

**City of Portland, Maine
Remote Finance Committee Meeting
Thursday, September 26, 2024
5:00 PM, Remote via ZOOM**

AGENDA

PUBLIC COMMENT INFORMATION

To submit written public comment on an agenda item for which public comment is being accepted, email finance@portlandmaine.gov. Submissions must be received by 12:00 pm the day before the Finance Committee meeting to guarantee their inclusion in the agenda packet. All submissions must include the commenter's name and legal address. To help ensure your comment is submitted for the correct item, please include the name of the agenda item (see below).

ZOOM MEETING INFORMATION

This meeting will take place remotely using Zoom. This meeting will be held remotely pursuant to the Remote Meeting Policy adopted by the Portland City Council. Allow your computer to install the free Zoom app to get the best meeting experience. If you are not able to attend live, a recording will be available in the Agenda Center following the meeting. For agenda items where public comment is scheduled, you will need to use the "raise your hand" feature. To raise your hand via the telephone, please hit *9. You will be unmuted by the host when it is time for public comment.

Please click the link below to join the webinar:

<https://portlandmaine-gov.zoom.us/j/82320421888?pwd=jNergbv9bgUGZrjGZuU2FlpHwMJ4ky.1>

Passcode: 641318

Or One tap mobile :

+13092053325,,82320421888#,,, *641318# US

+13126266799,,82320421888#,,, *641318# US (Chicago)

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Dial(for higher quality, dial a number based on your current location):

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Webinar ID: 823 2042 1888

International numbers available: <https://portlandmaine-gov.zoom.us/j/82320421888?pwd=jNergbv9bgUGZrjGZuU2FlpHwMJ4ky.1>

1. Introductions

2. Bond Markets and Racial Equity Technical Assistance Program

Earlier in 2024 the City applied to be a part of the Municipal Bond Markets and Racial Equity project led by the Public Finance Initiative. This program is designed to bring together a cohort of government staff leadership who want to enhance how they center racial equity in bond issuance. We plan to specifically utilize this program to not only increase racial equity focus within our annual debt issuance, but also to better incorporate racial equity into our capital decision making and capital project planning. At the current meeting staff will provide an update on work done with the cohort to date and discuss potential next steps for incorporating racial equity into our capital decision making.

3. Public Comment - Draft PILOT (Payment-In-Lieu of Taxes) Policy

*Several prior City Councils and City Council Committees have prioritized development of a Payment-in-Lieu of Taxes Policy for tax exempt property owners. Such a policy, by law, is required to be optional and would provide a framework for staff to work with tax exempt property owners on voluntary contributions. The 2024 Finance Committee has made development of a PILOT Policy one of their 2024 goals and discussion began at the June 20, 2024 meeting and has continued throughout summer 2024. At the current meeting, public comment will be taken on the draft policy. No vote will be taken at the current meeting - future discussion and an advertised public hearing is expected on this item - tentatively scheduled for **Thursday, November 14 at 5:00PM via Zoom.***

4. American Rescue Plan - Public Hearing and Vote

The City Council has fully appropriated the City's \$46.3 American Rescue Plan Act funds over the course of the last three years. American Rescue Plan Act obligation and spending deadlines are rapidly approaching. At the last meeting, the City's Finance Director Brendan T. O'Connell provided an overview of each ARPA project status, required reallocations between projects, and decision points for Council consideration. At the current meeting, the Committee will take action on final obligation amounts per project and make a recommendation to the full City Council on additional funding appropriation to complete the Kiwanis Pool replacement project and discuss significant reallocation decisions which need to be made during the current calendar year. Discussion is expected to include status of the Kiwanis Pool replacement project and alternatives for the City Council to discuss.

5. Adjournment



Finance Department
Brendan T O'Connell, Director

MEMORANDUM

TO: Members of the Economic Development Committee

FROM: Brendan T O'Connell, CPA – Finance Director

DATE: November 14, 2017 (updated September 28, 2018)

SUBJECT: **Introduction to Payment in-lieu of Taxes (PILOT) Policy**

(A) Summary

One of the Economic Development Committee Goals for 2017 was to study a new payment in-lieu of taxes ("PILOT") policy for the City of Portland. Staff researched PILOT policy types and alternatives and presented them to the Economic Development Committee on September 5. Input was taken at two subsequent Economic Development Committee meetings in 2017 and 2018. The revised PILOT policy takes into account the community benefits provided by each exempt organization and includes guidance for City staff on opportunities to solicit participation in the PILOT.

(B) Background: Currently Exempt Property in Portland and Current PILOT Practice

According to the City Tax Assessor, the amount of tax exempt real estate within the City of Portland has risen to approximately \$2 billion dollars as of June 30, 2018 and this amount may be understated. This represents nearly 21% of the total City valuation. Even after deducting the total valuation related to City owned property (approximately 4% of overall total) the remaining exempt property represents a very high percentage when compared to other municipalities nationwide (see Exhibit A). The rise in exempt valuation has put increasing pressure on the remaining property owners (referred to hereafter as "non-exempt property" owners) to fully fund the broad spectrum of services offered to residents and visitors to Portland.

The City currently has no formal PILOT policy. Agreements are negotiated with exempt property owners on very limited case by case basis, with little to no solicitation of new or extended PILOT agreements. The PILOT agreements and payments are typically negotiated to offset the cost of "basic" services in the City, loosely defined as public safety services and core

public works services. Currently 10 formal PILOT request letters are sent to nonprofit organizations annually, with a very limited number of other agreements in place with other non-exempt property owners. In total \$570,000 of revenue was estimated within the FY18 budget from PILOT payments. Actual collections in FY17 were slightly higher than budgeted, due in part to certain PILOT agreements based on profits.

It is important to note that nationwide there are no laws which require PILOT payments. The current City PILOT payments are voluntary and any future PILOT payments or agreements would remain voluntary.

(C) Goals of the PILOT Policy

As noted by the Lincoln Institute of Land Policy, *PILOTs are a tool to address two problems with the property tax exemption provided to nonprofits. First, the exemption is poorly targeted, since it mainly benefits nonprofits with the most valuable property holdings, rather than those providing the greatest public benefits. Second, a geographic mismatch often exists between the costs and benefits of the property tax exemption, since the cost of the exemption in terms of forgone tax revenue is borne by the municipality in which a nonprofit is located, but the public benefits provided by the nonprofit often extend to the rest of the state or even the whole nation.*¹

PILOT policies are becoming an increasingly common way to solicit contributions from nonprofits to help offset the cost of services they consume. See Exhibit A on page 4 for a nationwide comparison of charitable nonprofit organizations registered with the IRS by type as well as their assets and liabilities.

