

B. Develop and Implement a PILOT Program¹

1. Summary

Under state law, many properties in Newton are exempt from paying property taxes but still consume local government services and resources. Some communities ask such property-tax exempt organizations and institutions to make voluntary “Payments In Lieu Of Taxes” (PILOTs) to the municipalities in which they are located. Currently, Newton receives only \$340,000 annually in PILOT revenue, a relatively low amount compared to the number and value of tax exempt properties in Newton. If the City implements a structured PILOT program, sending requests for payments to owners of exempt properties in Newton, we should expect to see nearly a million dollars in additional revenue in FY2006 and an increase of at least two million over current rates in future years.

2. Background

Massachusetts state law provides property tax exemption for a variety of entities including properties owned by:

- a) Federal and state government
- b) Charitable organizations
- c) Religious organizations
- d) Health services providers
- e) Educational institutions

However, a number of communities enter into PILOT agreements with the tax-exempt property owners they host. Under these agreements, the tax-exempt property owner acknowledges its responsibility to become a full partner in the development of the quality of life of the host community. These agreements are based upon good faith and public relations, and not on any legal requirement.

3. Benchmarks

Newton today receives approximately \$340,000 in PILOT revenue. This figure would not even have ranked among the top 15 for municipalities in Massachusetts FIFTEEN YEARS AGO. Today, Harvard University and MIT each provide in excess of \$1,000,000 to Cambridge each year (see Figure 4). Boston University makes a PILOT payment to Boston of over \$3,000,000 annually. In contrast, Boston College pays Newton just \$100,000 per year and other Newton colleges, including Mount Ida and LaSalle, make no contribution whatsoever.

¹ This section relies on current data supplied by the Chair of Newton’s Board of Assessors, other area communities and on a report on negotiating PILOT payments prepared by the Massachusetts Government Finance Officers Association.

Figure 4. Estimated 2004 PILOT Payments

City	Payment	University
Cambridge	\$1,772,264	Harvard
	\$1,223,000	MIT
	\$390,000	Whitehead Institute
Boston	\$3,200,000	Boston University
	\$1,600,000	Harvard University
	\$215,000	Boston College
	\$175,000	Berklee School of Music
	\$137,000	Northeastern University
Providence	\$2,500,000	Split among 4 private universities
Newton	\$100,000	Boston College

While universities are among the largest PILOT participants, the scope of PILOT revenue in other communities also includes other types of tax-exempt institutions.² Boston has PILOT agreements with more than 40 tax-exempt institutions, which – as of September, 2003 – contribute more than \$23 million to the City on an annual basis. Other large PILOT contributions come from hospitals (Massachusetts General Hospital gives \$2.2 million each year), but many smaller institutions also participate. For example, the Boston Symphony Orchestra gives about \$60,000 and WGBH donates \$10,000. Boston’s total PILOT revenue last year of \$23 million represents over 1% of its \$1.9 billion annual budget. The City of Cambridge received \$3.6 million in PILOT payments in Fiscal Year 2004, representing over 1% of its \$344 million budget. The Town of Brookline received approximately \$1 million in PILOT revenue last fiscal year, representing more than 0.6% of its overall budget of \$162 million. By comparison, Newton’s \$340,000 in PILOT contributions represents just over 0.1% of Newton’s \$260 million budget. In the City of Quincy, Harvard Pilgrim gives 24% of what its tax bill would be if it were not tax exempt. In FY2005, that amounted to \$250,000. Quincy has also reached a tentative agreement with Blue Cross according to the same formula, which should bring in \$325,000 in FY2006, according to Marion Fantucchio, the Chair of the Quincy Board of Assessors.

4. Revenue Opportunity

Newton’s tax-exempt entities own properties with an assessed value exceeding \$1 billion, according to Elizabeth Dromey, the Chair of the Newton Board of Assessors. In fact, she points out that these properties have not been carefully assessed and would probably be valued considerably higher if the revenues they generate were evaluated. If they were valued at \$1 billion and taxed at residential tax rates, these properties would generate \$9,480,000 in taxes (and they would generate nearly twice that amount if taxed at commercial rates). If Newton were

² Chronicle of Philanthropy, September, 2003 issue.

