Fair Share vs. Fair Shot: Reaching a Fair Deal Between Town and Gown on PILOTs

Module for International Town Gown Associate Certificate Program

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Module Objectives

• Fair Share: What “Town” Wants

• Fair Share: Do PILOTS/SILOTS/GILOTS/Fees Deliver?

• Fair Shot: What “Gown” Wants

• Fair Deal: What Everyone Wants from the PILOT Discussion

• Case Studies
Definitions

• **Fair Share (Town):** What nonprofits, particularly hospitals and universities, which control greater financial assets and receive larger property tax savings from charitable tax deductions, should pay for:
  • The city services they use;
  • The value of the land that would otherwise be taxable;
  • The price of being a good corporate citizen.

• **Fair Shot (Gown):** What universities expect from their host communities in exchange for their economic vitality:
  • A robust business environment permitting a campus to achieve its mission;
  • Partnership opportunities to jointly share university expertise to promote municipal goals; and
  • Shared municipal/regional vision to maintain a healthy economy.
Definitions (Cont’d)

• Fair Share

• Fair Shot

• Fair Deal

• The agreed to arrangement which squares the university’s mission with the political jurisdiction’s needs.
Fair Share

WHAT “TOWN” WANTS
What States Want

• State governments, to ensure the education of its citizens, granted public and private entities a state tax exemption to provide post-secondary education. These exemptions were justified as:

  • Reducing costs to universities allowing them to better achieve their public-serving mission of creating a more educated populace.

  • Offloading the responsibility for post-secondary education to a lower cost alternative.

  • A step toward reaching a clear public goal of an educated populace.

  • Supporting the creation of future taxpayers.
What Cities Saw:
Uneven Power Dynamic

• The burden of subsidizing universities is born by local governments even as state government control the exemption.

• The burden of supporting universities is born by local governments even as the benefits are spread far and wide.

• Universities benefitting from the tax exemption looked more like a for-profit business, undeserving of the exemption.

• Local residents were unable to qualify for university admission even as their jurisdiction absorbed the cost of the exemption.
What Cities Want

• Some jurisdictions, with insufficient funds for local purposes, turned state exempt entities for revenue.
  • They asked for payments to support services provided such as police and fire;
  • They asked for donations to assist with one-time needs such as a fire truck; and
  • They suggested that failure to provide such payments could result in the loss of a city service such as a zoning variance.

• The first PILOTS were paid in Boston, MA in 1925 and in Cambridge, MA in 1928.
What Governments Saw: A Slow Recovery Post Recession

• 20 states collected less revenue in 2015 than they did at pre-recession era peaks, adjusted for inflation.

• In 2015, 22 states have employment rates lower than 2007.

• 19 states are spending below 2008 levels.
What Governments Saw: Increased Demands for Services

- Unfunded pension costs, and retiree health care costs are now larger in 44 states than public debt and Medicaid expenditures are up in 49 states.

- Federal support, which is the second biggest source of state revenue in all 50 states, is declining.

- In response to reduced federal spending, states cut funding to counties and cities.
What Government Wants Now

Revenue

Revenue

Revenue
More Fees—cities became increasingly dependent on user fees to close budget gaps.

Less spending—19 states are spending below 2008 levels and capital outlays have declined by nearly 20%.

Revenue enhancement—4 states instituted the largest net increase of taxes and fees in their history to address serious spending pressures.

New revenue sources—states explored expanding their tax base with a dozen considering repealing some organization’s tax exemption.
Means to an End: Tax Revision Commissions

- Since the recession, a majority of states have seated Tax Revision Commission to review their options.

- Most have been charged with looking for alternative revenue sources (general), adjusting property tax exemptions (Alaska) or seeking a certain amount of funds from the nonprofit sector (Maine).
Voluntary Negotiated Payments

- **PILOTs**: Voluntary payments made by tax-exempt private nonprofits as a substitute for property taxes. [Example—Boston PILOT program.]

- **SILOTS**: Voluntary agreements to provide predetermined services to localities. [Example—Boston PILOT program].

- **GILOTS**: Voluntary agreements to provide an agreed to donation of a specific item to localities [Example—Yale Fire Truck.]

- **Donations**: Voluntary agreements to provide cash support during a difficult financial period. [Example—Pittsburgh Public Services Fund].
Involuntary Fees for Service

- **User Fees**: Involuntary payments required by state statute or city ordinance for specified government service based on use. [Example—Washington, DC Water and Sewer Fee]

- **Municipal Service Fee**: Involuntary fee charged for government service unrelated to how much of the service is used [Example—Houston, TX drainage fee]

- **Special Assessments**—fees charged by government to pay for improvements to tax exempt property [Example—Minneapolis, MN Nicollet Mall special assessment]

- **Special Tariff**—fees charged by government to specific sectors for specific purposes [Example—Pittsburgh, PA tuition “head tax”].
What Tax Revision Commissions Want

**Hybreds**

- **Selective Nonprofit** Revocation—Government rolls back previous exempt taxes such as a nonprofit’s sales tax exemption [Example-North Carolina Amusement Tax].

- **Special Tax Assessments**—Government requires taxes be paid on property acquired by a nonprofit which would have previously been exempt [Example-North Dakota special assessment proposal].

- **Exemption Bargaining**—Government offers nonprofit exemptions as long as the recipient meets other government goals [Example--Vermont University Municipal Service Fee].