The PILOT policy will have several goals and objectives. Above all, a uniform policy must be developed to be applied to the exempt properties within the City. A PILOT policy would provide clarity to exempt organizations who wish to locate in Portland and create a more even playing field within exempt property owners. An added benefit will be a more equitable distribution of cost of services between exempt and non-exempt property owners, although actual increases in property tax revenues from formal PILOT policies vary significantly from municipality to municipality.

As part of this uniform policy, guidelines for City staff may be included. For example, when a nonprofit expands holdings within the City, there should be protocol for initiation of a conversation around PILOT payments to offset the cost of conversion of non-exempt property to exempt property. This was recently done by the Planning Department when approving a recent development which included exempt property.

A secondary goal of the PILOT will be to review the population of exempt properties in more detail, to fully understand the organizations receiving the most value from their exemptions. It is best practice to review the benefits provided by exempt organizations during PILOT policy development. An annual report on the approved PILOT policy and program would be completed on an annual basis, highlighting the organizations with exempt property value over \$2M and the

¹ Kenyon and Langley - *Payments in Lieu of Taxes - Balancing Municipal and Nonprofit Interests*, 2010

contributions made to the City, including services in lieu of taxes and payments in lieu of taxes.

(D) Arguments for Strong PILOT Policy

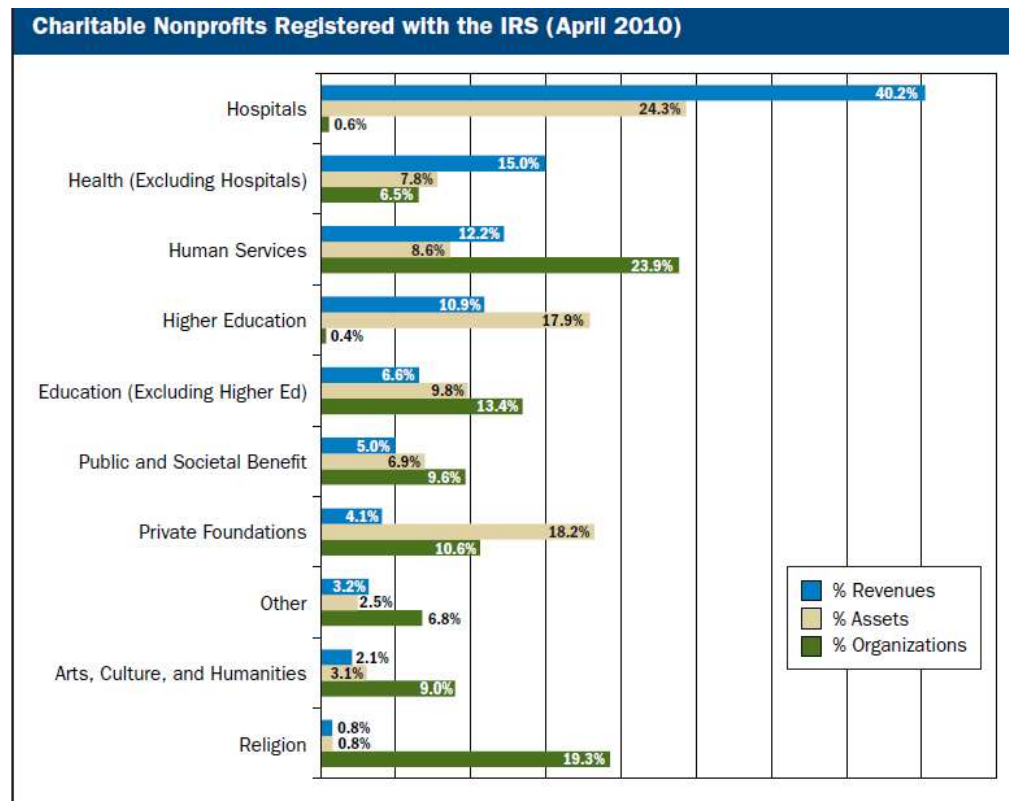
- With an increasing percentage of exempt property within City, nonprofits should share in the cost of basic services which benefit them. Police and fire protection and road maintenance are the costs most frequently allocated to exempt property owners in other municipalities.
- A strong PILOT policy has the potential to help ease the tax burden on non-exempt property owners, and create a more equitable distribution of the tax levy across those who consume core City services.
- PILOT policies can help address inequities created by the charitable tax exemption (i.e. the greatest tax savings goes to organizations who have the most valuable property holdings).
- PILOT policies can reduce inefficient location decisions made by nonprofits (i.e. exempt status creates an incentive for nonprofits to locate in cities where the tax savings are higher).

Exhibit A



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).

Source: Lipman (2006a).



Note: Religious congregations are not required to register with the IRS; nonprofits with gross receipts under \$25,000 and religious congregations are not required to file IRS Form 990 with financial information. The number of organizations includes all 501(c)(3) charitable nonprofits registered with IRS (1,138,289), but revenues and assets for each subsector only include charities that filed IRS Form 990 (598,110).

Source: National Center for Charitable Statistics (2010).

