

Payments in Lieu of Taxes: Calculating the Fiscal Impact of Boston's PILOT Program

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Executive Summary

Over the past decade, revenue pressures have motivated local governments throughout the country to introduce fiscal policy aimed at reducing the impact of nonprofit organizations' property tax exemptions on city revenues. In many instances, cities have implemented voluntary payment in lieu of taxes (PILOT) programs, which are premised as an avenue through which nonprofit landholders contribute toward the cost to the city of providing these organizations with public services. PILOT programs are typically developed through unique agreements between a city and individual area nonprofits. As a result, the programs are rarely systematized and while they offer additional revenues, it is difficult to assess the degree to which those revenues match the cost of public service provision to participating nonprofit organizations.

Using the city of Boston, MA, a leader in PILOT program implementation, as a sample, this paper seeks to assess the effectiveness of PILOT programs as a revenue supplement for municipalities with high concentrations of nonprofit landholders. The paper employs fiscal impact analysis to determine the public costs associated with nonprofit organization landholding in Boston and compares those cost estimates with PILOT payments made by the city's institutions of higher education and medicine. The following analysis will show that without a systematized process, PILOT payments represent an inequitable and inefficient method of revenue generation.

Introduction

The city of Boston, MA has long been known for its institutions of higher education, nonprofit hospitals and healthcare providers, and arts and cultural organizations. These nonprofits provide tens of thousands of jobs to residents of the city and state. They offer services that benefit not only native Bostonians but also out of town visitors. However, their nonprofit status exempts them from contributing to city revenues through property tax payments, which partially fund such municipal services as fire and police protection, road construction and maintenance, and snow removal. In a city where in FY 2010, 61 percent of municipal revenues came from property taxes, such an exemption is significant. Nonprofits control more than 50 percent of the city's property, significantly reducing potential property tax revenues. Such a high concentration of nonprofit landholders has led some to argue that residents bear an inequitable portion of the cost of public services from which nonprofit organizations also benefit.

In their analysis published by the Lincoln Institute of Land Policy, Daphne Kenyon and Adam Langley note that, "Many nonprofits reduce local government spending by offering services that would otherwise be provided by those governments, but at the same time these nonprofits impose a cost on municipalities by consuming public services, such as police protection and roads."¹ Over the past decade revenue pressures have motivated local governments throughout the country to introduce fiscal policy aimed at reducing the impact of nonprofit organizations' property tax exemptions on city revenues. In many instances cities have implemented voluntary payment in lieu of taxes (PILOT) programs. However, despite findings that more than 117 municipalities in 18 states have implemented PILOT programs since 2000, the programs vary in their design and impact.² Additionally, due to the voluntary nature of PILOT programs and the unique, private negotiations with which they are typically established, comprehensive studies of the fiscal impact of such programs on municipal budgets continue to be rare.

Focusing on the city of Boston's private, nonprofit institutions of higher education and medicine, this paper will employ fiscal impact analysis to compare the public costs associated with nonprofit organization landholding with current PILOT payments. This assessment will show that PILOT programs may serve as a viable revenue stream for property tax-dependent municipalities with high concentrations of nonprofit landholders. But without transparent and well-articulated program parameters, PILOTs, being voluntary in nature, cannot be expected to generate significant revenue streams for municipalities. In effect, PILOT programs, as historically implemented, do not represent an efficient or equitable approach to revenue generation.

Such an analysis lends itself to the broader question of the importance of nonprofit service delivery and the financing of such organizations, of which tax exemptions play a crucial role.

¹ Daphne Kenyon and Adam Langley, "Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests," (Cambridge, MA: Lincoln Institute of Land Policy, 2010), 4.

² Karen Fischer, "As Cities Seek Payments in Lieu of Taxes, Colleges Are Urged to Work Out Deals," *The Chronicle of Higher Education*, November 29, 2010, Accessed December 9, 2011. <http://chronicle.com/article/As-Cities-Seek-Payments-in/125558/>

This paper will not directly address this larger question; however, it is helpful to keep in mind that a certain trade off with implications at both the federal and local level is implicit in the tax-exempt status of nonprofit organizations.

Literature Review

With an estimated population of 4.5 million, Greater Boston, which includes the city proper and surrounding communities such as Cambridge, Newton, and Brookline, is the nation's tenth-largest metropolitan area. In FY 2010, the city's operating budget totaled \$2.39 billion, with property taxes accounting for 61 percent of revenues.³ However, "a significant portion of the city's real estate is not subject to tax, leaving this substantial burden on the owners of less than 50 percent of the land area in the city."⁴ Community leaders and residents have argued that they bear a brunt of the city's public service provision costs in excess of the benefits they receive, calling for nonprofit organizations to contribute toward those costs. Additionally, declining state aid and a state-mandated cap on property tax increases have forced the city to develop new ways to generate revenues.

