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OF LAND POLICY

# Nonprofits, the Property Tax, and PILOTs in New England

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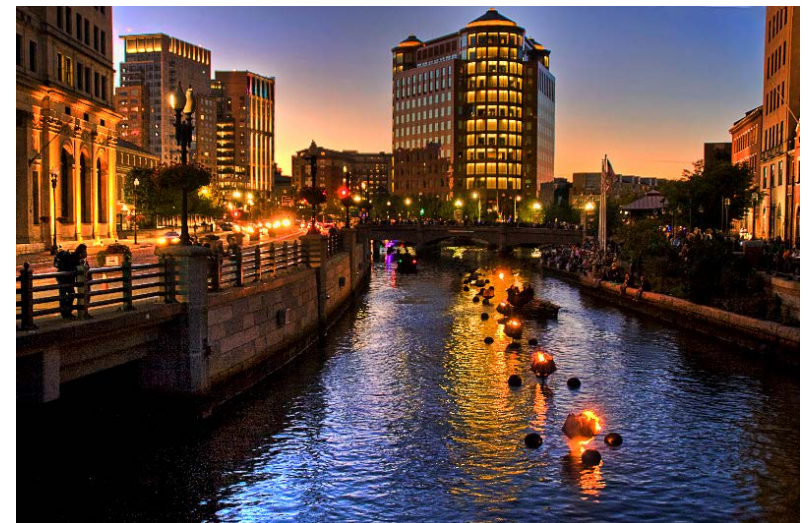
**Somerville (MA)**  
\$275k/year from Tufts



**Springfield (MA)**  
\$210k from Baystate Medical Center



**Boston (MA)**  
\$32m from 32 nonprofits



**Providence (RI)**  
\$8.2m from 7 nonprofits

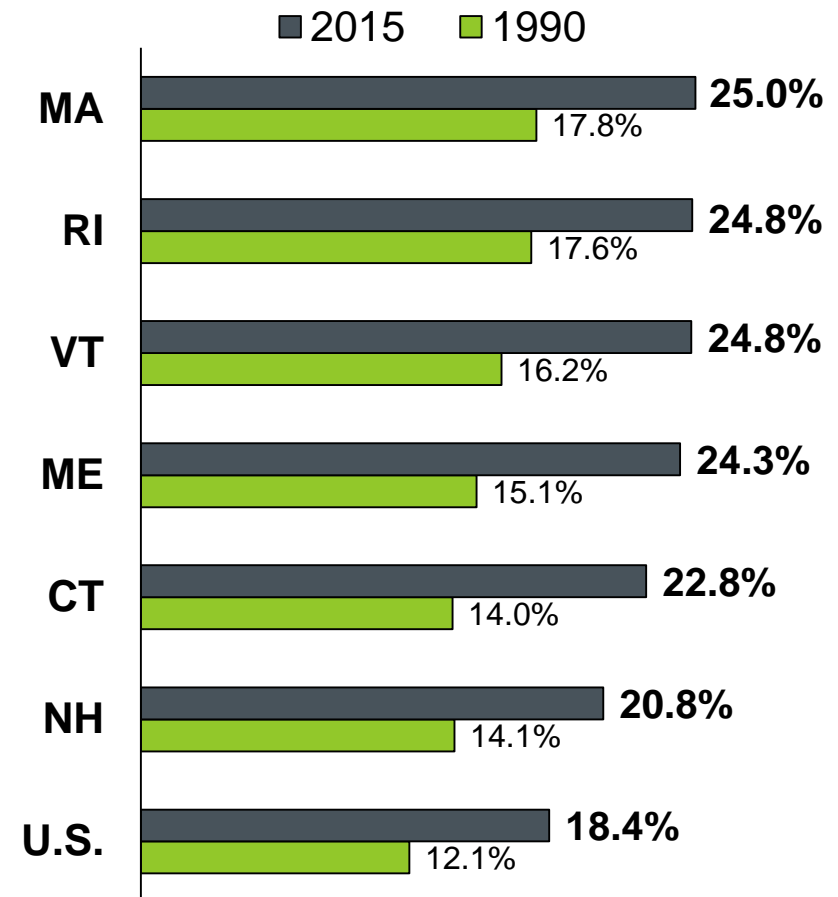
# Growing Interest in PILOTs

- **Fiscal challenges**
  - **Need new revenue sources**

# Growing Interest in PILOTs

- Fiscal challenges  
→ Need new revenue sources
- **Health & education sector** ↑  
→ **Impact of tax exemption** ↑