Appendix A - FY19 Organizations with Exempt Value Ownership over \$2M

Maine Medical Center	\$	266,183,320
Portland Housing Authority	\$	58,908,580
Eco Maine	\$	56,604,310
Mercy Hospital	\$	45,209,960
University of New England	\$	38,351,400
MMC Realty Corp.	\$	27,894,220
Roman Catholic Bishop of Portland	\$	26,370,840
Portland Museum of Art	\$	20,637,080
JHA Assisted Living, Inc.	\$	18,569,700
Maine College of Art	\$	14,971,220
Waynflete School	\$	14,402,000
State Street Housing Preservation Corp.	\$	13,715,100
The Park-Danforth	\$	12,828,400
St. Ignatius Residence of the Society of Jesus	\$	11,236,700
Diocesan Bureau of Housing	\$	10,816,800
HFA HUD Properties, LLC	\$	10,205,500
Council International Study Programs	\$	8,873,400
Home for Aged Women	\$	8,798,450
Home for the Aged	\$	8,454,700
Cedars Nursing Care Center Inc.	\$	7,766,500
Shalom House, Inc.	\$	7,763,750
The Salvation Army	\$	6,901,990
Maine Health	\$	6,821,400
Greater Portland Transit District	\$	6,810,000
Young Men's Christian Association of Portland	\$	6,601,400
Avesta Housing	\$	6,409,600
St. Joseph's Manor	\$	6,033,800
Gulph of Maine Research Institute	\$	6,026,900
Masonic Trustees of Portland	\$	4,866,900
Portland VOA Elderly Housing, Inc.	\$	4,461,400
Spurwink Services	\$	3,990,280
First Baptist Church	\$	3,866,000
Jewish Community Alliance of Southern Maine	\$	3,862,300
Gulph of Maine Properties	\$	3,798,420
Preble Street Resource Center	\$	3,551,300
Breakwater School	\$	3,522,400
Maine Historical Society	\$	3,487,900
St. Lukes Parish Wardens & Vestrymen	\$	3,443,100
Portland Boys Club Assoc.	\$	3,291,200
Children's Museum of Maine	\$	3,207,300
Temple Beth-El	\$	3,100,100
EMC Affordable Housing Preservation	\$	3,017,100
Grace Baptist Church	\$	2,874,260
Woodfords Congregational Church	\$	2,805,560
Goodwill Industries of Northern New England	\$	2,444,000
State Street Congregational Church	\$	2,355,100
American Red Cross	\$	2,319,400
Irish Heritage Center	\$	2,296,100
Williston-Immanuel United Church	\$	2,289,730
Florence House Housing Corp.	\$	2,283,100
Bayside II LLC	\$	2,165,200
The Iris Network	\$	2,133,200
	\$	809,598,370

CITY OF PORTLAND, MAINE
PAYMENT IN LIEU OF TAXES POLICY (PILOT)



Revised: September 28, 2018

Effective: January 1, 2019

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1. PURPOSE

In order to maintain the high standard of municipal services that Portland has historically provided, the City Council has established a policy for PILOT (Payment In Lieu of Tax) contributions from tax-exempt property owners (referred to hereafter as “exempt property” owners). The purpose of this PILOT policy document is to summarize the uniform policy to be applied to the exempt properties within the City. The policy is intended to provide clarity to exempt organizations who wish to locate in Portland. The policy includes monetary payments and consideration of other services provided by exempt organizations. The policy also provides guidance for City staff when approached with questions about PILOT policy requirements.

2. THE NEED FOR A FORMAL PILOT POLICY

According to the City Tax Assessor, the amount of tax exempt real estate within the City of Portland has risen to approximately \$2 billion dollars as of June 30, 2017 and this amount may be understated. This represents nearly 21% of the total City valuation, a very high percentage when compared to other municipalities. The rise in exempt valuation has put increasing pressure on the remaining property owners in Portland (referred to hereafter as “non-exempt property” owners) to fully fund the broad spectrum of services offered to residents and visitors to Portland.

The City recognizes that non-profit organizations contribute directly to the quality of life within the community and welcomes these organizations. Portland has historically been recognized as leader in Maine the area of higher education, arts and culture, public health and religious freedom, and have encouraged non-profits to organize in the City to enrich the quality of life of its residents. The City’s location, status as the economic engine of Northern New England, located just under 2 hours north of Boston, with easy access via major highway, bus, rail, and jetport, makes it attractive for non-profit institutions. This demand for land and buildings to operate non-profit organizations has absorbed significant amounts of taxable property within

the City in recent years. A continuing shift in tax burden to a diminishing tax base will have a negative impact on residents, local businesses and the overall Greater Portland community. In order to maintain the financial health of the community as a whole and to as to continue to provide a range of quality services, the City must set an objective to maintain its existing tax base and expand it where reasonably possible. Strong PILOT policies have been used in municipalities nationwide to achieve this objective. Several key reasons noted for adoption of strong PILOT policies are listed below.

- With an increasing percentage of exempt property within a City, nonprofits should share in the cost of basic services which benefit them. Police and fire protection and road maintenance are the costs most frequently allocated to exempt property owners in other municipalities.
- A strong PILOT policy has the potential to help ease the tax burden on non-exempt property owners, and create a more equitable distribution of the tax levy across those who consume core City services.
- PILOT policies can help address inequities created by the charitable tax exemption (i.e. the greatest tax savings goes to organizations who have the most valuable property holdings).
- PILOT policies can reduce inefficient location decisions made by nonprofits (i.e. exempt status creates an incentive for nonprofits to locate in cities where the tax savings are higher).

3. FIVE BASIC PRINCIPLES OF THE PILOT POLICY

I. Participation in the PILOT Program is voluntary

Consideration was given to seeking an ordinance change to require PILOT payments and ensure more uniform participation. However any attempt to impose a legal or statutory requirement would face significant opposition and runs counter to the spirit of partnership between the City and its local institutions that a successful PILOT program would provide.

II. PILOT should be applied equally to all current and future non-profit groups in Portland

All non-profit institutions should participate in the PILOT program. While significant focus has been placed on the City's medical and educational institutions, the City's museums, cultural facilities, and other significant non-profits share a similar interest in the City.

However, while broad participation is essential to the program's success, the City has determined that an exception should be made for smaller nonprofits which may lack the resources to fully engage in the PILOT process. Normally, a threshold of **\$2 million** in assessed value would meet this goal. An exemption of this amount will be applied to all organizations under this policy, eliminating the PILOT completely for the smaller institutions, while mitigating the financial impact of PILOT payments on institutions just beyond this threshold.

III. PILOT contributions should offset cost of basic City services: 25% of full tax levy

PILOT contributions should be based on the value of real estate owned by an institution. This approach both reflects the size and quality of the institution's real estate holdings and is consistent with the approach taken for taxable properties. PILOT policies nationwide set contribution levels at an amount designed to cover the portion of the tax levy related to basic and core City services. For purposed of this PILOT, those services have been designated as public safety services (police and fire) and basic public works services including snow removal. This amount has remained at approximately 25% of the City's tax levy over many years and this level has been deemed to be appropriate for the current policy.

IV. PILOT policy includes a SILOT (Services In Lieu of Taxes) deduction up to 50%

Community benefits are an important aspect of an institution's contribution to the City. Institutions should receive up to a 50% PILOT deduction for qualifying community programs and services that uniquely benefit Portland residents. In the case of exceptional opportunities for partnership, the 50% cap may be exceeded. Institutions should also receive a credit on their PILOT in the amount of real estate taxes paid on properties that would ordinarily qualify for a tax exemption based on use and a credit for costs paid which would otherwise be paid. Section X of this document contains more detail on criteria for the SILOT deduction.

