



Payment in Lieu of Taxes on Tax-Exempt Properties

Summary

Municipalities are increasingly asking charitable nonprofit organizations¹ to make payments in lieu of taxes (PILOTs) to supplement local revenue to cover the cost of essential services. Boston, for example, received a combined \$25.9 million in 2014 in voluntary payments from medical, educational, and cultural institutions, which it used for general purposes.² In 2012, 218 localities in 28 states had PILOTs and 82.6% of PILOT revenue came from the Northeast US.³ The majority of PILOTs are currently from the Northeastern US because the local governments rely substantially on property tax revenue, which charitable nonprofits do not have to pay. The Northeast also has a larger number of nonprofit organizations than other regions.

Table 1: Top 10 localities by PILOT revenue in 2012⁴

City	State	Year*	PILOT Revenue			No. Nonprofits Making PILOTs
			Total	Pct. General Revenue	Pct. Property Taxes	
Boston	MA	2012	\$19,402,506	0.58%	1.45%	33
New haven	CT	2012	\$9,108,766	1.16%	4.57%	2+
Providence	RI	2012	\$8,948,046	1.08%	2.88%	7
Palo Alto	CA	2009	\$7,100,000	3.44%	25.43%	1
Baltimore	MD	2011	\$5,400,000	0.16%	0.83%	15
Watertown	MA	2012	\$5,260,089	4.85%	7.34%	1
Cambridge	MA	2008/2012	\$4,978,954	0.40%	1.81%	15
Erie**	PA	2011	\$2,804,842	0.48%	2.10%	13
Pittsburg	PA	2011	\$2,600,000	0.39%	1.84%	46
Princeton**	NJ	2010/2012	\$2,492,922	4.09%	7.44%	6
Top 10 Localities			\$68,096,126			139
Percent of all Localities			73.50%			33.1%

* Some localities have multiple years because data for different nonprofits come from different years. However, no nonprofits are double counted.

**Multiple localities receive PILOTs. In Erie, the city, county, and school district receive PILOTs. In Princeton, the borough and township receive PILOTs, although these two governments will merge on January 1, 2013

¹ Charitable organizations typically try to organize as entities exempt from federal income taxation under Internal Revenue Code section 501(c)(3). Tax exemption at the federal level does not automatically guarantee tax exemption at the state and local levels, but frequently if the IRS grants federal exemption the taxpayer will be eligible for an exemption on state and local income taxes, property taxes, and sales taxes. Some local assessors will tend to grant exemptions if the IRS does; others may not do so without further applications and investigation. ("Definition of charitable nonprofit")

²City of Boston. "FY 2014 PILOT Recap." <http://www.cityofboston.gov/assessing/PILOTProgram.asp> ("Boston Recap")

³ Langley, Kenyon, and Bailin. "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them," (Cambridge, MA: Lincoln Institute of Land Policy, 2012) ("Lincoln Institute 2012") <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/article-langley-et-al.pdf>

⁴ Id.

Types of PILOT Programs

Some municipalities use PILOTs instead of property taxes to encourage specific types of economic behavior. In Detroit, for example, PILOTs from about 100 nonprofit residential facilities for disabled and low-income populations amounted to \$4.16 million in 1997.⁵ The Detroit Code of Ordinances, Chapter 18 Article IX Section 18-9-13, created a “service charge or PILOT for authority-aided or federally-aided housing projects... shall be 10% of annual net shelter rents.”⁶

Other key features of PILOTs are:

- PILOT programs can be systematic (broadly applicable to all tax-exempt organizations) or individualized (negotiated on a company-by-company basis)
- PILOT payments can be based on percentage of property taxes, square footage, size of the organization’s economic activity (employees or dormitory beds)
- Community benefit may count towards PILOT payment (see Boston section)

How Municipalities Convince Nonprofits to pay a PILOT

Municipalities can take several approaches to convince nonprofits to pay a PILOT as outlined below:

- Ask nonprofit to be a good neighbor
 - The nonprofit will benefit if the community is in good financial standing
 - Ex: Students are more likely to go to a college if it is in a good community
- Threaten to place new fees or taxes on nonprofits
 - Ex: Tuition tax on the University of Pittsburgh dropped after university started paying PILOT⁷
- Remind nonprofit that the municipality has control over building permits, zoning decisions, etc.
 - Nonprofit pays PILOT to receive favorable treatment
- Build support for PILOT program
 - Boston’s task force outlined new PILOT program and increased support (see Boston section)

Benefits and Issues of Having/Requiring a PILOT

PILOTs seem to work best in cities where there are significant non-profits that will not move from the area (as see in table 1). For example, Harvard will not move from Cambridge and Stanford will not move from Palo Alto. PILOTs might, however, adversely impact a nonprofit from moving into an area.