In FY 2009, for example, Mayor Thomas M. Menino presented a \$2.42 billion operating budget, which represented a 5 percent increase over the FY 2008 budget despite cuts in federal and state aid to the city.⁵ While increased fines were projected to cover some of the increase, other revenue producing schemes were also necessary. Boston is already heavily reliant on property tax revenues; Proposition 2½, which caps year-to-year growth of the tax base to 2.5 percent across the state, limits the viability of increasing this source of funding.⁶ Recognizing that significant property tax revenues are foregone due to the high concentration of nonprofit landholders in Boston, the city has operated PILOT program since 1925.⁷ Through the program nonprofit organizations voluntarily make payments based upon a private, individually negotiated agreement, which can last between 20 and 30 years and is intended to defray the costs of public services from which the organization benefits.⁸

Payments in lieu of taxes, commonly referred to as PILOTs, are voluntary agreements typically negotiated between a municipality and individual nonprofit organizations within its jurisdiction. PILOTs are conceived as a means for offsetting the property tax revenues foregone by a municipality due to the organization's tax-exempt status and are often considered payment for public services such as police and fire protection, snow removal, and public works. A variety of payment schemes exist across different municipalities. Some negotiate payments as a percentage of what the organization would be expected to pay in property

3 "FY 2010 Summary Budget," *City of Boston*, 2010, Accessed December 9, 2011, [http://www.cityofboston.gov/tridionimages/budget%202010%20operating%20text%20summary%20\(2\)_tcm1-4441.pdf](http://www.cityofboston.gov/tridionimages/budget%202010%20operating%20text%20summary%20(2)_tcm1-4441.pdf)

4 Eric Lustig, "The Boston City PILOT Task Force: An Emerging Best Practice?" *New England Law Review*, Vol. 44 (2009-2010): 606.

5 "Mayor Menino Announces Fiscal 2009 Budget," *City of Boston*, 2008, Accessed December 9, 2011. <http://www.cityofboston.gov/news/default.aspx?id=3840>

6 Massachusetts Department of Revenue, "Levy Limits: A Primer on Proposition 2 ½," Accessed December 9, 2011. <http://www.mass.gov/Ador/docs/dls/publ/misc/levylimits.pdf>

7 Lustig, "The Boston City PILOT Task Force: An Emerging Best Practice?" 601.

8 Kenyon and Langley, "Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests," 22.

taxes if it were not exempt; this is the case in Boston. Others negotiate payments based on square footage, economic impact of the organization, or number of clients or employees.⁹ In many agreements payment rates may be negotiated down on the premise that the organization creates public benefits. As a result, the PILOT negotiation process and the agreed-upon rate between an organization and a municipality often reflect a balance of power. Because PILOTs are voluntary and not required by law, motivations for entering into such agreements may include: a good neighbor policy; recognition that the maintenance of the surrounding community can directly impact an organization's success; desire to be perceived favorably by the city in an effort to ease future negotiations for things like capital enhancement projects; and in rare instances, a response to the threat that tax exempt status be revoked. As cities have faced increasing fiscal pressures, PILOT programs have offered an attractive revenue scheme and have been implemented in more than 100 municipalities. Most often cited in the literature are those municipalities with high concentrations of private, nonprofit colleges, universities, or hospitals, which are large landholders – Boston; New Haven, CT; and Philadelphia, PA, for example.

In FY 2010, PILOT payments in Boston yielded approximately \$34 million in revenues.¹⁰ While the majority of PILOT payments come from the city's private, nonprofit colleges, universities, and hospitals, the voluntary nature of the program has meant that payments by comparable institutions can often be vastly different. For example, in FY 2010, Boston College made payments in lieu of taxes totaling \$289,531 while Harvard University made payments of \$2,049,849, and Boston University contributed \$4,980,168.¹¹ The variation among payment values is indicative of the negotiation process upon which the PILOT program is premised. Additionally, the revenues forgone as a result of property tax exemptions represent nearly 10 times the amount garnered by Boston's PILOT program.¹² Further, many have argued that property tax exemptions favor large land-holding nonprofits, while mall organizations with operating budgets of less than \$100,000, which represent more than 90 percent of nonprofit organizations tend to rent space and therefore do not qualify for property tax exemptions.¹³ As a result in 2008, Mayor Menino established a task force to investigate ways of expanding Boston's PILOT program to increase city revenues and equalize payment ratios across nonprofit organizations.

The motivation behind the task force's study was two-fold. First, although Boston's PILOT program has long been recognized as one of the most effective programs of its kind in the country, revenues make up only 1 percent of the city's operating budget. With the city facing a budget shortfall of nearly \$85 million in FY 2009, the PILOT program represented an obvious area for potential revenue growth. Additionally, because the PILOT program is voluntary,

9 Kenyon and Langley, "Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests," 2 – 49.

10 Mayor's PILOT Task Force, "Final Report and Recommendations," Accessed December 9, 2011. http://www.cityofboston.gov/Images_Documents/PILOT_%20Task%20Force%20Final%20Report_WEB%20_tcm3-21904.pdf

11 "Final Report and Recommendations."