V. The new PILOT formula should be phased in over a 5-year period starting in FY 2019

While the payments currently made by some institutions approach the levels indicated by the program levels recommended above, most institutions fall below the recommended amounts. Institutions will require time to make the necessary adjustments in their budget and financial plans to accommodate increased PILOT

amounts. To ensure a smooth transition, the Task Force recommends that the new formula be phased in over a time period of not less than 5 years.

4. IS THE PILOT POLICY APPLICABLE TO MY ORGANIZATION?

All tax exempt organizations are encouraged to participate in the PILOT policy. As noted previously an exemption amount of \$2M will be applied to all organizations under this policy, eliminating the PILOT completely for the smaller institutions, while mitigating the financial impact of PILOT payments on institutions just beyond this threshold. These exempt organizations will be noted in the PILOT Policy Annual Report published each fiscal year.

5. CALCULATION OF PILOT PAYMENT DUE

PILOT contributions are based on the value of real estate owned by an institution. The calculation of recommended PILOT payment due can be determined as follows:

Step 1: Begin with total assessed value of exempt property owned by an organization

Step 2: Subtract the \$2M of PILOT exemption

Step 3: Divide by \$1000 (the mil rate is applied per \$1000 of assessed value)

Step 4: Multiply by the current City of Portland fiscal year mil rate

Step 5: Multiply by 25%

Step 6: Subtract any agreed upon SILOT credit (see Section 6 for more details on SILOT)

The calculation begins with 100% of an exempt property owner's assessed value related to their

exempt property only (i.e. non-exempt property is already included in the regular property tax billing and should be excluded from the PILOT calculation). The \$2M of PILOT exemption should be subtracted from this total, and the remaining total should be divided by \$1000. The result should be multiplied by 25% to determine the PILOT amount due. The 25% represents the cost of the City's "core" services which are public safety (Police and Fire Department) and basic street maintenance / winter operations. The PILOT payment due is then reduced by any available SILOT (Services-in-lieu-of-taxes) credit which has been applied to the exempt organization by the City. SILOT credits are not guaranteed to every organization and are calculated on a case by case basis by the City. The SILOT credit may not exceed 50% of the total amount of the PILOT due. See the SERVICES IN LIEU OF TAXES (SILOT) CREDIT section for complete details on SILOT criteria and calculation.

6. SERVICES IN LIEU OF TAXES (SILOT) CREDIT

In consideration of the community benefits of the exempt organization within the City, the PILOT policy includes a deduction for services provided. A list of items which WOULD qualify for SILOT credit are listed below. In general only activities which are outside an exempt organization's core mission would be considered for SILOT credit, however exceptions will be considered when a direct benefit to City of Portland residents can be reliably measured. An exempt entity will have an opportunity on an annual basis to outline their SILOT contributions via a standard form distributed with the estimated PILOT bill.

Participation in City Initiatives

- Targeted scholarships for Portland residents
- Summer Job Creation / Youth Employment
- Set Up Initiative Health Disparities Initiative

Policy Based Collaborations

- Public/Community Health Initiatives
- Partnerships with Local Schools
- Job Training Initiatives
- Direct support on City Council Goals / participation on Task Forces

Other Direct Contributions

- Real Estate Taxes on Property Used for Institutional Purposes
- Donations to City capital projects or initiatives
- Donations in kind (i.e. real estate, personal property)
- Provision of services otherwise provided by the City (i.e. snow removal on public right of way, maintenance of a public facility, security services provided in public areas)

Good Neighbor Activities

- Volunteer Efforts of Students/Employees
- Sponsorships of local organizations

A non-comprehensive listing of items which would NOT qualify for SILOT credit is below:

- Real Estate Taxes on Property used for Non-institutional Purposes
- Linkage Payments
- Permits Inspection Fees
- Student Spending
- Salaries Paid to Employees
- Construction Costs
- Purchase of Goods, Services
- Grants Received / Outside Money
- Operating Support for Community Health Clinics
- Unreimbursed Medicare or Medicaid

If an exempt property owner is considering a formal PILOT payment to the City and would like SILOT credit the Finance Department should be contacted to begin the process.

7. ANNUAL BILLING AND FIVE-YEAR PHASE IN (FY20-FY24)

Annual Billing

The annual billing for the PILOT will be performed by City staff. PILOT bills will be sent on a semiannual basis on a schedule similar to regular property tax billing – typically PILOT bills will be sent in July of each fiscal year. A SILOT credit application will also be enclosed with the PILOT bill and each exempt organization will have 30 days to complete and return form. The City will review the forms and notify each organization of SILOT credits received – including a revised PILOT bill for the current fiscal year. PILOT payments will be due on the regular property tax payment dates – typically the second Friday in September and March of each year.

Five Year Phase In – New PILOT Agreements

For any exempt organizations impacted by this policy, who currently exist in the City and are remaining in their existing locations, a five year phase in is permitted. The amounts due in the first five tax years of the new program are as follows:

FY20 – 10% of the normal PILOT amount

FY21 – 20% of the normal PILOT amount

FY22 – 30% of the normal PILOT amount

FY23 – 40% of the normal PILOT amount

FY23 – 50% of the normal PILOT amount

For any NEW exempt organizations seeking to locate within the City or Portland the full PILOT amount is due in FY20. For exempt organizations who currently exist within the City and are seeking to expand their footprint within the City, the full PILOT policy would be due on any new

property acquired.

8. GUIDANCE FOR CITY STAFF – ENCOURAGING PARTICIPATION IN THE PILOT PROGRAM AND ANNUAL REPORTING ON PILOT PAYMENTS

Several common transactions should be used as opportunities for City staff to inform exempt organizations about the PILOT policy and in some cases encourage participation.

Property Sale – Where conversion to exempt property	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Building Permit – Where conversion to exempt property	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Zoning Amendment Request	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Site Plan Review	Inform of PILOT policy – present copy of document
Passage of Formal Pilot Policy / Amendments to PILOT Policy	Notify all potentially impacted exempt organizations

Finally, the Finance Department along with the Assessors Department will publish a **PILOT Annual Report** each fiscal year noting the complete listing of exempt organizations who have been sent a PILOT letter, noting any PILOT contributions received, and any SILOT credits granted.