## Health & Education Sector's Share of Private Sector Employment

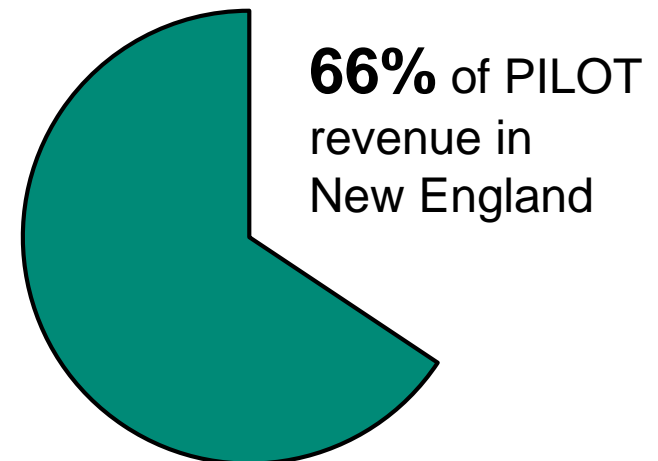
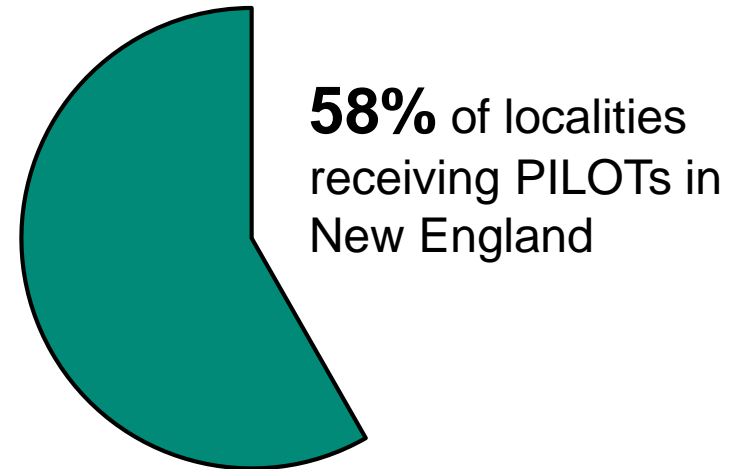


Source: Current Employment Statistics (BLS).

# Growing Interest in PILOTs

- Fiscal challenges  
→ Need new revenue sources
- Health & education sector ↑  
→ Impact of tax exemption ↑
- **PILOTs biggest in New England**
  - **Large nonprofit sector**
  - **High property tax reliance**

## PILOTs in New England



Source: Langley, Kenyon, and Bailin (2012).