12 Donovan Slack, "Tax Hunt Targets Exempt Groups," *Boston Globe*, December 9, 2008, Accessed December 9, 2011, http://www.boston.com/news/local/massachusetts/articles/2008/12/09/tax_hunt_targets_exempt_groups/

13 Dennis Young, *Financing Nonprofits: Putting Theory into Practice*, (Lanham, MD: Altamira Press, 2007), 69 – 91.

levels of participation vary among organizations. The task force therefore was charged with determining the feasibility and projected impact of regulating and expanding the PILOT program.

Representing various stakeholders and constituencies from the private, government, and nonprofit sectors, the task force conducted a detailed evaluation of data on property owned by Boston's higher education organizations and nonprofit hospitals, which represent the bulk of the city's nonprofit landholders. The task force was asked to make recommendations in order to strengthen the partnership between Boston and its nonprofit institutions and offer a more equitable alternative to the traditional negotiation-based PILOT program. Based on its assessment, the task force developed a series of guidelines: establish a standard level of contributions, which it recommended be based upon the value of real estate owned by entities with landholdings of \$15 million or more; create a methodology for valuing community partnerships, reducing PILOT payments by up to 50 percent for services garnered directly to the community; propose a consolidated payment system; and define the costs associated with the provision of public services to nonprofit organizations.¹⁴ The task force concluded that public service costs historically accounted for 24 percent of the city's budget and thus argued that payments be equal to 25 percent of an organization's projected property tax burden if it were not a tax-exempt entity.

In FY 2009, appropriations for public safety and public works and transportation represented 30.9 percent of the city's total operating expenditures, or \$583,310,796. This included provisions for police and fire services, the public works department, snow removal, and transportation. While nonprofit organizations indisputably benefit from these services they are not legally bound to pay for them. That same year, government revenues consisted of the following: net property tax levy, 56.2 percent of revenues; state aid, 20.8 percent; other revenues, including \$33.5 million in PILOT contributions, 10.1 percent; teachers pensions, 4.3 percent; excises, 3.9 percent; fines, 3.3 percent; and fund balance, 1.4 percent. This provided a total revenue projection of \$2.41 billion.¹⁵ If we assume that all payments in lieu of taxes are allocated directly to public safety and public works and transportation expenses, we would find that through the PILOT program, nonprofit organizations contributed 5.5 percent of revenues allocated to public service costs. This calculation, however, does not allow us to assess the actual cost of providing these services to nonprofits.

¹⁴ "Final Report and Recommendations."

¹⁵ "Summary Budget," *City of Boston*, 2009, Accessed December 9, 2011, http://www.cityofboston.gov/tridionimages/02%20summary%20budget_tcm1-3153.pdf

Revenue Source	Revenue amount	Percent of total revenue
Net property tax levy	\$1,354,420,000.00	56.2
State aid	\$501,280,000.00	20.8
Other (including PILOT payments)	\$243,410,000.00	10.1
Teacher's pensions	\$103,630,000.00	4.3
Excises	\$93,990,000.00	3.9
Fines	\$79,530,000.00	3.3
Fund balance	\$33,740,000.00	1.4
TOTAL	\$2,410,000,000.00	

PILOT Programs: A Comparison

As noted previously, PILOT programs can take many forms and are typically negotiated on a case-by-case basis between a nonprofit entity and a municipality. Few examples of consistently enforced programs exist, the most comprehensive being the federal government's payment in lieu of taxes (PILT) program operated by the Department of the Interior. Premised upon Public Law 94-565, dated October 20, 1976, the federal government's PILT program "recognizes that the inability of local governments to collect property taxes on federally-owned land can create a financial impact."¹⁶ The PILT program employs a formula based on population, receipt-sharing payments, and the amount of federal land within an affected county to calculate payments to individual municipalities. In FY 2011, the federal government distributed \$375.2 million to approximately 1,850 local government units (mostly counties) in 49 states, the District of Columbia, Guam, Puerto Rico, and Virgin Islands. In FY 2011, payments were calculated using one of two formulas:

(A) \$2.42 times the number of acres of qualified federal land in the county, reduced by the amount of funds received by the county in the prior fiscal year under certain other federal land receipt sharing programs such as the 25 percent timber program or the mineral leasing program;

(B) \$0.33 times the number of acres of qualified federal land in the county, with no deduction for prior-year payments.¹⁷

These calculations were made by the Department of the Interior and presented to Congress for appropriation. The federal PILT program has distributed more than \$5.5 billion in

¹⁶ "Payments in lieu of taxes."