CITY OF PORTLAND, MAINE
PAYMENT IN LIEU OF TAXES POLICY (PILOT)



Revised: September 23, 2024

Effective: TBD

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1. PURPOSE

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2. THE NEED FOR A FORMAL PILOT POLICY

According to the City Tax Assessor, the amount of tax-exempt real estate within the City of Portland has risen to approximately \$3 billion dollars as of June 30, 2024 and this amount may be understated due to the lack of focus on exempt property during annual assessments. If the \$3B of parcels were taxable, they would represent at least a 20% increase to our taxable net valuation. The rise in exempt valuation has put increasing pressure on the remaining property owners in Portland (referred to hereafter as “non-exempt property” owners) to fully fund the broad spectrum of services offered to residents and visitors to Portland.

The City recognizes that non-profit organizations contribute directly to the quality of life within the community and welcomes these organizations. Portland has historically been recognized as leader in Maine the area of higher education, arts and culture, social services, public health, equity and religious freedom, and have encouraged non-profits to organize in the City to enrich the quality of life of its residents. The City’s location, status as the economic engine of Northern New England, located just under 2 hours north of Boston, with easy access via major highway, bus, rail, and jetport, makes it attractive for non-profit institutions. This demand for land and buildings to operate non-profit organizations has absorbed significant amounts of taxable property within the City in recent years. A continuing shift in tax burden to a

diminishing tax base will have a negative impact on residents, local businesses and the overall Greater Portland community. In order to maintain the financial health of the community as a whole and to as to continue to provide a range of quality services, the City must set an objective to maintain its existing tax base and expand it where reasonably possible. Strong PILOT policies have been used in municipalities nationwide to achieve this objective. Several key reasons noted for adoption of strong PILOT policies are listed below.

- With an increasing percentage of exempt property within a City, nonprofits should share in the cost of basic services which benefit them. Police and fire protection and road maintenance are the costs most frequently allocated to exempt property owners in other municipalities.
- A strong PILOT policy has the potential to help ease the tax burden on non-exempt property owners, and create a more equitable distribution of the tax levy across those who consume core City services.
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I. Participation in the PILOT Program is voluntary

Consideration was given to seeking an ordinance change to require PILOT payments and ensure more uniform participation. However, any attempt to impose a legal or statutory requirement would face significant opposition and runs counter to the spirit of partnership between the City and its local institutions that a successful PILOT program would provide.

II. PILOT should be applied equally to all current and future non-profit groups in Portland

All non-profit institutions should participate in the PILOT program. While significant focus has been placed on the City's medical and educational institutions, the City's museums, cultural facilities, and other significant non-profits share a similar interest in the City.

However, while broad participation is essential to the program's success, the City has determined that an exception should be made for smaller nonprofits which may lack the resources to fully engage in the PILOT process. Normally, a threshold of **\$4 million** in assessed property value would meet this goal. An exemption of this amount will be applied to all organizations under this policy, eliminating the PILOT completely for the smaller institutions, while mitigating the financial impact of PILOT payments on institutions just beyond this threshold.

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PILOT contributions should be based on the value of real estate owned by an institution. This approach both reflects the size and quality of the institution's real estate holdings and is consistent with the approach taken for taxable properties. PILOT policies nationwide set contribution levels at an amount designed to cover the portion of the tax levy related to basic and core City services. For purposed of this PILOT, those services have been designated as public safety services (police and fire) and basic public works services including road maintenance and snow removal. This amount has historically been estimated at approximately 25% of the City's tax levy over many years.

IV. PILOT policy includes a SILOT (Services In Lieu of Taxes) deduction up to 50%

Community benefits are an important aspect of an institution's contribution to the City. Institutions should receive up to a 50% PILOT deduction for qualifying community programs and services that uniquely benefit Portland residents. In the case of exceptional opportunities for partnership, the 50% cap may be exceeded. Institutions should also receive a credit on their PILOT in the amount of real estate taxes paid on properties that would ordinarily qualify for a tax exemption based on use and a credit for costs paid which would otherwise be paid. Section X of this document contains more detail on criteria for the SILOT deduction.

V. The new PILOT formula should be phased in over a 5-year period starting in FY 2026

While the payments currently made by some institutions approach the levels indicated by the program levels recommended above, most institutions fall below the recommended amounts. Institutions will require time to make the necessary adjustments in their budget and financial plans to accommodate increased PILOT amounts. To ensure a smooth transition, staff recommends that the new formula be phased in over a time period of not less than 5 years.

4. IS THE PILOT POLICY APPLICABLE TO MY ORGANIZATION?

All tax-exempt organizations are encouraged to participate in the PILOT policy. As noted previously an exemption amount of \$4M will be applied to all organizations under this policy, eliminating the PILOT completely for the smaller institutions, while mitigating the financial impact of PILOT payments on institutions just beyond this threshold. These exempt organizations will be noted in the PILOT Policy Annual Results published each fiscal year.

5. CALCULATION OF PILOT PAYMENT DUE

PILOT contributions are based on the value of real estate owned by an institution. The calculation of recommended PILOT payment due can be determined as follows:

Step 1: Begin with total assessed value of exempt property owned by an organization

Step 2: Subtract the \$2M of PILOT exemption

Step 3: Divide by \$1000 (the mil rate is applied per \$1000 of assessed value)

Step 4: Multiply by the current City of Portland fiscal year mil rate

Step 5: Multiply by 25%

Community Benefit Credit: Subtract any agreed upon SILOT credit (see Section 6 for more details on SILOT) up to a further 50% deduction in amount due.

The calculation begins with 100% of an exempt property owner's assessed value related to their exempt property only (i.e. non-exempt property is already included in the regular property tax billing and should be excluded from the PILOT calculation). The \$4M of PILOT exemption

should be subtracted from this total, and the remaining total should be divided by \$1000. The result should be multiplied by 25% to determine the PILOT amount due. The 25% represents the cost of the City's "core" services which are public safety (Police, Dispatch and Fire Departments) and basic street maintenance / winter operations. After any phase in period, the PILOT payment due could be further reduced by any available SILOT (Services-in-lieu-of-taxes) credit which has been applied to the exempt organization by the City. SILOT credits are not guaranteed to every organization and are calculated on a case by case basis by the City. The SILOT credit may not exceed 50% of the total amount of the PILOT due. See the SERVICES IN LIEU OF TAXES (SILOT) CREDIT section for complete details on SILOT criteria and calculation.