- **Mandated Spending and Selective Taxation**—Some have proposed that endowments be required to spend 8% of endowment resources each year or pay a tax on endowment income above $500 m [Professor Victor Fleicher Proposal].
What Tax Revision Commissions Want

**Tax Exemption Revocation**

- **Exemption Revocation Authority Shift**—The mayor of New Orleans asked the state legislature for the ability to tax nonprofit property within state boundaries.

- **Exemption Revocation by Entity**—New York State revoked the nonprofit exemption of the National Football League, headquartered in New York City.

- **Exemption Revocation for Budget Balance**—The governor of Maine proposed reducing corporate and individual income taxes, repealing the estate tax, and eliminating state payments to municipalities in exchange for giving municipalities the authority to require nonprofits (other than churches) to pay taxes equal to 50% of assessed value.
What You Want: Details

PILOT/SILOT/GILOT/Donation Features

• Voluntary (all)

• Long-Term Contracts (PILOTs/SILOTs)

• Routine Annual Payments (PILOTs/SILOTs)

• Irregular One-Time Payments (GILOT/Donations)

• Mitigation Factors (All)

• Political (All)
What You Want: Details

PILOTs/SILOTs/GILOTs/Donations Characteristics

- They are hyper local
- They are highly variable
  - Some are individualized (most)
  - A few are universal across the community (Boston)
- They are most frequently ad-hoc, short-lived arrangements often spawned by budget shortfalls or land use disputes.
What You Want: Details

• Involuntary Fees for Service Types
  • User Fees
    • Storm Drainage Fees
    • Garbage Collection
    • Water and Sewer Fees
  • Municipal Service Fees
    • Police and Fire Fees
    • Streetlight Maintenance Fees
  • Special Assessments
    • Sewer Hook-up Fees
    • Sidewalk and Property Improvements
  • Special Tariffs
    • Tuition Tax
    • Bed Tax
Involuntary Fees Characteristics

• They are community, regional or even statewide.

• They are generally standard across all land owners.

• They may or may not be tied to funding of the service for which they are charged.

• They are regressive—tied to vital services but inflexible to the ability of the assessed party to pay.
What You Want: Details

Hybrid Examples

• **Contingent Fees**
  • Seeking a zoning variance
  • Seeking to purchase previously taxable property
  • Seeking to make major renovations

• **Fees in Lieu of Blocking an Exemption**
  • Municipal Service fees in exchange for protecting nonprofit exemption
  • Establishing real property tax exemption for a renter in exchange for hiring local residents and retaining them as employees.
What You Want: Details

Hybrid Characteristics

• They are highly individualized
• They are highly coercive
• They are often litigated
• They are one-shot proposals
What You Want: Details

**Tax Exemption Revocation Methods**

- Local designation of exemption authority
- Law suit
- Extension of business taxes to nonprofits
- Legislation
- Constitutional amendment
What You Want: Details

Tax Revocation Characteristics

• They are always contentious.

• Their timeframe is indeterminate.

• They are highly unpredictable.

• They have a high rate of failure.
FAIR SHARE

DO PILOTS/SILOT’S/GILOTS/FEES/DELIVER?
PILOT Landscape Now

States with Jurisdictions Collecting PILOTs

In 2013, the Lincoln Land Institute issued an updated report on PILOTS finding:

- PILOTs were collected in 28 states by 218 localities.

- PILOTs are concentrated in the Northeast, with Massachusetts and Pennsylvania accounting for half.

- Ed’s and Med’s account for 92 percent of PILOT revenue, with colleges and universities contributing 68 percent of the total.

- A small number of large PILOTs skews the reported average size. (average of $292,000 is ten times larger than the median of $30,000)
Perception vs. Reality

• If politics is public perception, then the public perception of PILOTS differs sharply from reality

  • Nonprofit exemptions are a small fraction of total tax exemptions

  • Municipal demands for PILOTS are sporadic and collect limited revenue

  • The media treats PILOT programs as front page news


Note: These statistics should be viewed as rough estimates. Policy makers should exercise caution when drawing conclusions from these data, because the quality of assessments of exempt property is wide-ranging and often unreliable (Lipman 2006b).

How Much?

- PILOTs account for a nominal share of total general revenue in the majority of localities receiving voluntary payments.

- Of the 186 localities surveyed by the Lincoln Land Institute in 2012, 131 generated less than 0.25 percent.

- Only 21 localities collected more than 1 percent of total revenue from PILOTs.
More on How Much?

- Put another way, PILOT revenue exceeded 1 percent of total property taxes in 47 of 186 localities but less than 0.25 percent of total property taxes in 93 of 186 localities.

- In Boston, in FY2014, the PILOT program generated $25.9 m, 74.8% of the anticipated revenue (expected to be $34.6 m).

- Revenue is highly concentrated in central cities and college towns.
# How Much in Boston?