# Outline

1. Arguments For and Against PILOTs
2. Collaborative Approach to PILOTs

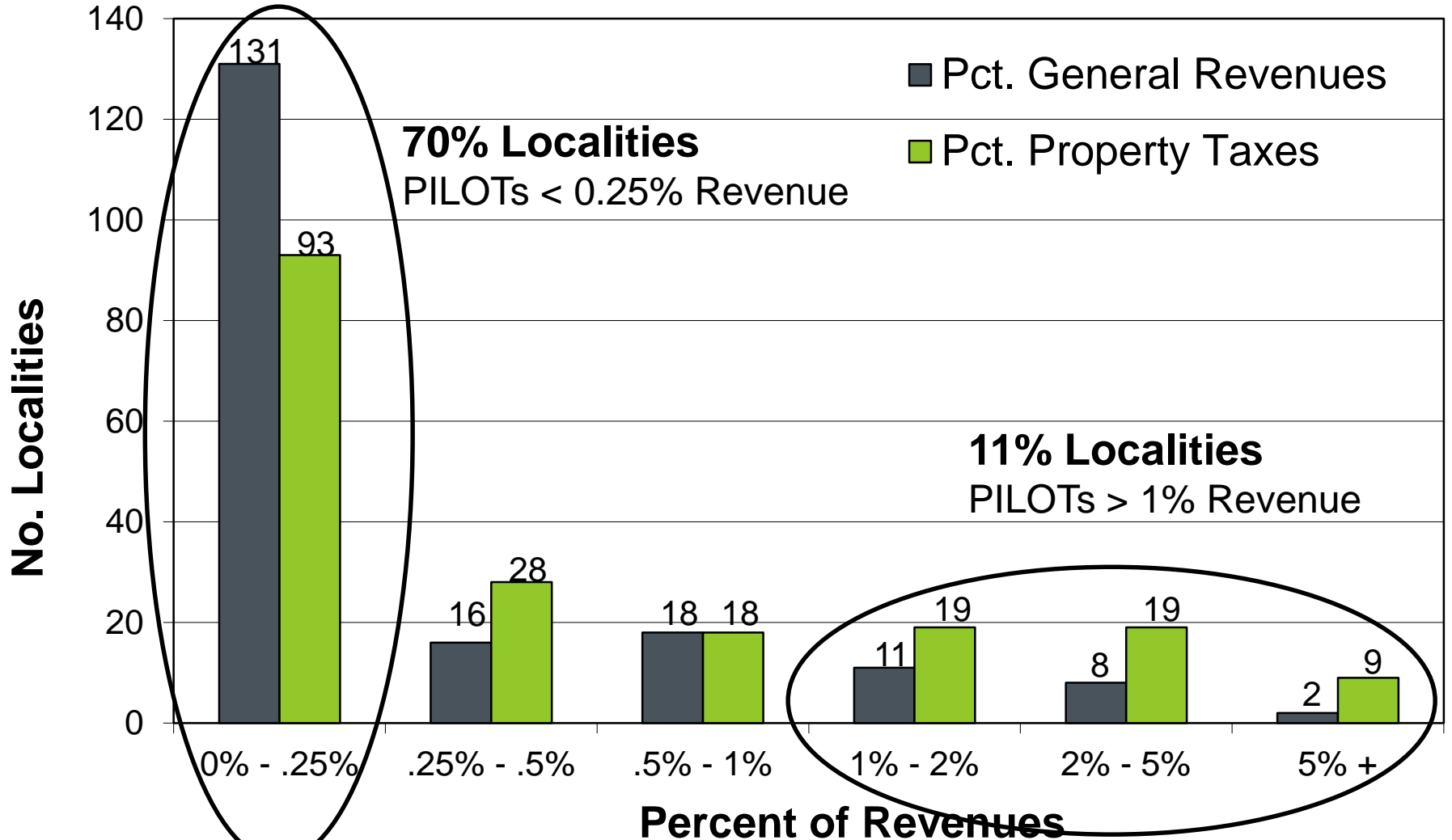
## Arguments For PILOTs

1. Nonprofits should pay for public services they consume
2. Unfair to expect **city** taxpayers to bear entire burden of subsidizing **broadly dispersed** benefits for nonprofits

## Arguments Against PILOTs

1. Nonprofits will have to raise fees or cut services
2. Limited revenue potential

# Limited Revenue Potential



Source: Langley, Kenyon, and Bailin (2012). "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them."



## Arguments For PILOTs

1. Nonprofits should pay for public services they consume
2. Unfair to expect **city** taxpayers to bear entire burden of subsidizing **broadly dispersed** benefits for nonprofits

## Arguments Against PILOTs

1. Nonprofits will have to raise fees or cut services
  2. Limited revenue potential

**3. *Ad hoc*, secretive, and contentious**

# Collaborative Approach to PILOTs

# Respectful Dialogue with Nonprofits

- **Voluntary payments** → Need buy-in from nonprofits
- Local officials must:
  - Explain need for PILOT
  - Trustworthy partner that will use funds efficiently
  - Acknowledge nonprofit's contributions
  - Listen to nonprofit's concerns
- PILOTs in nonprofit's enlightened self-interest
- Conversations take time

# Avoid the term “PILOT”

- Worried about payments **in lieu of taxes**
- May be willing to make PILOTs by other names
  - “Voluntary contributions”
  - “Service fees”
- PILOT agreements
  - Voluntary
  - Do not undercut nonprofit’s tax-exempt status

# Justify the Amount of a PILOT

- **Cost** of providing services to nonprofits
  - Police/fire
  - Street maintenance
  - Snow removal
- **Basis** for calculating suggested payment
  - Assessed value
  - Square footage
  - Annual revenue

# Earmark PILOT for Nonprofit Priorities

- Nonprofits more willing to make PILOTs if
  - Earmarked for their priorities
  - Aligned with nonprofit's mission
  - Direct connection between the PILOT and public services benefiting the nonprofit

# Earmarked PILOTs in Worcester (MA)

| Worcester Polytechnic Institute  | Clark University   |
|--|--|
| <p>\$9+ million over 25 years<br/>(\$270,000/year with 2.5% inflator)</p>  | <p>\$6.7+ million over 20 years<br/>(\$262,000/year with 2.5% inflator)</p>  |
| <p><b><u>PILOT Earmarks</u></b></p> <ol style="list-style-type: none"> <li>1) Worcester Public Library</li> <li>2) Improvements to public park adjacent to campus</li> </ol> | <p><b><u>PILOT Earmarks</u></b></p> <ol style="list-style-type: none"> <li>1) Worcester Public Library</li> <li>2) Improvements to public park adjacent to campus</li> <li>3) Enhancements for local area (public safety, streetscape improvements, etc.)</li> </ol> |

# Long Term PILOT Agreements

- Long term agreements (5-30 years)
  - Predictable revenue stream for government
  - Known budget item for nonprofits
- Base year payment + annual inflator



# Reduce Cash PILOTs to Reflect New Services

- Nonprofits prefer to provide services
- Governments prefer cash
- Compromise: Some cash, some new services
  
- Which services should count for offsets
  - Benefit **local** residents
  - New services? Above and beyond their business model?
  - Economic benefits should **NOT** count
  
- How to do it:
  - Identify services most needed that nonprofits can provide
  - Local gov't should be clear and consistent about priorities

# Collaborative Approach to PILOTs

Respectful dialogue with nonprofits to make case for PILOT

Avoid the term “PILOTs”

Justify the amount of the PILOT

Earmark PILOTs

Long-term agreements

Reduce cash PILOTs to reflect new services

# Thank You!

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