6. SERVICES IN LIEU OF TAXES (SILOT) CREDIT

In consideration of the community benefits of the exempt organization within the City, the PILOT policy includes a deduction for services provided. A list of items which WOULD qualify for SILOT credit are listed below. In general, only activities which are outside an exempt organization's core mission would be considered for SILOT credit, however exceptions will be considered when a direct benefit to City of Portland residents can be reliably measured. An exempt entity will have an opportunity on an annual basis to outline their SILOT contributions via a standard form distributed with the estimated PILOT bill.

Participation in City Initiatives

- Targeted scholarships for Portland residents
- Summer Job Creation / Youth Employment
- Set Up Initiative Health Disparities Initiative

Policy Based Collaborations

- Public/Community Health Initiatives
- Partnerships with Local Schools
- Job Training Initiatives

- Direct support on City Council Goals / participation on Task Forces

Other Direct Contributions

- Real Estate Taxes on Property Used for Institutional Purposes
- Donations to City capital projects or initiatives
- Donations in kind (i.e. real estate, personal property)
- Provision of services otherwise provided by the City (i.e. snow removal on public right of way, maintenance of a public facility, security services provided in public areas)

Good Neighbor Activities

- Volunteer Efforts of Students/Employees
- Sponsorships of local organizations

A non-comprehensive listing of items which would NOT qualify for SILOT credit is below:

- Real Estate Taxes on Property used for Non-institutional Purposes
- Linkage Payments
- Permits Inspection Fees
- Student Spending
- Salaries Paid to Employees
- Construction Costs
- Purchase of Goods, Services
- Grants Received / Outside Money
- Operating Support for Community Health Clinics
- Unreimbursed Medicare or Medicaid

If an exempt property owner is considering a formal PILOT payment to the City and would like SILOT credit the Finance Department should be contacted to begin the process.

7. ANNUAL BILLING AND FIVE-YEAR PHASE IN (FY20-FY24)

Annual Billing

The annual billing for the PILOT will be performed by City staff. PILOT bills will be sent on a semiannual basis on a schedule similar to regular property tax billing – typically PILOT bills will be sent in July of each fiscal year. A SILOT credit application will also be enclosed with the PILOT bill and each exempt organization will have 30 days to complete and return form. The City will review the forms and notify each organization of SILOT credits received – including a revised PILOT bill for the current fiscal year. PILOT payments will be due on the regular property tax payment dates – typically the second Friday in September and March of each year.

Five Year Phase In – New PILOT Agreements

For any exempt organizations impacted by this policy, who currently exist in the City and are remaining in their existing locations, a five-year phase in is permitted. The amounts due in the first five tax years of the new program are listed below and should be calculated based on Step 1 through Step 5 in the Calculation of Amount Due section above. In future fiscal years, the payment calculation could remain at 50% of the normal PILOT amount due assuming that a full community benefit credit is received.

FY26 – 10% of the normal PILOT amount

FY27 – 20% of the normal PILOT amount

FY28 – 30% of the normal PILOT amount

FY29 – 40% of the normal PILOT amount

FY30 – 50% of the normal PILOT amount

For any NEW exempt organizations seeking to locate within the City or Portland the full PILOT amount is due in FY26. For exempt organizations who currently exist within the City and are seeking to expand their footprint within the City, the full PILOT policy would be due on any new property acquired.

8. GUIDANCE FOR CITY STAFF – ENCOURAGING PARTICIPATION IN THE PILOT PROGRAM AND ANNUAL REPORTING ON PILOT PAYMENTS

Several common transactions should be used as opportunities for City staff to inform exempt organizations about the PILOT policy and in some cases encourage participation.

Property Sale – Where conversion to exempt property	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Building Permit – Where conversion to exempt property	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Zoning Amendment Request	Strongly encourage signing of a new PILOT agreement, present policy along with standard agreement.
Site Plan Review	Inform of PILOT policy – present copy of document
Passage of Formal Pilot Policy / Amendments to PILOT Policy	Notify all potentially impacted exempt organizations

Finally, the Finance Department along with the Assessors Department will publish a **PILOT Annual Report** each fiscal year noting the complete listing of exempt organizations who have been sent a PILOT letter, noting any PILOT contributions received, and any SILOT credits granted.

Appendix A - Examples of PILOT Payments Due by Exempt Property Value

As a reminder, the PILOT amount due can be calculated as follows:

- 1) Begin with the total exempt assessed value of an organization
- 2) Subtract the amount of PILOT exemption from the assessed value
- 3) Divide by \$1,000 (the mill rate is applied per \$1,000 of assessed value)
- 4) Multiply by the current City of Portland fiscal year mill rate (FY25 estimated to be \$15.13)
- 5) Multiply by the amount by the portion of the regular tax rate dedicated to basic services (proposed in 2017 as 25%, will be adjusted in current version of policy for current cost of police, fire, dispatch and public works services)
- 6) Prorate the amount due based on proposed phase in - 10% in Year 1, 20% in Year 2, 30% in Year 3, 40% in Year 4, 50% in Year 5 (and beyond, assuming community benefit criteria is met)

EXAMPLE #1 - ENTITY WHICH OWNS \$4,000,000 OF EXEMPT PROPERTY VALUE					
FULL COMMUNITY BENEFIT CREDIT OF 50%					
PILOT EXEMPTION AMOUNT			\$4,000,000		
Year 1 PILOT Amount			Exempt		
Year 2 PILOT Amount			Exempt		
Year 3 PILOT Amount			Exempt		
Year 4 PILOT Amount			Exempt		
Year 5 PILOT Amount			Exempt		
NOTE - Full property taxes for a homeowner with a \$4,000,000 non-exempt home =					\$60,520

EXAMPLE #2 - ENTITY WHICH OWNS \$10,000,000 OF EXEMPT PROPERTY VALUE					
PILOT EXEMPTION AMOUNT			\$4,000,000		
Year 1 PILOT Amount			\$ 2,270		
Year 2 PILOT Amount			\$ 4,539		
Year 3 PILOT Amount			\$ 6,809		
Year 4 PILOT Amount			\$ 9,078		
Year 5 PILOT Amount			\$ 11,348		
NOTE - Full property taxes for a homeowner with a \$10,000,000 non-exempt home =					\$151,300

EXAMPLE #3 - ENTITY WHICH OWNS \$25,000,000 OF EXEMPT PROPERTY VALUE					
PILOT EXEMPTION AMOUNT			\$4,000,000		
Year 1 PILOT Amount			\$ 7,943		
Year 2 PILOT Amount			\$ 15,887		
Year 3 PILOT Amount			\$ 23,830		
Year 4 PILOT Amount			\$ 31,773		
Year 5 PILOT Amount			\$ 39,716		
NOTE - Full property taxes for a homeowner with a \$10,000,000 non-exempt home =					\$378,250