## BOSTON PILOT PAYMENTS FOR 2014

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<thead>
<tr>
<th>Institutions That Paid Nothing</th>
<th>Amount Billed</th>
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<tbody>
<tr>
<td>Boston Conservatory</td>
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<td>Catholic Memorial School</td>
<td>$4,081</td>
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<td>Children’s Museum</td>
<td>$37,316</td>
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<td>Emmanuel College</td>
<td>$366,576</td>
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<td>Fisher College</td>
<td>$64,764</td>
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<td>Franciscan Hospital</td>
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<td>Institute of Contemporary Art</td>
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<td>Joslin Diabetes Center</td>
<td>$165,972</td>
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<tr>
<td>Museum of Science</td>
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<tr>
<td>New England Aquarium</td>
<td>$128,450</td>
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<tr>
<td>New England Conservatory</td>
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<tr>
<td>Northeastern University</td>
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<td>Roxbury Latin School</td>
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<td>Shriners Hospital</td>
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<td>Wheelock College</td>
<td>$92,319</td>
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<tr>
<td>Winsor School</td>
<td>$61,189</td>
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## INSTITUTIONS THAT MADE PARTIAL PAYMENTS

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<th>Institutions</th>
<th>Amount Billed</th>
<th>Amount Paid (%)</th>
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<tr>
<td>Bayridge Center</td>
<td>$41,580</td>
<td>$17,884 (43)</td>
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<td>Berklee College</td>
<td>$332,807</td>
<td>$83,480 (25)</td>
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<td>Boston College</td>
<td>$1,155,533</td>
<td>$317,888 (28)</td>
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<td>Boston College High School</td>
<td>$28,347</td>
<td>$5,000 (18)</td>
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<tr>
<td>Boston University</td>
<td>$6,534,368</td>
<td>$6,043,376 (92)</td>
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<tr>
<td>Emerson College</td>
<td>$581,696</td>
<td>$70,796 (12)</td>
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<tr>
<td>Harvard University</td>
<td>$4,347,776</td>
<td>$2,217,281 (51)</td>
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<tr>
<td>Hebrew Rehabilitation Center</td>
<td>$44,252</td>
<td>$7,500 (17)</td>
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<tr>
<td>Museum of Fine Arts</td>
<td>$645,667</td>
<td>$60,399 (9)</td>
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<tr>
<td>Simmons College</td>
<td>$296,371</td>
<td>$108,790 (37)</td>
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<tr>
<td>Suffolk University</td>
<td>$661,728</td>
<td>$413,750 (63)</td>
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<tr>
<td>Tufts Medical Center</td>
<td>$1,263,000</td>
<td>$990,265 (78)</td>
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<tr>
<td>Wentworth Institute of Technology</td>
<td>$433,785</td>
<td>$283,785 (65)</td>
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Source: City of Boston assessor’s office.
How Much in Boston (Cont’d)

• PILOT Payments are up due to escalating payment schedule NOT due to greater compliance.

• Percentage of nonprofits paying PILOTS is down as more opt to avoid the “voluntary” payment.
  • 2010 Collection Rate was 90%
  • 2015 Collection Rate was 68.6%

• Percentage of payment per non-profit is down as nonprofits opt to pay a reduced PILOT.
At What Cost?

• An April 2015 working paper from the National Bureau of Economic Research has found that PILOTs function as informal, low-rate substitutes for property taxes.

  • Nonprofits have more needs than money to satisfy them as demand for services have increased since the recession.

  • In order to continue to meet their mission, nonprofits may close, move or reduce activity in PILOT jurisdictions.

  • PILOTs therefore operate like property taxes discouraging nonprofit activity, or reducing its scope of services.

Who Pays?

• Certain types of nonprofits
  • Those perceived as “rich”--hospitals, universities, and long-term housing for seniors.
  • Nonprofits that dominate their jurisdictions
  • Nonprofits in towns with limited economic opportunities
  • Nonprofits in towns with complex taxing systems
  • Nonprofits that seem to compete with for-profits
Who Asks?

- Jurisdictions with a complex tax system
- Jurisdictions that rely predominantly on property taxes
- Jurisdictions with capped revenue sources
- Jurisdictions facing revenue pressure
- Jurisdictions with a changing political climate
- Jurisdictions where non-profits appear competitive with for-profits
How Easy Are PILOTS To Secure? Difficult

- Evaluating nonprofit property is difficult and fraught with politics.
- “Voluntary” negotiation feels coerced
- PILOTs are inevitably negotiated by a locality’s Executive even as the budget is passed by the legislature.
- PILOTs can be inequitable and unrelated to land assessed.
- PILOTs may not stave off litigation over tax exemptions, reducing nonprofits willingness to agree.
How Easy are SILOTs/GILOTs and Donations to Secure? **Somewhat Difficult**

- Selecting services/needs covered by the SILOT/GILOT can be objective and specific to the negotiators.
- Valuing goods and services is objective.
- Services provided by the nonprofit may not match services needed by the locality.
- SILOT’s/GILOT’s are very ad hoc.
- SILOTs/GILOT’s can easily convert to mandatory assessments when budgets are developed with the expectation that the SILOT/GILOT will continue indefinitely.
- SILOTs/GILOT’s are personality driven and may cover attractive but not essential needs.
How Easy are Fees to Secure?
Relatively Easy but Unpopular

- Fees can be over-comprehensive, including residents that already pay property taxes
- Fees can interfere with the academic mission of the institution
- Fees can be regressive
- Fees can lead to unanticipated consequences such as reduced employment
- Some fees may be illegal
- Fees may not adequately reflect the “value” of the nonprofit
How Easy are Hybrids to Secure?

Very Difficult

- Hybrids are complicated
- Hybrids are untested legally
- Hybrids are new and may have unintended consequences
- Hybrids by their nature are coercive.
How Easy is it to Revoke Exemptions?  
Extremely Difficult

• Revocation is extremely litigious, particularly if the tax exemption is in the state constitution.