¹⁷ "Payments in lieu of taxes."

its 34 year history.

Comparatively, the state of Connecticut manages a PILOT program through which it distributes revenues to its municipalities. The state's PILOT program reimburses municipalities for 77 percent of property tax revenues foregone due to the tax-exempt status of colleges and free-standing chronic disease hospitals.¹⁸ In FY 2008, the state paid \$122.4 million to 57 municipalities and seven taxing districts. Connecticut's effort to reimburse municipalities using state funding is premised upon the fact that tax-exempt status is conferred upon non-profit organizations by the state, as well as the belief that organizations often benefit residents outside of the municipality in which they are located. Like the federal program, Connecticut's payments are made using a series of standardized calculations, which ensure that each municipality is receiving funding proportional to the nonprofit entities within its jurisdiction.

Some Connecticut municipalities, however, have established additional agreements with individual organizations. The city of New Haven, for example, receives significant voluntary contributions from Yale University. In 2007, Yale released a statement in which the university identified itself as the single largest contributor to the city of New Haven's operating budget, as well as the contributor of the largest voluntary payment to a municipality in the nation.¹⁹ Calculating its voluntary contribution, property taxes paid on non-exempt properties (i.e.: rental and commercial properties) and permit fees, the university contributed \$47 million to the city, or 11.31 percent of the city's FY 2007 operating budget of \$415.7 million.

Other examples of PILOT programs initiated at the local level are found in Philadelphia and Baltimore, MD. In 1994, the city of Philadelphia undertook a study, similar in focus to that of Boston's 2009 PILOT task force, in which a working group assessed area nonprofit hospitals, colleges, and universities. The guiding force behind the Philadelphia study, however, was vastly different than that of Boston. In Philadelphia, officials concluded that operating procedures of area nonprofits – specifically executive salaries – defied the legal parameters upon which the organization's tax-exempt status was legally recognized and that, if challenged in court, the organizations would lose their nonprofit status and be subject to the city's property taxes.²⁰ Thus the city established a PILOT/SILOT (service in lieu of taxes) program, by which nonprofit organizations could make payments or offer services valued at 40 percent of the annual property tax they would owe were they not a tax exempt organization rather than be subject to court proceedings and risk losing tax-exempt status. At the time the program was instituted, nonprofit organizations owned 25.2 percent of the city's property with

18 Office of Policy and Management, Intergovernmental Policy Division, "Colleges (Private) and General/Free Standing Chronic Disease Hospitals - Payment in Lieu of Taxes," *State of Connecticut*, Accessed December 9, 2011, <http://www.ct.gov/opm/cwp/view.asp?A=2985&Q=383134>.

19 "Yale University's Positive Fiscal Impact for the City and Citizens of New Haven," *Yale University*, Accessed December 9, 2011, www.yale.edu/onhsa/documents/YalePositiveFiscalImpact.pdf - 2007-05-04 -

20 Pamela Leland, "Property Tax Exemption and Municipal Revenue: Philadelphia's Efforts to Solicit Payments-in-Lieu-of-Taxes from Charitable Nonprofit Organizations," *The International Journal of Not-for-Profit Law*, Vol. 1 Issue 4 (1999) Accessed December 9, 2011, http://ecbiz108.inmotionhosting.com/~icnlor5/research/journal/vol1iss4/art_1.htm

an assessed value of \$3.1 billion.²¹ In 1994, the city entered into 42 voluntary contribution agreements with a total estimated value of \$ 9,399,439. As with Boston, the most significant share of contributions came from area hospitals and healthcare providers; 78.9 percent of voluntary contributions came from the healthcare industry.

Unfortunately, given the relatively smaller scale of Philadelphia's program, it has not received attention comparable to that of Boston's program, nor does the city's website include information necessary to complete a fiscal impact analysis of Philadelphia's nonprofits. It is included here as an example of other motivations behind such programs throughout the country and the methods through which such programs are implemented. While Boston and Philadelphia both have established PILOT programs using predetermined levels of foregone property tax revenues as payment baselines, they have experienced vastly different outcomes. Boston's program has been lauded as valuable model for PILOT program implementation; Philadelphia's example, however, has fallen by the wayside.