<u>FY25 NAMES</u>	<u>ASSESSMENT</u>
841 CONGRESS STREET LLC	668,700
ABBA	250,900
AFRICAN METHODIST EPIS ZION	724,400
ALLEN AVENUE UNITARIAN	88,900
AMERICAN NATIONAL RED CROSS	4,201,800
ANDREWS HAROLD T	1,057,400
APOSTOLIC FAITH ASSEMBLY	755,400
AVESTA HOUSING DEVELOPMENT	14,969,000
BAILEY CEMETERY	20,500
BETH HACNESES ANSHE SFARD	399,400
BIODIVERSITY RESEARCH INSTITUTE	2,687,500
BOYS & GIRLS CLUBS	279,500
BREAKWATER SCHOOL	5,301,300
CASA INC	1,121,200
CASCO BAY ISLAND TRANSIT	21,100
CATHERINE MORRILL DAY	2,110,200
CEDARS NURSING CARE	11,932,700
CEDARS NURSING CARE CENTER INC	7,584,100
CENTER FOR GRIEVING CHILDREN	2,985,500
CHARISMATIC EPISCOPAL CHURCH	1,085,100
CHEVERUS HIGH SCHOOL	2,869,900
CHEVERUS HIGH SCHOOL A MAINE	434,400
CHILDREN'S CENTER THE	958,700
CHILDREN'S MUSEUM AND	6,645,000
CHRISTCHURCH OF PORTLAND	1,528,300
CHURCH OF GOD	825,000
CIEE INC	450,300
CITY OF PORTLAND	766,566,800
CLAYTON'S HOUSE LLC	926,200

CLIFF ISLAND FIRE DEPT	7,700
CLIFF ISLAND LIBRARY CLUB	243,200
CMRS IV INC	2,596,700
COMMITTEE TO RESTORE THE	376,600
COMMUNITY HOUSING OF	1,430,900
COMMUNITY HOUSING OF MAINE	377,800
COMMUNITY HOUSING OF MAINE INC	6,654,300
CONGREGATION ETZ CHAIM	1,737,300
COUNCIL INTERNATIONAL STUDY	10,152,700
CROSSROADS FOR WOMEN INC	1,059,200
CUMBERLAND COUNTY INHABITANTS	263,300
CUMBERLAND COUNTY MAINE	37,607,300
CUMBERLAND COUNTY OF	48,336,400
CUMBERLAND COUNTY YMCA	6,000
CUMBERLAND ISLAMIC CENTER	791,900
DEERING GRANGE #535	563,400
DIOCESAN BUREAU OF HOUSING	33,502,000
ECO MAINE	73,466,900
ECOMAINE	182,800
EIGHTH MAINE REG MEM ASSOC	931,600
EMC AFFORDABLE HOUSING	4,633,600
EMMANUEL ASSEMBLY OF GOD	1,983,500
EQUALITY COMMUNITY CENTER	1,537,400
ERLICH MARK ETALS TRUSTEES	443,000
FAITH TEMPLE	1,511,800
FAMILY CRISIS SERVICES INC	1,209,300
FIFTH MAINE REGIMENT	786,200
FIRST BAPTIST CHURCH IN	5,955,200
FIRST CHURCH OF CHRIST SCIENTIST	1,744,200
FIRST LUTHERAN CHURCH OF	3,898,600

FIRST PARISH IN PORTLAND	4,231,500
FLORENCE HOUSE HOUSING	2,642,000
FRIENDS CHURCH	859,000
FRIENDS OF THE ST LAWRENCE	792,700
GOODWILL INDUSTRIES OF MAINE	1,426,300
GRACE BAPTIST CHURCH	4,778,000
GREAT DIAMOND ISLAND	255,300
GREATER PORTLAND TRANSIT	8,653,500
GREATER PORTLAND YMCA	6,100
GROUP MAIN STREAM INC	2,524,200
GULF OF MAINE PROPERTIES INC	6,722,600
GULF OF MAINE RESEARCH	2,756,800
HABITAT FOR HUMANITY GREATER	11,200
HABITAT FOR HUMANITY/GREATER	2,278,200
HALFWAY HOUSE INC	735,900
HELLENIC ORTHODOX COMMUNITY OF	3,618,400
HFA HUD PROPERTIES LLC	12,487,600
HOME FOR AGED WOMEN	17,337,900
HOME FOR THE AGED	10,345,300
HOPE ACTS	574,600
IGLESIA PENTECOSTAL EL SINAI	475,300
ILLUSTRATION INSTITUTE	893,700
INGRAHAM HOUSING CORP INC	1,003,000
INGRAHAM HOUSING CORPORATION	16,300
INGRAHAM HOUSING CORPORATION INC	1,254,500
INGRAHAM VOLUNTEERS INC	632,100
INHABITANTS OF THE COUNTY OF	18,006,900
IRISH HERITAGE CENTER	2,946,800
ISLAMIC SOCIETY OF	970,300
JHA ASSISTED LIVING INC	26,195,500

LIVING HOPE ASSEMBLIES OF GOD	575,800
LORING CHARLES	729,800
MAHC INC	3,831,100
MAINE CENTRAL RAILROAD CO	208,400
MAINE COLLEGE OF ART	30,253,000
MAINE CONFERENCE ASSOC OF	486,000
MAINE FARMLAND TRUST INC	612,900
MAINE HISTORICAL SOCIETY	5,983,800
MAINE HUMANITIES COUNCIL	648,500
MAINE MEDICAL CENTER	518,119,100
MAINE PORT AUTHORITY	3,772,900
MAINE TURNPIKE AUTHORITY	13,666,400
MAINE WOMEN'S CHRISTIAN	986,200
MAINEHEALTH	8,928,300
MASJID AL RAHMAN	296,400
MASONIC TRUSTEES OF PORTLAND	8,107,900
MAYO STREET ARTS	746,200
MERCY HOSPITAL	73,794,500
MHS INC	4,972,000
MMC REALTY CORP	28,451,500
MR REALTY HOLDINGS L3C	497,300
MUNJOY HILL NEIGHBORHOOD	242,000
NATIONAL SOCIETY OF COLONIAL	339,700
NATIONAL SOCIETY OF THE	609,400
NEW BRACKETT MEMORIAL CHURCH	1,186,800
NORTH DEERING ALLIANCE CHURCH	1,891,000
NORTH DEERING CONGREGATIONAL	1,696,500
NORTHERN N E DISTRICT	1,771,500
NORTHERN NEW ENGLAND	589,000
NORTHERN NEW ENGLAND CONFERENCE	2,640,200