• Revocation can set up a turf battle between state and municipal legislators and state courts.

• Revocation will destroy community-nonprofit relations.

• The revocation decision may be based on old property tax assessments that often overvalue the property.

• Revocation can create ill-will among important constituencies such as alumni and business people.
What We Don’t Know

• The most definitive source of PILOT research is work being done by the Lincoln Institute of Land Policy (Lincoln) and the Urban Institute.

• Lincoln researchers admit that their work is not statistically based because only jurisdictions with the largest percentage of nonprofits were targeted.

• User Fees and Hybrids are not particularly well-studied although the Urban Institute’s Center on Nonprofits and Philanthropy are increasingly focused on them.

• Exemption revocations are rare meaning there is limited research.

• What we do know from some surveys is that user fees are the most common type of payment made by nonprofits to state and local governments. However, virtually all information about what nonprofits pay and how they pay it is anecdotal or self-reported.
Fair Shot
WHAT “GOWN” WANTS
Remember why nonprofit status was granted

• As cities increasingly turn to its nonprofit community for revenue, it is important to remember the reason nonprofit status was granted.

  • Originally, nonprofits were granted a tax exemption in return for dedicating their work to the public good and giving up their rights to profit, privacy and politics. Among their “public good” work:

    • The creation of an educated populace

    • The spillover economic and societal benefits of an educated populace

    • The value of access to higher education services and campuses in a community’s midst
Remember What Campuses Bring

• According to the Milken Institute study, “A Matter of Degrees: the Effect of Educational Attainment on Regional Economic Prosperity,” issued on February 27, 2013:

  • Education increases regional prosperity. One additional year of schooling = a real GDP per capita increase of 10%+ real wages increase by 8%.

  • Better educated = bigger benefits. One more year of college to the region’s workforce can grow the GDP per capita by 17.4 percent.

  • Clusters count. Metros with high-skilled occupations attract more workers with masters/JD’s/and PhDs.
Remember What Else Campuses Bring

- Ancillary Services:
  - Security
  - Maintenance of Public Space
  - Community Service Activities
  - Life Long Learning
  - Enhanced Property Values
Campus Value Case Study - Washington Metro Region

DOLLARS

IN THE REGION

The Multiplier Effect: For each $1 spent by Consortium members, the Washington Metropolitan area economy grew by a total of $2.02.

Consortium Members’ Direct and Indirect Expenditures in the Washington Metropolitan Area

- Total Economic Impact: $11.3 Billion
- Direct Outlays: $5.6 Billion

- Payroll: 51%
- Non-Payroll: 12%
- Construction: 13%
- Students: 12%
- Retirees: 2%
- Visitors: 1%

University Spending: $5.6 Billion

\[ \text{Regional Growth} = \text{University Spending} \times \text{Multiplier} = 5.6 \times 2.02 = 11.3 \text{ Billion Total Contribution} \]

Source: Stephen S. Fuller, Ph.D.
The Multiplier Effect: In the District of Columbia, $1 dollar spent by a DC university resulted in an additional $1.40 in the city's economy.

Consortium Members' Direct and Indirect Expenditures in the District of Columbia

- Total Economic Impact: $2 Billion
- Direct Outlays: $1.42 Billion

DC Growth

\[ \text{University Spending} \times 1.4 = \text{DC Growth} \]

$2 Billion Total Contribution

Source: Stephen S. Fuller, Ph.D.
Fair Deal

WHAT EVERYONE WANTS FROM THE PILOT DISCUSSION
A Collaborative Approach

- Decide what activities should be the subject of agreement
- Decide which nonprofits will be included
- Decide which criteria should be used
- Agree on thresholds
- Explain the purpose of the program—what is the government need?
- Whose doing the asking?
- How are they asking?
What to watch out for

• Ambiguity—Inequitable application of the terms of the PILOT can result in resentment and litigation

• Unfairness—demanding different levels of payment can generate ill will on all sides

• Over-politicization—if the system seems to favor some over others, it loses its legitimacy

• Inclusiveness vs. exclusiveness—including the broadest possible number and type of partners will lead to more support for the program and provide greater resources for community needs.
What to consider

- Property Values and Exempt Property Percentages
- Where revenues come from
- Law
- Support or opposition
- Purpose
- Effectiveness
- Administration
- Who will (ultimately) pay?
Explain the PILOT: Why Now?

• Local or regional support can depend on why the PILOT is being promoted.

  • Will it be considered an inter-generational transfer? (tuition payments for pension costs?)
  
  • Is careless government spending being underwritten by not-for-profit assessments?
  
  • In a fee-for-service situation, are all “customers” being asked to pay?
  
  • Is it easier to negotiate a PILOT than negotiate with the city labor unions?
Explain the PILOT: Will it Work?

- PILOTS are often haphazard, secretive and calculated in an ad-hoc manner.
- PILOTS can prompt years of legal battles.
- PILOTS raise limited revenue in relationship to the overall base.
- PILOTS are most effective when focused on large, private tax exempt organizations in the Eds and Meds cluster, generally a jurisdiction’s largest jobs provider.
Explain the PILOT: Who will Pay?

- PILOTS may not be paid for with donations, particularly by a donation funded entity.

