gov’t should consider Systematic PILOT program if:
  - Large number of nonprofits
  - Good relationship between local government and nonprofits, and/or some existing support for PILOTs
A Word of Caution: When is a Systematic Approach Appropriate?

- Acceptance of PILOTs among nonprofits is needed for sustainable agreements

- Systematic approach can help or hurt:
  - *Help*: More consistent treatment of nonprofits makes PILOTs seem fairer and less arbitrary; Seeing some nonprofits contribute builds acceptance among others
  - *Hurt*: Nonprofits may be threatened by systematic approach and less willing to negotiate; Formulaic approach perceived as mandating contributions
Determine Which Nonprofits to Include in PILOT Program

- **Threshold**: Use threshold level of property value or annual revenues, which excludes nonprofits lacking the financial resources to make significant contributions.

- **General Principles**: Develop list of general principles, and only solicit PILOTs from nonprofits that do not satisfy requirements.

- **Include All Nonprofits**: May be perceived as “fairer” approach and increase participation
Target PILOT that is Justified and Equally Applied to All Nonprofits

- **Target**: Useful starting point for negotiations

- **Justification**: Reason why local government is seeking a certain dollar figure
  - Ex: Estimate share of local government spending on services directly benefiting nonprofits

- **Equal Application**: Use a basis to calculate suggested PILOTs for all nonprofits with rate set to reach the justified contribution
Use Basis to Calculate Payments

• Assessed value of exempt property
  ➢ Fairest basis: PILOT proportional to tax savings
  ➢ Requires accurate assessments

• Square footage of property
  ➢ Easy to administer

• Organizations’ annual revenues
  ➢ Poor proxy for nonprofits’ ability to make PILOT

• Number of dorm or hospital beds
Community Benefit Offsets to Cash PILOTs

• Nonprofits should be able to reduce cash PILOTs in return for providing certain public services for local residents.

• Examples: Hospital establishes a free clinic; University provides after-school tutoring

• Challenges include:
  ➢ Estimating cash value of donated in-kind services (Nonprofits value their services fairly)
  ➢ Deciding what services count for offsets
# Community Benefit Offsets to Reduce Cash PILOTs

<table>
<thead>
<tr>
<th>Should count as an offset</th>
<th>Should not count as an offset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job training for local residents</td>
<td>Job creation</td>
</tr>
<tr>
<td>Scholarships reserved for local residents</td>
<td>Scholarships available to all students</td>
</tr>
<tr>
<td>Public health clinic</td>
<td>Unreimbursed medical care that is billed for</td>
</tr>
<tr>
<td>Property taxes voluntarily paid on property being used for an exempt purpose</td>
<td>Property taxes paid on property that is not actively used for an exempt purpose</td>
</tr>
<tr>
<td>After school tutoring for local students</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Legal aid</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Multiyear Agreements

- Nonprofits sometimes reluctant to commit to long-term obligations even if willing to make annual contributions.
- Municipalities should emphasize the importance of a stable revenue source for budgeting and rule out trying to renegotiate agreement in future to increase contribution.
Earmarked PILOTs vs. General Fund

• Nonprofits sometimes more willing to make PILOTs that are earmarked for certain priorities rather than making contributions to a city’s general fund

• PILOTs aligned with a nonprofit’s mission are more likely to be supported by its Board of Directors and donors than “writing a blank check” to the city

• Nonprofit more likely to make PILOT if there is a direct connection between the contribution and public services benefiting the institution
## Earmarked PILOTs in Worcester, MA

<table>
<thead>
<tr>
<th>Worcester Polytechnic Institute</th>
<th>Clark University</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$9+ million over 25 years</strong></td>
<td><strong>$6.7+ million over 20 years</strong></td>
</tr>
<tr>
<td>($270,000/year with 2.5% inflator)</td>
<td>($262,000/year with 2.5% inflator)</td>
</tr>
</tbody>
</table>

**PILOT Earmarks:**
1) Worcester Public Library (First year’s funding restores hours on Wednesday and Sundays)
2) Funds to implement a Master Plan for improvements to public park adjacent to campus

**PILOT Earmarks:**
1) Worcester Public Library
2) Funds to implement a Master Plan for improvements to public park adjacent to campus
3) Enhancements for local area (public safety, streetscape improvements, and more)
Partnerships Beyond PILOTs

• Nonprofits that are eager to help local community may be turned off by narrow focus on PILOTs

• Nonprofits may be more willing to provide funds for specific projects or programs than make contributions to general fund

• Some municipalities may be better off pursuing agreements with nonprofits to provide specific services for local residents
Yale University and New Haven, CT

- PILOT agreement reached in 1991, with $1.2 million payment that has grown over time
- $7.5 million PILOT in 2010

- Yale’s contributions go beyond PILOTs:
  - Stipend for Yale employees buying homes in city
  - Redeveloped several blocks of city’s retail center
  - Funds an organization that taps New Haven’s civic resources to address social problems
“My primary goal in life is to make Boston University a better institution, but it can only be a better institution if the city thrives.”

-Robert Brown, President of Boston University
Contact Information

Daphne Kenyon
Visiting Fellow
Dept. of Valuation and Taxation
Lincoln Institute of Land Policy
617-661-3016
DKenyon@lincolninst.edu

Adam Langley
Research Analyst
Dept. of Valuation and Taxation
Lincoln Institute of Land Policy
617-661-3016
ALangley@lincolninst.edu