

Policy Focus Report • Lincoln Institute of Land Policy

# Payments in Lieu of Taxes

Balancing Municipal and Nonprofit Interests



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# 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

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- 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

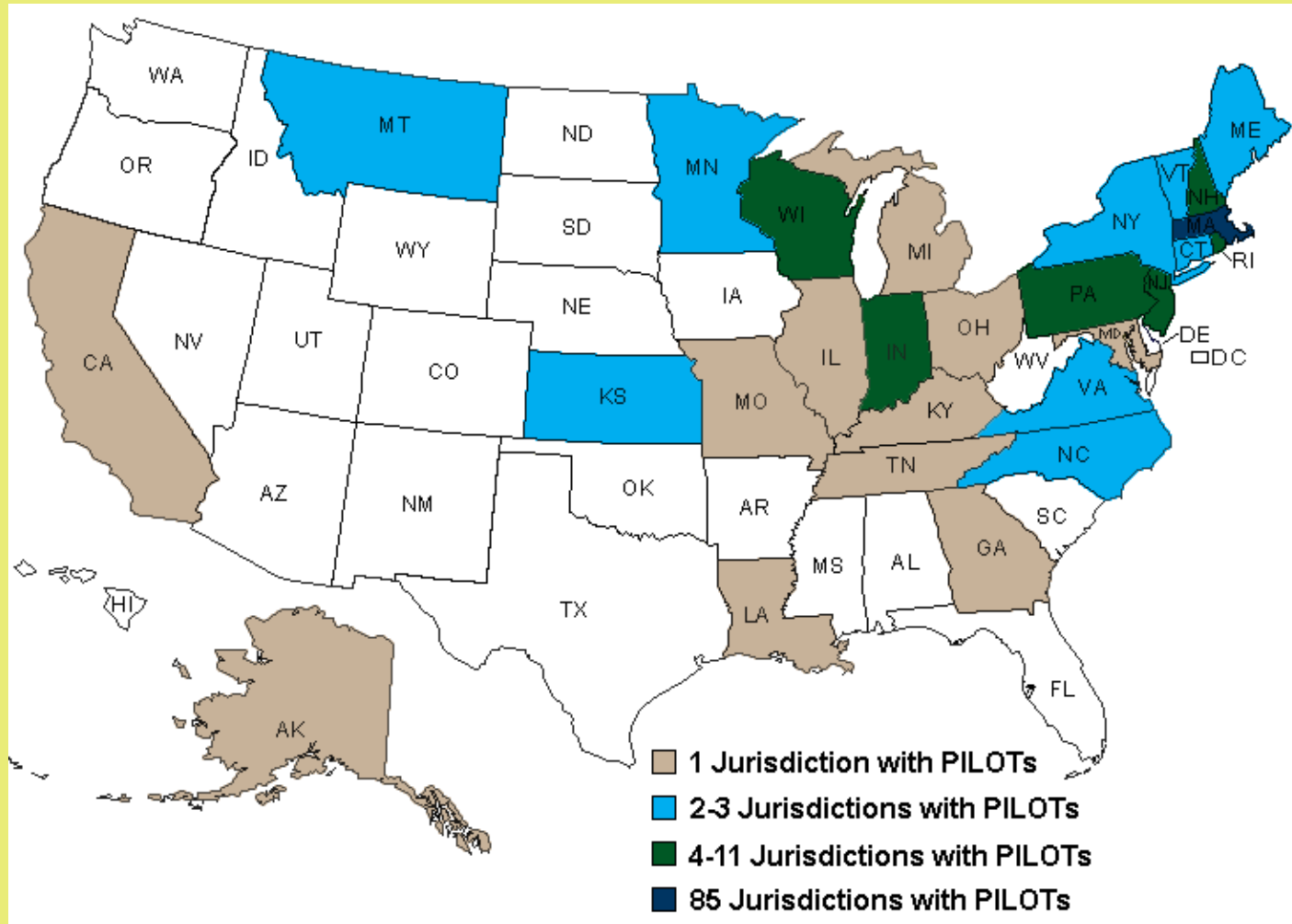
# Survey on PILOTs: Background

- 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





# 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

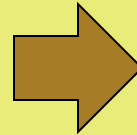
- PILOTs could lead nonprofits to raise fees or cut services
- Limited and unreliable revenue source
- PILOTs often ad hoc, secretive, and contentious
- PILOTs lead to horizontal and vertical inequities

# Two Types of Problems with PILOTs

## Problem

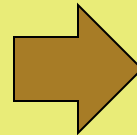
## Solution

Attempts to Obtain  
PILOTs Highly  
Contentious



Collaborative Approach:  
PILOTs Serve  
Mutual Interests

Voluntary Nature  
Leads to Inconsistent  
Treatment of Nonprofits



Systematic Approach:  
Provides Framework for  
Individual Negotiations

# 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

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

# 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

<b>Worcester Polytechnic Institute</b>	<b>Clark University</b>
\$9+ million over 25 years (\$270,000/year with 2.5% inflator)	\$6.7+ million over 20 years (\$262,000/year with 2.5% inflator)
<u>PILOT Earmarks:</u> 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	<u>PILOT Earmarks:</u> 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



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