- PILOTS may not be paid for with grants, designated for another purpose.

- PILOTS on universities are invariably passed through in the form of higher tuition and reduced institutional aid.

- PILOTS are not just about institutions, but about the individual served by those institutions.
Explain the PILOT: Why Should the University Pay?

• Is it voluntary?

• Is the city acting in good faith?

• Is the city a fair partner?

• Is the city committed to systemic reform?

• Is it voluntary?
“Given the varying degrees of efficacy that PILOTs, SILOTs, and municipal and other fees have had in easing the strain caused by the issue of nonprofit tax exemption, it is clear that there has been no singular approach that has uniformly shown a level of success. The effectiveness of each solution depends greatly on the structure of each municipality and the way they collect revenue. It is important to the longevity of any program that a state or local solution must be applied consistently, predictably and uniformly.”

Case Studies

PILOTS in Practice
Case Studies

• How do PILOTS work in “real life”

  • Baltimore, MD
  • Washington, DC
  • Pittsburgh, PA
  • Princeton, NJ
  • Providence, RI
Model for Case Studies

- Each Case study will present the following information about each PILOT and its City:
  - Environment leading to the PILOT discussion
  - History of PILOTs in the jurisdiction
  - Current status of each PILOT
Baltimore, MD

• Environment leading to PILOTS

• Baltimore has the second highest percentage of exempt property owned by nonprofits of major U.S. cities

• Previous economic development programs aimed at attracting nonprofits to the city had grown the percentage of exempt properties from 6% in 1980 to 11% by 2000.

• Baltimore is dominated by a series of large nonprofits, most prominently, Johns Hopkins University and Hospital.
In 2000, Baltimore Mayor Martin O’Malley sought to impose a new tax on nonprofit groups to cure a $21 m budget deficit.

He proposed an energy tax to be levied on 2,000 churches, social service organizations, universities and hospitals with a goal of collecting $4 m to $6 m annually.

In 2001 he scrapped the plan after push-back as the city’s hospitals, colleges, universities and nursing homes agreed to pay $20 m over four years to partially cover the cost of hiring new police.

JHU agreed to pay $10 of the $20 PILOT.
Baltimore, MD - Current Status

• In 2010, the latest PILOT agreement expired necessitating a new negotiation.

• Mayor Stephanie Rawlings-Blake proposed a $350 per bed per year “bed tax” on the city’s largest colleges, universities and hospitals.

• In exchange for the Mayor dropping the Bed Tax proposal, in June, 2010, the Maryland Association of Independent Colleges and Universities (MICUA) signed a six-year agreement with Mayor Stephanie Rawlings-Blake that included the following features:
Baltimore, MD – Terms of the PILOT Agreement

• Payments were called “special assessments” and were front-loaded to reflect the existing fiscal crisis.

• The program was called a Nonprofit Assessment Agreement and was not considered a PILOT arrangement by the signatory parties.

• Each member could agree to their participation amount, but Johns Hopkins and the JHU Hospital agreed to pay half.

• There was no relationship between state aid and the agreement to pay a PILOT

• Throughout the six years of the agreement, the signatories would pay no additional energy or telecommunications taxes and the city agreed not to seek additional revenue from the signatories.
Baltimore, MD - Signatories and Amounts

• Major Signatories
  • College of Notre Dame of Maryland
  • Johns Hopkins University
  • Loyola University of Maryland, Baltimore
  • Baltimore International College
  • Maryland Institute of Art

• Amounts

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Washington, DC

- Environment for PILOTS in DC
  - According to Lincoln Institute, 3% of DC’s land is owned by tax exempt entities, but more than half of DC’s land is not taxable due to federal, “state” and internationally-owned property
  - DC leads the nation in the percentage of income earned by non-residents, valued at $2.5 B and uncollectible by the District
  - The District government went “bankrupt” in 1994 leaving its fiscal fate in the hands of a federally appointed Board.
  - The federal government eliminated its “federal payment” in exchange for assuming pension liability and other city costs
  - Over the ensuing 20 years, DC has remained fiscally healthy, but continues to spend more money per populace than any other U.S. jurisdiction
  - DC remained healthy after the 2008 downturn and has made no significant budget cuts
Washington, DC - History

- PILOTs have been proposed in DC in 1992 and 1995.

- A Tax Revision Commission was seated in 1998 and considered PILOTs, but determined it was too programmatically difficult to implement.

- The Mayor and a city councilmember who had promoted PILOTs lost their elections in 1998.

- In 2011, another fiscal crisis resulted in the seating of another Tax Revision Commission charged with, among other things, considering the viability of PILOTs.

- By 2012, the deficit was a surplus.

- Pressure to find new revenue declined.
In December 2013, after 18 months of deliberation, the Tax Revision Commission recommended a municipal service fee (head tax) for all District employers of $100 per head per year to compensate for the local services consumed.

The Commission looked at PILOTs but determined it was “cheaper” to pursue a “head tax” similar to programs in Denver and Pittsburg.

The FY2015 Budget included neither a “head tax” nor a PILOT as approved by the City Council on May 22, 2014.

The FY2016 budget was approved on May 27, 2015 without a head tax or a PILOT (or any tax increases at all).