³ The current commercial tax rate is \$18.02 per thousand dollars of property value.

to request PILOT payments of 25% of the commercial rates, the potential revenue would be \$4.5 million. At a 50% collection rate, that would generate \$2.25 million in PILOT revenue, nearly a \$2 million increase over current levels and in-line with PILOT collections of other nearby cities. If only half of this increase could be achieved in FY2006, that would still represent nearly \$1 million dollars in new revenue that should be available to the City if a concerted effort is made to obtain PILOT agreements from tax-exempt property owners. Because, as previously noted, the values of tax-exempt properties in Newton have been understated, the actual revenue opportunity to the City would be much greater than \$2 million per year, since part of the PILOT program would include re-assessing properties at market values in order to fully demonstrate to property owners the value of the tax exemption they receive.

5. Designing the PILOT program

a) Program Rationale

Proposition 2½ places severe financial pressure on Newton, straining its resources. This impacts tax-exempt organizations, as it becomes increasingly more challenging for Newton to provide the services that all residents and hosted tax-exempt organizations have come to expect. For example, a university may no longer have access to the same level of responsiveness from the public fire department to which its faculty and students have become accustomed. According to former Newton Fire Chief Edward Murphy, the Newton Fire Department receives many calls from Newton colleges: approximately 200 per year from Boston College, 100 per year from Mount Ida, and 75 per year from LaSalle. While many of these calls do not involve actual fires, even the false alarms place a drain on Fire Department resources. Many of these calls are caused by actual fires— a very large number relative to the size of the colleges in Newton, according to Chief Murphy. The Fire Department's responses are just one of the many City resources used by tax-exempt entities in Newton. They benefit from the work of our Public Works Department when they travel Newton streets, they are protected by Newton Police, and they avail themselves of Newton's library, parks, and other services. It is reasonable that we ask these tax-exempt institutions to make a contribution to help defray the costs they impose on City government, as is the practice in other communities.

Further, while many tax-exempt institutions would like to expand, their growth produces further demand for City services, including not only the direct services provided to the institution in question, but also increases demand for services to the clients, students, patients, and other visitors attracted to Newton by these tax-exempt entities.

b) Process

A PILOT program could be implemented as follows:

- a) All current tax-exempt organizations will be asked for a 2005 PILOT payment. The City will cite the costs it incurs on behalf of the organization as its rationale and will base its request on the tax exempt organization's desire to be a good neighbor.
- b) Discussions regarding voluntary PILOT payments will commence with any tax exempt organization at the time it institutes proceedings to expand or improve its property.
- c) The City will publicly thank institutions that enter into PILOT agreements.
- d) The Commonwealth of Massachusetts will be asked through legislation to

compensate Newton for state-owned properties, as several other communities currently receive.

e) Independent state authorities, such as the MBTA and Turnpike Authority, will be asked to negotiate PILOT payments in recognition of the economic costs they impose on Newton. In order to request PILOT payments, Newton will need a standard PILOT agreement that can be provided to tax-exempt entities when negotiating PILOT payments.

c) Guidelines for Establishing PILOT Request Formula

Various methodologies can be used in deriving the appropriate PILOT payment for a tax-exempt entity to make. The two simplest are:

a) The cost of providing municipal services to the organization (It is reasonable for a tax-exempt organization to make a contribution toward Newton's cost for providing essential services); and

b) An appropriate fraction of the taxable revenue the property would generate for Newton if it were not tax-exempt. Since it can be difficult to determine the portion of a given department's budget being consumed by a given institution (for example, one would need to measure vehicle trips to calculate the portion of the Public Works Department's budget needed to make repairs to roads used by a given institution), the preferred method would probably be to use a flat rate. Either 25% of the commercial rate or 50% of the residential rate would be consistent with the PILOT contributions requested by other communities.

6. Recommendations and Timeline

To implement a PILOT program in Newton, we recommend:

- a) Policymakers decide the rate to be requested, if any.
- b) Letters requesting PILOT agreements are mailed.
- c) City officials meet with leaders of larger tax-exempt institutions.
- d) City publicizes positive responses to PILOT requests.
- e) City officials meet with legislative delegation regarding state properties.
- f) City officials meet with representatives of state agencies.

If item (a) can be accomplished by the beginning of FY2006, then it will be possible to anticipate some additional PILOT revenue in the FY2006 operating budget. Items (b)-(f) should proceed as soon as (a) is completed.