Table 2: Benefits vs. Issues of a PILOT

⁵ Id.

⁶ Detroit, MI. Minicode.

https://www.municode.com/library/#!/mi/detroit/codes/code_of_ordinances?nodeId=PTIICICO_CH18FITA_ARTIX_TAGE_DIV1GE_S18-9-14HOPRCUEXTAWHARMAPIPA

⁷ “Lincoln Institute 2012”

Benefits	Issues
1. Nonprofits pay for their share of public services 2. Payments help municipality have adequate revenue 3. Municipality can lower property tax rates	1. Nonprofit may already provide its own service to the community that the local government doesn't provide 2. May force nonprofits to lay off workers or reduce charitable contributions

Another disadvantage of PILOTs is they are “often haphazard, secretive, and calculated in an ad hoc manner that results in widely varying payments among similar nonprofits.”⁸ The PILOT amount a nonprofit pays can depend on how aggressively a municipal tries to collect a payment. When pressured, municipals may feel that they will have their property tax exemption challenged in court or have added resistance from municipals when applying for permits.

Boston

Boston has the largest PILOT program in the country. There are multiple key aspects of Boston’s PILOT program that make it successful:

- Largest PILOT revenue: \$25.9 million in 2014⁹
- PILOT task force created a new PILOT program with 5 main elements¹⁰
 1. PILOT remains voluntary although encouraged
 - Encouragements include preferred treatment for securing building permits and an improved surrounding city
 2. All non-profit groups with assessed value of at least \$15 million should participate
 3. A systematic payment of 25% of the fully taxable property is recommended
 - An estimated 25% of City’s budget goes towards essential services (police, fire, snow removal, etc.) used by nonprofits
 4. Community service can count up to 50% of full PILOT payment
 - Must be quantifiable and directly beneficial to City of Boston residents
 - Examples include public/ community health initiatives and scholarships for Boston Public School students
 5. Phase-in of this plan should take no less than 5 years

Providence, RI

⁸ Kenyon and Langley, “Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests” (Cambridge, MA: Lincoln Institute of Land Policy, 2010).

<http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/PILOTs%20PFR%20final.pdf>

⁹ “Boston Recap”

¹⁰ City of Boston.” PILOT Task Force Executive Summary.” <http://www.cityofboston.gov/assessing/PILOT.asp>

Providence had the third-largest PILOT program in the country in 2012. Several takeaways exist in Providence’s PILOT program:

- In 2012, Providence faced a \$22.5 million budget deficit and was on the brink of bankruptcy¹¹
- Brown University and other nonprofits agreed to increase PILOT payments because they want good relations with the city
 - Brown also “sees itself as a partner in Providence’s economy”¹²
- \$5.1 million paid by Brown alone in FY 2015¹³

Application to Chicago

For an organization to be exempt from property tax in Illinois, it must be “an exclusively beneficent and charitable, religious, educational, or governmental organization, and own the property that is used exclusively for charitable, religious, educational, or governmental purposes and not leased or used for profit.”^{14,15} The following table lists several large nonprofit medical and educational institutions in the city of Chicago:

Table 3: Several medical and educational institutions in Chicago

Medical Institutions	Educational Institutions
Northwestern Memorial Hospital	University of Chicago
Rush University Medical Center	Loyola University Chicago
Advocate Christ Medical Center	DePaul University
Loyola University Medical Center	Columbia College Chicago
St. Alexius Medical Center	School of the Art Institute of Chicago
University of Chicago Medical Center	Robert Morris University Illinois
Advocate Lutheran General Hospital	Chicago State University
Alexian Brothers Medical Center	
Advocate Illinois Masonic Medical Center	
NorthShore Evanston Hospital	
Rehabilitation Institute of Chicago	
Edward Hospital	

¹¹ The Associated Press. “Cash-strapped cities getting more money from tax-exempt colleges.” http://www.nola.com/politics/index.ssf/2012/05/cash-strapped_cities_getting_m.html

¹² Id.