In 2016, the DC Council is considering a 1% payroll tax on private employers to pay for a family and medical leave program. The 1% payroll tax dwarfs the previously proposed “head tax.”
Pittsburgh, PA

- Environment for PILOTS in Pittsburgh
  - Pittsburgh is a rust belt city in western PA
  - Pittsburgh is the home to several prominent nonprofit organizations including the University of Pittsburgh
  - Pittsburgh has faced a series of financial crisis in the past few years
  - Pittsburgh is in PA where legal questions surrounding nonprofit status have been active
Pittsburgh, PA - History

- After the 1985 HUP case, Pittsburgh became the first jurisdiction in the state to propose a PILOT (on the YMCA)

- By the end of 1994, more than 1,000 nonprofits had been solicited

- In 1994, Mayor Tom Murphy began aggressively courting nonprofits for PILOT payments at precisely the moment the city came under state oversight due to financial failure (Act 47)
By 2005, Pittsburgh was again in financial difficulty.

In response, a group of 115 nonprofit organizations known as the Pittsburgh Public Service Fund voluntarily transferred $14 m to the city for a period of 3 years.

The payments were designed to replace the PILOTS earlier negotiated with Mayor Murphy. The amounts of individual payments were not revealed.
In 2006, new Mayor Luke Ravenstahl, was elected.

In 2007, the previous PILOT agreements expired and a smaller group of nonprofits (43) offered $5.5 million over the next three years. Mayor Ravenstahl rejected it.

Instead, he proposed a Fair Share Tax equal to 1% of tuition paid by Pittsburgh college students.

Amidst much outcry, the Mayor abandoned the proposal 6 weeks later, accepting a two year $15 PILOT deal.

He then filed a lawsuit to remove the tax exemption from the University of Pittsburgh Medical Center (UPMC).
• Mayor Ravenstahl lost his election. Newly elected Mayor Bill Peduto took up the UPMC fight only to drop it in July 2014.

• The current agreement anticipates two years and $5.2 million in payments with no promises made to continue making payments beyond 2014.

• The agreement includes language requiring the city to treat all licenses sought by nonprofits the same as for-profits and declares that the city cannot ask for any fees or taxes from agreement participants.

• A Nonprofit Task Force has been created to determine longer term nonprofit commitments. However, a timeline for findings of the task force is unclear.
Princeton, NJ

• Environment leading to a PILOT

  • Princeton is dominated by Princeton University

  • Several jurisdictions regulate Princeton including the Borough of Princeton and Princeton Township

• Princeton is the largest single taxpayer in both the Borough and the Township.
Princeton, NJ - History

• Over the years, Princeton made several voluntary payments to the Borough and the Township.

• In 2003, as part of a Mayoral campaign it was argued that Princeton did not pay PILOTS proximate to Harvard or MIT.

• In 2005, Princeton signed a 6 year agreement with the Borough of Princeton equal to $1.2 m adjusted each year to reflect tax rate increases.
By 2009, Princeton was paying more than $10 m in PILOTS, GILOTS and Fees for Service

- $5.1 m in property taxes to Borough
- $4.7 m in property taxes to Township
- $1.3 m to other municipalities
- $1.2 m in PILOT to the Borough; $500,000 to the Township
Princeton, NJ - Current Status

- Princeton’s 6-year PILOT expired at the end of 2011 after the Princeton Borough and Township agreed to consolidate. Princeton made a one-year payment in 2012.

- Princeton announced in late December 2013 that its 2014 PILOT to the town of Princeton would be no less than the $2.475 it paid in 2013.

- Negotiations for a new long-term PILOT are underway as lawsuits against Princeton filed by community members remain unresolved.
Community members have complained that Princeton, which contributes 4% of the town’s budget, the largest of its peer institutions by percentage, is using the size of its PILOT to wield political power.

Some experts believe the PILOT payment will not be finalized until the court rules on whether Princeton “bought” zoning authority for its new Arts and Transit neighborhood sometime this spring.
Providence, RI

- Climate leading to PILOTS
  - Providence is an historic fishing village which has lost its industry. It is one of the most financially challenged cities in one of the most financially challenged states in the country.
  - The city is dominated by several large universities including Brown, Providence College and Johnson and Wales.
  - The Rhode Island Constitution has no provision addressing property taxes or exemptions.
  - In 2009, Providence had 12% unemployment, the government had cut 445 positions and had asked for concessions from the union around pensions.
In 2003, Providence reached an agreement with four private colleges for PILOTS totaling $48 m over 20 years.

In 2009, Providence again faced budget shortfalls and sought to renegotiate the PILOTS.

The Providence City Council established a Tax Commission which subsequently recommended that the PILOT agreement not be reopened.

Legislation was filed in the state legislature to create a $150 per head per semester fee on all out-of-state students attending college in the state.
In 2012, Providence Mayor Angel Tavaras and RI Governor Lincoln Chafee announced a new PILOT agreement.
- Brown agreed to pay $31.5 m over 11 years in exchange for 250 more parking spaces and ownership of several public roads
- Johnson and Wales agreed to pay $11.4 m over ten years

The agreement was on top of the 2003 agreement but allowed each of the 2003 signatories to retain their tax exempt status.

During the negotiation, the city of Charlotte, NC sent Johnson and Wales an invitation for them to move their main campus there. The institution did not accept the invitation.

In March 2012, the RI state legislature considered an “essential services fee” on state nonprofits at 25% of what would have been paid in nonprofit taxes. The measure did not pass.
Case Studies: Your Town

PILOTS in Practice
Case Studies

• How do PILOTS/SLILOTS/GILOTS/Fees work in your town?