Research Method

Fiscal Impact Analysis

Fiscal impact studies are typically conducted before residential or commercial development commences to estimate the direct public costs and revenues associated with the project to a local jurisdiction. However, they can also be employed to calculate the present costs associated with public service provision to a subset of the population within a municipality. In their guide to fiscal impact analysis, Robert W. Burchell and David Listokin outline commonly used fiscal impact analysis techniques and identify two – proportional valuation and employment anticipation – appropriate for estimating the impacts of nonresidential activity. The proportional valuation method employs an average costing approach based upon real property values within a given municipality and assumes that relative real property values represent shares of municipal costs.²²

While such an analysis offers a clearer picture of the cost of public service provision, it is predicated upon the availability of property value data. Given the property tax-exempt status of nonprofit organizations, property valuations of these landholders tend to be of secondary concern to many municipalities' assessing departments. In Boston, the PILOT task force's focus on property valuations for nonprofit organizations prompted the city's assessing department to generate new property tax assessments for Boston's institutions of higher education and medicine in 2009. Using detailed facility information – square footage, enrollment, tuition, and endowment values for higher education institutions and square footage, number of beds and net service patient revenue for hospitals – the assessing department determined levels of revenue the city might expect if each organization were taxable, or the revenues the city foregoes because of tax-exempt status. These figures were then compared to FY 2009

21 "Executive Order No. 1-94: Payments in Lieu of Taxes." *City of Philadelphia*, 1994, Accessed December 9, 2011, <http://www.phila.gov/phils/docs/inventor/graphics/exccorders/94-01.htm>

22 Robert Burchell and David Listokin, "Fiscal Impact Analysis: A Practitioner's Guide," In *Practical Financial Management*, ed. John Matzer, Jr. (Washington, DC: International City Management Association), 89 – 125.

PILOT payments to calculate the value of payments as a percentage of lost taxable revenue.²³

Combined values for the exempt properties of 16 institutions of higher education totaled \$7 billion, with estimated revenue if taxable totaling \$190 million. This compared with net PILOT payments of \$8.6 million, less than 5 percent of the potential yield in tax revenues.²⁴ Combined total property values for the exempt properties of the city's 12 hospitals totaled \$5.7 billion, with estimated revenue if taxable of nearly \$155 million. This compared with PILOT payments of \$5.8 million, again representing less than 5 percent of potential tax revenues.²⁵ The appendix outlines the assessment value, revenue if taxable, PILOT payment, and PILOT payment as a percent of revenue if taxable of the organizations listed above.

Because nonprofit property values are not assessed annually, the fiscal impact analysis that follows will use budget numbers and property assessment values from FY 2009, the most recent year for which nonprofit property assessments are available. In FY 2009, the Assessing Department recorded a tax base of \$90,387,170,824 representing the property values of private landholders in the city. This value, combined with the total assessed value of Boston's educational and medical institutions of \$13,725,095,100 offers a combined property value of \$104,112,265,924 upon which the following fiscal impact analysis is based. It is important to note that this number does not include property values for the city's 35 acres of federally owned property. While the federal government operates its own PILT program, as described previously, Boston does not receive any payments through this program. Nor does this assessment include property values for the city's many other nonprofit landholders, which were not calculated as part of the 2009 PILOT study. Using the proportional valuation method, municipal costs (in this paper, only public safety, public works, and transportation costs are considered) are multiplied by the property valuation ratio of local nonprofit to total real property.²⁶

23 "Summary Budget."

24 Colleges and universities included in task force study: Berklee College of Music, Boston College, Boston University, Emerson College, Emmanuel College, Fisher College, Harvard University, Mass College of Pharmacy, New England Law Boston, Northeastern University, Showa Institute, Simmons College, Suffolk University, Tufts University, Wentworth Institute of Technology, and Wheelock College

25 Hospitals included in task force study: Beth Israel Deaconess Medical Center, Boston Medical Center, Brigham and Women's Hospital, Caritas St. Elizabeth's Medical Center, Children's Hospital, Dana Farber Cancer Institute, Faulkner Hospital, Mass Bio-Medical Research Corp, Mass General Hospital, NE Baptist Hospital, Spaulding Rehab Hospital, Tufts Medical Center.

26 Burchell and Listokin, "Fiscal Impact Analysis: A Practitioner's Guide," In *Practical Financial Management*, 89 - 125.

City of Boston: FY 2009 Assessed property values and municipal costs

Private property value	=	\$90,387,170,824
Nonprofit property value	=	\$13,725,095,100
Total property value	=	\$104,112,265,924
Municipal costs	=	\$583,310,796

City of Boston: FY 2009 Public service provision costs to nonprofits

Cost of service provision to nonprofit organizations	=	\$583,310,796*(\$13,725,095,100 /\$104,112,265,924)
Cost of service provision to nonprofit organizations	=	\$583,310,796 * 0.131829761
Cost of service provision to nonprofit organizations	=	\$76,897,722.83

The cost of service provision to nonprofit organizations calculated above, of course, cannot reflect the total cost of providing public services to the city’s nonprofit organizations as it does not account for cultural, health and human services, and religious organizations, among others, which in addition to increasing the percentage of nonprofit to total property would also increase the total assessed property value for the city. However, it offers an interesting point from which one might launch a comparison of the outcomes of proportional valuation and the PILOT task force’s recommendation that PILOT agreements be set at 25 percent of the amount organizations would owe in property taxes if they were not exempt.²⁷ Using Boston University and Mass General Hospital as examples, each of which have the highest assessed property values in their respective classifications, calculations of proportional valuation and the PILOT task force’s 25 percent recommendation yield the following:

Institution	FY '09 Exempt Value	Revenue if Taxable	Twenty-five percent baseline	Proportional Value
Boston University	\$2,115,919,700	\$57,362,583	\$14,340,645.75	\$11,854,883.70
Mass General Hospital	\$1,457,667,100	\$39,517,355	\$9,879,338.75	\$8,166,885.51

²⁷ Andrew Ryan, “City Asks Exempt Sector for Help,” *Boston Globe*, April 6, 2010, Accessed December 9, 2011, http://www.boston.com/news/local/Massachusetts/articles/2010/04/06/city_asks_exempt_sector_for_help/.

These results suggest that the taskforce's recommendation that a baseline of 25 percent of the revenues the city would collect if nonprofit organizations were taxable overestimates the cost of providing public safety, public works, and transportation services to these organizations by 21 percent. The appendix offers an overview of the calculations of the 25 percent baseline and proportional value for 28 educational and medical institutions reviewed by the mayor's PILOT task force.

For higher education institutions included in the study, FY 2009 PILOT payments as a percentage of the city's foregone revenue ranged from 0.08 percent to 8.24 percent. PILOT payments by city hospitals ranged from 0.75 percent to 20.65 percent of foregone revenue. Indisputably, in all instances, these numbers are lower than the city's recommended 25 percent. However, when we calculate each institution's PILOT payment as a percentage of its cost to the city for public services, as determined through the proportional valuation method, we achieve a better understanding of each organization's contribution toward defraying the costs it imposes upon the city for the provision of public services. For example, we find that Mass Biomedical Research Corp's FY 2009 payment equaled 99.9 percent of its proportional value of public service costs, thus suggesting that in at least one instance, nonprofit organizations are committed to fully reimbursing the city for the costs of public service provision. The numbers, of course, vary across organizations. For educational institutions, in FY 2009, there was a range between 1.7 and 41.2 percent of public service costs covered by PILOT payments. For medical organizations, excluding Mass Biomedical Research Corp, we find that PILOT payments covered between 3.6 and 31.16 percent of the cost of public service provision. Thus, the fiscal impact analysis offers us a clearer understanding of the cost of the property tax exempt status of nonprofit organizations as it relates directly to the city's provision of public services. It does not, however, offer a clear understanding of the benefits to the city of Boston to recognizing the tax-exempt status of nonprofit organizations.

Cost Benefit Analysis

Based upon the fiscal analysis above, we observe that the cost to the city of Boston of public service provision to area educational and medical nonprofits was \$76,897,722.83 out of a total cost of \$583,310,796 in FY 2009, or 13 percent of the city's public service operating costs. Without data on the city's response to fire, medical, and safety emergencies and information on transportation and snow removal services, it is difficult to calculate in financial terms the benefit either the city or its nonprofit entities receive from municipal provision of these services. Because fire and police protection, snow removal, and public works are essentially public goods, the exclusion of nonprofit entities is not feasible.²⁸ It is unlikely, for example, that the fire department responding to fire at a property adjacent to one of the city's nonprofit organizations would withhold attempts to put out the fire if it were to spread to the neighboring nonprofit institution. Thus, the social benefit of public service provision will be equal to the combined value that each resident and entity places upon it; this value will include both financial and nonfinancial benefits.

²⁸ John Mikesell, *Fiscal Administration: Analysis and Applications for the Public Sector, Eighth Edition*, (Boston, MA: Wadsworth, 2011).

In 2006, the Urban Institute's National Center for Charitable Statistics issued a report stating that over the course of a decade, from 1994 to 2004, national gross domestic product grew 36.6 percent (adjusted for inflation), while the nonprofit sector experienced growth of 61.5 percent, with nonprofit entities in 2004 reporting combined total revenues of \$1.36 trillion.²⁹ Of that, 58.7 percent was reported by the nation's nonprofit hospitals and health care agencies. Higher education institutions reported 11.6 percent. Such numbers combined with the esteem of many of Boston's nonprofits suggest that these organizations impact the local economy tremendously. In fact, in FY 2009 Harvard University recorded total operating expenses of \$3.8 billion, of which 49 percent or \$1.8 billion was allocated to salaries.³⁰ While Harvard's operating budget is indisputably larger than other nonprofit organizations in Boston, these entities also contribute to the local economy. For example, although nonprofit organizations do not contribute directly to the city's tax base, their employees do. In addition to being significant in the numbers of employees these organizations maintain, their longstanding presence in the community indicate relatively stable employment opportunities. Mass General Hospital, for example, is celebrating its 200th anniversary this year. This suggests that we may regard the high concentration of prestigious nonprofits in Boston as reflecting positively in the eyes of job seekers and potential residents.