¹³ Brown University. “Taxes, Voluntary Payments & Fees.” <http://www.brown.edu/web/providence/taxes.html>

¹⁴ “Definition of charitable nonprofit”

¹⁵ Illinois Revenue. “Sales & Property Tax Exemptions” <http://tax.illinois.gov/publications/pios/pio-37.htm>

If Chicago develops a PILOT program, the city must consider:

- Creating an individualized or a systematic payment
 - If systematic, are they based on percentage of property taxes, square footage, size of the organization's economic activity, etc.
- Which organizations should be targeted
 - Those with an assessed value over a certain dollar value
 - Educational institutions, medical institutions, cultural institutions, housing, etc.
- Should a task force oversee the operation
- Are payments forced or voluntary
- Do the PILOT payments go towards a specific use
- What is a reasonable timeline for beginning a PILOT program

References

1. City of Boston. "FY 2014 PILOT Recap." <http://www.cityofboston.gov/assessing/PILOTProgram.asp>

This source is used to find the value of PILOT payments in Boston, the location of the payments, and if the organization paid the full recommended PILOT.

2. Langley, Kenyon, and Bailin. "Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them," (Cambridge, MA: Lincoln Institute of Land Policy, 2012) <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/article-langley-et-al.pdf>

This is a 2012 report on PILOT by Lincoln Institute. It includes data on individual cities based on research and a survey taken. It takes a more city specific approach than the 2010 Lincoln Institute report listed in 'other references'.

3. City of Boston. "PILOT Task Force Executive Summary." And "PILOT Interim report". <http://www.cityofboston.gov/assessing/PILOT.asp>

Both the interim report and executive summary give useful information on Boston's PILOT program. The recommendations and methods used proved effective because Boston's program is the largest in the country.

4. Illinois Hospital Association. <http://www.ihatoday.org/uploadDocs/1/hospcounty.pdf>

This is a list of hospitals in Chicago, which is very useful to determine an initial document of nonprofit hospitals.

Other References

5. Kenyon and Langley, "Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests" (Cambridge, MA: Lincoln Institute of Land Policy, 2010).

<http://www.lincolninst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/PILOTS%20PFR%20final.pdf>

6. Illinois Revenue. "Sales & Property Tax Exemptions" <http://tax.illinois.gov/publications/pios/pio-37.htm>

7. The Associated Press. "Cash-strapped cities getting more money from tax-exempt colleges."

http://www.nola.com/politics/index.ssf/2012/05/cash-strapped_cities_getting_m.html

8. Brown University. "Taxes, Voluntary Payments & Fees."

<http://www.brown.edu/web/providence/taxes.html>

Executive Orders and Ordinances

9. Detroit: Ch 18. Article VI. Sec. 18-9-13 Stating Housing PILOT:

https://www.municode.com/library/#!/mi/detroit/codes/code_of_ordinances?nodeId=PTIICICO_CH18FITA_ARTIXTAGE_DIV1GE_S18-9-14HOPRCUEXTAWHARMAPIPA

10. Providence, Rhode Island authorization of PILOTs for Tockwotton Home Corporation

<http://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=5&ved=0CDoQFjAE&url=http%3A%2F%2Fprovidenceri.iqm2.com%2FCitizens%2FFileOpen.aspx%3FID%3D6124%26Type%3D8&ei=s61tVbOSOdKHsQSd7oGABw&usg=AFQjCNF6g4yOafTOD3sa-s02YCUFe7qSTg>

11. Nashville and Davison County ordinance with American General Life Insurance Company:

http://www.nashville.gov/mc/ordinances/term_2011_2015/bl2015_1127.htm

12. Elkhart, Indiana PILOT for sewer service:

http://www.elkhartindiana.org/egov/documents/1369942410_79071.pdf

13. Syracuse, NY PILOT agreement with Pyramid Company of Onondaga

http://bettersyracuse.tripod.com/PILOT_Preamble.PDF

14. Philadelphia, PA authorization of PILOTs

<http://www.phila.gov/phils/Docs/Inventor/graphics/execorders/94-01.htm>

15. Pennsylvania nonprofits could become tax exempt easier and reduced pressure of paying PILOTs

<http://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=1997&sessInd=0&smthLwInd=0&act=55>