  • Flagstaff, AZ
  • Los Angeles, CA
  • Moraga, CA
  • Pasadena, CA
  • Fort Collins, CO
  • Mansfield, CT
Case Studies

• How Do PILOTS/SILOTS/GILOTS/Fees Work in Your Town?
  • Boca Raton, FL
  • Athens, GA
  • Augusta, GA
  • Chicago, IL
  • Schaumburg, IL
  • Bloomington, IN
Case Studies

• How Do PILOTS/SILOTS/GILOTS/Fees Work in Your Town?
  • Hays, KS
  • Boston, MA
  • East Lansing, MI
  • Bozeman, MT
  • Oxford, OH
Case Studies

• How Do PILOTS/SILOTS/GILOTS/Fees Work in Your Town?

  • Erie, PA

  • Philadelphia, PA

  • Clemson, SC

  • Columbia, SC

  • Austin, TX
Case Studies

- How Do PILOTS/SILOTS/GILOTS/Fees Work in Your Town?
  - San Marcos, TX
  - Buffalo, WY
  - Kent, England, UK
  - Manchester, England, UK
  - Ottawa, Ontario, Canada
  - Peterboro, Ontario, Canada
Coconino County, where Flagstaff is located, recede a $1.7 million payment from the federal government due to the presence of federal lands within the county.

The payment is as a result of the federal Payment in Lieu of Taxes program (PILT) which provides federal payments to local governments to compensate them for revenue losses from property taxes because of tax exempt federal lands within their borders.

Mandatory PILT funding expired in 2014 and it has been funded since on a year-to-year basis.

In early 2015, three U.S. senators introduced legislation to restore mandatory funding. It has not yet passed.
The California Constitution allows the legislature to exempt from taxation property owned by charitable non profits so long as the property is used for charitable purposes (the “welfare exception.”)

Some local governments levy property taxes and charges related to the cost of government services. [Example: Stanford Fire and Police Payment]

California PILOTS are less common and typically negotiated on a case-by-case basis as part of the land use approval process.

In 2014, the state legislature passed a bill that would prohibit local governments from entering PILOT agreements with a property owner of a low-income housing project effective January 1, 2015.

“Nonprofits and the Property Tax,” Legislative Analysts Office, February 3, 2014
Fort Collins, CO

- A 6 percent PILOT (payment in lieu of taxes) is calculated on electric, water and wastewater rates. The PILOT is a payment to the City's general fund to replace revenue the City would have received from the utility in taxes and franchise fees if the utility were privately owned.

- Larimer County, in which Fort Collins is located, receives $1.4 million in Payment in Lieu of Taxes (PILT) payments.
Mansfield, CT

- Connecticut is one of two states in the country that has an “Impact Aid” program, similar to the federal program which compensates states for land used for public purpose, such as universities. It is also called a PILOT program.

- The program is authorized to compensate municipal hosts for up to 77% of the property taxes that private colleges and universities would pay if taxable.

- In 2016, Mansfield expected to receive $44.7 million in “impact aid” even as the overall program budget was cut by $16 million. Changes to the PILOT program formula led to the increase.
Boca Raton, FL

- There is no publicly available source documenting PILOT payments in Boca Raton.
Fulton County, GA has a program providing property tax incentives to companies producing jobs or investing in the county. The company pays a “payment in lieu of tax” to a development authority.

In March, 2015, the Georgia Supreme Court rejected a challenge to the legal validity of property tax incentives.

There is no publicly available source documenting a PILOT program in Athens-Clarke County (where Athens is located) or Augusta-Richmond County (where Augusta is located).
Chicago’s water fee plan seeks to tailor the program to the assessed nonprofits’ ability to pay:
- Nonprofits with net assets of less than $1 m do not pay for water
- Nonprofits with assets between $1 m and $10 m pay 40% for water (phased in);
- Nonprofits with assets between $10 m and $250 m pay 25%; and
- Certain nonprofits received specific exemptions

And Just Next Door

- In response to citizen requests, in March 2015, Northwestern University established a “Good Neighbor Fund” committing to donate $1 million a year to the City of Evanston for the next five years.
- Northwestern does pay taxes on parking permits and tickets for athletic events.
Schaumburg, IL

• There is no publicly available source documenting PILOT payments in Schaumburg.

• However, in 2012 the Center for Government Studies (CGS) surveyed 235 Illinois municipal managers to determine how many Illinois jurisdictions were receiving PILOTS.

• Fifty-nine managers responded with 15% reporting at least one current PILOT arrangement.
Bloomington, IN

- A 2010 survey of local government officials found that two-fifths of officials favored PILOTS from private universities or schools compared to about one third who said that hospitals should pay and one quarter who said that churches should pay.
- Property taxes represent 80% of local government finances in Indiana.
- Indiana implemented a tax cap in 2010 thereby applying pressure to local government finances.
- Indiana University in 2010 paid a user fee to the city of Bloomington for police and fire services.
Hays, KS

- Kansas allows counties to negotiate PILOTs with energy companies creating wind farms in the state.
- There is no rule regarding size of PILOT agreement nor regulation regarding the parameters of such agreements.
Boston, MA

• Environment leading to PILOTS in Boston

  • Nonprofits own 8% of tax exempt land in Boston (2nd on Lincoln Inst. List)

  • Mass. Law severely restricts the ability of towns and cities to raise reserves by means other than property taxes

  • Boston spends 30% of its revenues on essential services

  • State aid has declined $156 m from 2002 to 2010

  • Boston has many nonprofits with Harvard as the most prominent; Harvard has the wealthiest endowment of any higher education institution in the country (by far)
Harvard has been paying a PILOT to Boston since 1925.