Conclusion

As cities across the country consider new revenue generating schemes, it is likely that the potential of PILOT programs will continue to be a focal point. The tremendous growth of the nonprofit sector over the course of the last decade, coupled with the significant landholdings of some of the country's largest private, nonprofit organizations, further suggests that nonprofits will continue to hold the attention of local governments as they evaluate new ways to reduce the financial strains of reduced tax revenues and diminishing levels of state and federal funding. While PILOTs can offer valuable revenue streams for cash strapped municipalities, the success of these programs will be dependent upon a number of factors as evidenced by the Boston mayor's task force study.

For example, because payments are made voluntarily by contract between the municipality and the nonprofit, significant negotiations and administrative work may be necessary on the part of the municipality in order to move agreements forward. Though such negotiations may not have hard costs for the municipality, there are, for example, undoubtedly soft costs associated with staff time that should be considered. Additionally, in many instances, PILOT payments are calculated as a percentage of assessed property values. As noted earlier, assessments of nonprofit landholdings are often of secondary concern to assessor's offices whose primary focus tends to be on guaranteeing that the property values of private, property tax-generating properties are current. As a result, maintaining current property valuations of nonprofit landholdings may require additional staff and therefore increased salary expenses. These examples illustrate the importance of factoring the cost of administering a PILOT

29 "Nonprofits' Decade of Growth Outpaces Economy," *Urban Institute*, Accessed December 9, 2011, <http://www.urban.org/publications/901011.html>

30 "Financial Report: Fiscal Year 2009," *Harvard University*, Accessed December 9, 2011, <http://vpf-web.harvard.edu/annualfinancial/>

program into consideration.

With more than half of its property controlled by nonprofit institutions, Boston is uniquely situated to generate significant revenues from its PILOT program. Mayor Menino's PILOT task force illustrated that the thoughtful application of a PILOT program can enhance partnerships between the city and nonprofit landholders, as evidenced by the participation of representatives from both parties in the task force. The task force's recommendations are an example of a thoughtful effort to develop a program that could consistently and equitably supplement the cost of public service provision to nonprofit entities in the city. The task force, however, oversimplified its calculation of the costs of service provision by creating a benchmark of 25 percent of foregone tax revenues. Instead, the task force could have achieved more accurate calculations using fiscal impact analysis tools, such as the proportional valuation analysis completed in this paper. While such an analysis is predicated upon accurate property value assessments, it offers a clearer picture of the hard costs of service provision.

The benefits of high concentrations of nonprofit landholders, as discussed above, may be manifold for a community. In Boston, for example, a single nonprofit entity, Harvard University, operates with a budget of approximately \$3.8 billion, of which \$1.8 billion was allocated to salaries in FY 2009. Such figures indisputably have an impact on the local economy and should be considered as part of the benefits these organizations bring to the community. Mass General's 200-year history and its reputation as the second ranked hospital in the nation are also highly beneficial to the city of Boston. First, its history implies organizational stability and suggests that Mass General has a long tradition of supporting the local community in both financial and nonfinancial terms. Additionally, its reputation likely brings tremendous private revenues to the city by way of patient stays and employee recruitment. Finally, a hospital of such stature undoubtedly benefits the individuals who live in its proximity and can benefit from the organization's services.

Thus, even a proportional analysis cannot fully capture the costs and benefits to the Boston community of offering public services to nonprofit organizations. Such an analysis will, however, offer a clearer picture – particularly in cities where PILOT programs already exist – of appropriate levels of contributions based on an organization's size as calculated by the value of its landholdings. Perhaps of paramount importance to the successful implementation of a PILOT program is the premise that the program be transparent and clearly outlined, and that buy-in be sought from both local government and nonprofit organizations to ensure that the program has the traction necessary to create sustainable, long-term revenue streams.