Others began to be included but PILOT payments varied dramatically.

- In 2008, 43 organizations made $31 m in PILOT payments.
- In 2009, Payments varied by as much as $2 m (Harvard) to as little as $40,000 (Wentworth Institute of Technology).
In 2007, Boston’s Mayor Thomas Menino responded to complaints about inequities in the Boston PILOT program.

- The City Assessor began an appraisal of the city’s exempt property with a focus on Eds and Meds.
- The assessments were based on information provided by the nonprofits surveyed.
- The land value held by the assessed nonprofits was found to equal $7B (for eds) and $57B for med, equal to $345 in taxes as compared to the $764 collected from the commercial sector.

- Mayor Menino then appointed a Task Force.
- The Task Force reported out on December 2010.
Boston, MA - Task Force Recommendations

• The PILOT program was to remain voluntary

• The program was to apply to all nonprofits which owned land of greater than $15 m in value

• The PILOT was to equal 25% of property tax value to compensate the city for the cost of fire, police, and snow removal

• The assessed nonprofits could reduce their PILOT through SILOTS (up to 50% of value), paying property taxes on otherwise exempt property

• The program was to phase in over five years
• 48 of Boston’s largest nonprofits were asked to participate representing $13.7 billion or 15.8% of Boston’s total taxable value

• 23 exempt institutions who did not participate in FY2011 agreed to participate in FY2012 contributed a total of $410,511

• Participant contributions equaled 90.7% of the program’s first year goals.

• In FY2014, the PILOT program generated $25.9 million, 74.8% of the anticipated revenue which was expected to be $34.6 million.

• Fifty-six percent of the educational institutions paid their 2014 PILOTS, falling from 89% in 2012.
Federal 501(c ) (3) status is not recognized automatically in Michigan. Instead, local assessors decide whether land is exempt based on whether an entity is a “charitable institution.”

Between 2014 and 2016, cases contesting the nonprofit status of 501 (c ) (3)’s rose by 40%.

Legislation to provide guidance to local assessors is under development by the Michigan Nonprofit Association.

East Lansing Mayor Bernero vetoed a moratorium on payment in lieu of tax incentives for proposed low income housing.
Bozeman, MT

- Gallatin County, where Bozeman is located, received a $1.6 million payment in lieu of tax payment (PILT) from the federal government.

- Montana Senator Jon Tester was one of three senators to introduce legislation to fully fund the PILT program in 2015.

- The legislation has not yet passed.
Oxford, OH

- There is no publicly available source documenting any other PILOT payments in Oxford.

- **Nearby**
  - Common Good Ohio, Policy Matters Ohio and the Cleveland Teachers Union previously called for a $20 million per year PILOT payment from the Cleveland Clinic and University Hospitals.
In 2012, 12 tax-exempt organizations signed PILOT deals with the City of Erie, the County of Erie and the Erie School District.

The total value of PILOT payments was $2.7 million.

Among the organizations paying a PILOT was Gannon University, which agreed to a 3-year payment of $250,000.

As the agreements began to expire, the City threatened participants with elimination of their tax exempt status.

In 2014, the Jefferson Education Society was so threatened and in 2015, the Warren County YMCA was also threatened.
The state legislature is working to change the state constitution to give itself the authority to determine the qualifications of institutions of “purely public charity.”

When the legislature previously established the “public charity test” by statute rather than case law, the amount of money collected via PILOTs dropped from $8.8 million in 1996 to $800,000 in 2001.

In 2011, under former Mayor Ed Rendell, Philadelphia nonprofits paid the city $492,000 in PILOTs.

Due to the wretched state of the Philadelphia public schools, it was suggested in 2015 that the University of Pennsylvania pay a $12-$13 million PILOT per year to “set a good example” for other nonprofits.

Both the Mayor-Elect and City Council Chair-Elect ran on platforms in 2015 calling for the reintroduction of a robust PILOT program in Philadelphia.

Philadelphia nonprofits are opposing.
CAT, Clemson Area Transit agreement between the City of Clemson and Clemson University to provide bus transportation for university staff, faculty and students and citizens of the city since 1996 and renewed each year.

The University paid the City a total of $1,088,275 last year as a matching contribution of operative and administrative costs and specific seasonal routes.

The City, at every opportunity, shall apply for federal and state grants for CAT.
Columbia, SC

- There is no publicly available source documenting PILOT payments in Columbia.
Austin, San Marcos, TX

- There is no publicly available source documenting any PILOT payments in Austin or San Marcos.
Buffalo, WY

• Johnson County, WY, where Buffalo is located, received $997,000 from the federal government in a PILT payment.
Kent and Manchester, England, United Kingdom

- There is no publicly available source documenting any other PILOT payments in Kent or Manchester (or in the UK, for that matter).
Ottawa and Peterboro, Ontario, Canada

- There is no publicly available source documenting any other PILOT payments in Ottawa or Peterboro (although Canada has a PILT program similar to the one in the United States).
Questions?

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