Educational Institutions

Institution	FY '09 Tax-Exempt Property Value	Revenue if Taxable †	Twenty-five percent baseline	FY 2009 PILOT Payment ††	PILOT as % of Revenue if Taxable	Fiscal Impact Valuation	PILOT Payment as % of Fiscal Impact Valuation
Berklee College of Music	\$161,741,600	\$4,384,815	\$1,096,203.75	\$361,222.00	8.24 %	\$906,191.22	39.86 %
Boston College	\$561,952,500	\$15,234,532	\$3,808,633.00	\$293,251	1.92 %	\$3,148,456.69	9.31 %
Boston University	\$2,115,919,700	\$57,362,583	\$14,340,645.75	\$4,892,138	8.53 %	\$11,854,883.70	41.27 %
Emerson College	\$177,826,400	\$4,820,874	\$1,205,218.50	\$139,368	2.89 %	\$996,309.69	13.98 %
Emmanuel College*	\$165,162,000	\$4,477,542	\$1,119,385.50	--	--	\$925,354.73	--
Fisher College*	\$16,719,000	\$453,252	\$113,313.00	--	--	\$93,671.70	--
Harvard University	\$1,477,225,500	\$40,047,583	\$10,011,895.75	\$1,996,977	4.99 %	\$8,276,465.55	24.13 %
Mass College of Pharmacy	\$106,910,300	\$2,898,338	\$724,584.50	\$227,980	7.87 %	\$598,987.37	38.06 %
New England Law Boston	\$15,888,500	\$430,737	\$107,684.25	\$13,125	3.05 %	\$89,018.65	14.74 %
Northeastern University	\$1,351,225,100	\$36,631,712	\$9,157,928.00	\$30,571	0.08 %	\$7,570,521.89	0.40 %
Showa Institute	\$54,718,800	\$1,483,427	\$370,856.75	\$120,966	8.15 %	\$306,573.55	39.46 %
Simmons College	\$152,572,500	\$4,136,240	\$1,034,060.00	\$15,000	0.36 %	\$854,819.42	1.75 %
Suffolk University	\$237,230,300	\$6,431,313	\$1,607,828.25	\$375,290	5.84 %	\$1,329,132.49	28.24 %
Tufts University	\$151,760,200	\$4,114,219	\$1,028,554.75	\$152,159	3.70 %	\$850,268.34	17.90 %
Wentworth Institute of Technology	\$207,977,400	\$5,638,267	\$1,409,566.75	\$40,747	0.72 %	\$1,165,236.98	3.50 %
Wheelock College*	\$60,362,200	\$1,636,419	\$409,104.75	--	--	\$338,191.88	--
TOTAL	\$7,015,192,000	\$190,181,853	\$47,545,463.25	\$8,658,793	4.55 %	\$39,304,083.85	22.03 %

† Calculation uses the FY09 commercial tax rate (\$27.11 per thousand dollars of value)

†† PILOT amount includes community service and property tax deductions (if applicable)

* Organization does not have an active PILOT agreement with the City of Boston

Appendix

Medical Institutions

Institution	FY '09 Tax-Exempt Property Value	Revenue if Taxable †	Twenty-five percent baseline	FY 2009 PILOT Payment ††	PILOT as % of Revenue if Taxable	Fiscal Impact Valuation	PILOT Payment as % of Fiscal Impact Valuation
Beth Israel Deaconess Medical Center	\$823,114,100	\$22,314,623	\$5,578,655.75	\$167,000	0.75 %	\$4,611,669.30	3.62 %
Boston Medical Center	\$300,928,700	\$8,158,177	\$2,039,544.25	\$221,644	2.72 %	\$1,686,016.13	13.15 %
Brigham and Women's Hospital	\$815,886,700	\$22,118,688	\$5,529,672.00	\$1,315,822	5.95 %	\$4,571,176.28	28.79 %
Caritas St. Elizabeth's Medical Center**	\$252,504,700	\$6,845,402	\$1,711,350.50	--	--	\$1,414,710.52	--
Children's Hospital	\$691,857,800	\$18,756,265	\$4,689,066.25	\$250,000	1.33 %	\$3,876,278.37	6.45 %
Dana Farber Cancer Institute	\$226,522,000	\$6,141,011	\$1,535,252.75	\$131,475	2.14 %	\$1,269,136.99	10.36 %
Faulkner Hospital*	\$181,881,400	\$4,930,805	\$1,232,701.25	--	--	\$1,019,028.67	--
Mass Bio-Medical Research Corp	\$146,236,500	\$3,964,472	\$991,118.00	\$818,728	20.65 %	\$819,320.65	99.93 %
Mass General Hospital	\$1,457,667,100	\$39,517,355	\$9,879,338.75	\$1,826,618	4.62 %	\$8,166,885.51	22.37 %
NE Baptist Hospital*	\$144,781,500	\$3,925,026	\$981,256.50	--	--	\$811,168.71	--
Spaulding Rehab Hospital	\$86,751,700	\$2,351,839	\$587,959.75	\$77,534	3.30 %	\$486,044.59	15.95 %
Tufts Medical Center	\$581,770,900	\$15,771,809	\$3,942,952.25	\$1,015,628	6.44 %	\$3,259,493.43	31.16 %
TOTAL	\$5,709,903,100	\$154,795,472	\$38,698,868	\$5,824,449	3.76 %	\$31,990,929	18.21 %

† Calculation uses the FY09 commercial tax rate (\$27.11 per thousand dollars of value)

†† PILOT amount includes community service and property tax deductions (if applicable)

* Organization does not have an active PILOT agreement with the City of Boston

** Organization signed a PILOT agreement with the City in 2007, with payments commencing upon construction completion.

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