NORTHERN NEW ENGLAND DISTRICT	300
OCEANSIDE CONSERVATION	540,200
OCEANSIDE CONSERVATION TRUST	2,886,530
OCEANSIDE CONSERVATION TRUST OF	176,400
OLD CHEVRA KADISHA	5,100
OMAR IBN AL-KHATTAB MASJID	215,100
PARTNERS FOR WORLD HEALTH	2,082,900
PEAKS ISLAND CHILDREN'S	998,500
PEAKS ISLAND LAND PRESERVE	1,437,500
PEAKS ISLAND LIONS CLUB	1,989,500
PEAKS ISLAND PRESERVE	2,700
PEAKS ISLAND VOLUNTEERS OF	1,514,500
PENINSULA HOUSING LLC	2,110,700
PEOPLE'S REGIONAL OPPORTUNITY	3,066,500
PEREGRINE CORPORATION	2,168,900
PLEASANT STREET HOUSING INC	1,963,900
PMEH	336,700
POND GROVE CEMETERY ASSN	28,700
PORT RESOURCES	1,524,100
PORT RESOURCES INC	2,178,600
PORTLAND / ST ALBANS CORP	744,400
PORTLAND BOYS CLUB ASSOC	4,779,900
PORTLAND CHILDREN'S	1,078,800
PORTLAND CHRISTIAN CHURCH	1,763,000
PORTLAND COMMUNITY HEALTH CENTER	1,335,000
PORTLAND COMMUNITY SQUASH	607,400
PORTLAND CONGREGATION OF	1,361,000
PORTLAND CONSERVATORY	1,099,500
PORTLAND HOUSING AUTHORITY	80,663,200
PORTLAND HOUSING DEVELOPMENT	2,982,200

PORTLAND MUSEUM OF ART	28,378,900
PORTLAND PUBLIC LIBRARY	1,088,800
PORTLAND RECOVERY COMMUNITY	989,800
PORTLAND SOCIETY OF THE NEW	541,100
PORTLAND TERMINAL CO	1,007,200
PORTLAND TRAILS	189,600
PORTLAND VOA ELDERLY	7,759,800
PORTLAND WATER DISTRICT	177,113,000
PREBLE STREET	2,368,300
PREBLE STREET RESOURCE	2,456,400
PREBLE STREET RESOURCE CENTER	2,208,100
RANDALL & MCVANE	167,800
RANDALL EARL MACNEILL POST	534,800
RANDALL MACVANE POST #142	167,800
ROMAN CATHOLIC BISHOP	4,010,100
ROMAN CATHOLIC BISHOP OF	41,488,500
RONALD MCDONALD HOUSE OF	3,129,800
ROOT CELLAR	2,633,900
RUTH'S REUSABLE RESOURCES	2,634,400
SAHARA CLUB INC THE	1,205,100
SAINT JOSEPH'S MANOR	14,600
SALVATION ARMY THE	12,042,600
SEVENTY-FIVE STATE ST	256,700
SHALOM APARTMENTS INC	117,000
SHALOM HOUSE	1,949,300
SHALOM HOUSE INC	11,182,300
SHELLE REALTY LLC	797,100
SOUTHERN MAINE JEWISH	638,600
SPACE GALLERY	593,500
SPRING HARBOR HOSPITAL	9,658,900

SPURWINK SERVICES	6,798,800
ST ELIZABETH'S ROMAN	2,197,800
ST IGNATIUS RESIDENCE	16,808,800
ST IGNATIUS RESIDENCE OF THE	181,800
ST JOSEPH'S CONVENT &	661,800
ST JOSEPH'S MANOR	11,207,600
ST LUKES PARISH-	4,115,100
ST LUKES PARISH- WARDENS	1,447,500
ST PAUL'S PARISH CHURCH	1,487,800
ST PETER'S EPISCOPAL CHURCH	1,232,800
STATE OF MAINE	39,800,800
STATE STREET CONGREGATIONAL	4,883,500
STATE STREET HOUSING	21,844,300
STEVENS AVE CONGREGATIONAL	1,105,500
STROUDWATER BAPTIST CHURCH	1,366,600
STROUDWATER CHRISTIAN CHURCH	1,731,800
TEMPLE BETH EL	2,155,200
TEMPLE BETH-EL	3,521,300
THE IRIS NETWORK	3,342,900
THE JEWISH COMMUNITY	5,470,200
THE PARK-DANFORTH	15,697,200
TRINITY CHURCH IN PORTLAND THE	236,700
TRINITY CHURCH OF PORT LAND	47,600
TRINITY CHURCH OF PORTLAND	1,985,200
TRINITY EPISCOPAL CHURCH	46,000
TROTT BURYING GROUND	28,700
UNITED STATES	69,322,800
UNITED STATES DEPARTMENT	3,079,700
UNITED STATES OF AMERICA-	218,300
UNIVERSALIST CHURCH OF	1,580,200

UNIVERSITY OF MAINE	135,403,100
UNIVERSITY OF MAINE SYSTEM	83,411,700
UNIVERSITY OF MAINE THE	434,200
UNIVERSITY OF NEW ENGLAND	83,929,100
VETERANS OF FOREIGN WARS	962,100
VICTORIA SOCIETY OF MAINE	2,158,400
VOANNE BRACKETT STREET HOUSE	717,300
VOANNE PROPERTY CORPORATION	1,025,000
VOLUNTEERS OF AMERICA	240,200
WASHINGTON AVE METHODIST	549,600
WAYNFLETE SCHOOL	25,400
WAYNFLETE SCHOOL THE	25,413,000
WILLIAMS TEMPLE CHURCH	37,800
WILLIAMS TEMPLE CHURCH OF GOD	983,000
WILLISTON-IMMANUEL UNITED CHURCH	4,857,400
WOODFORDS CONGREGATIONAL CHURCH	4,804,100
YORK-CUMBERLAND ASSOCIATION	566,800
YOUNG MEN'S CHRISTIAN	3,974,300
YOUNG MEN'S CHRISTIAN ASSOC	141,500
YOUNG MENS CHRISTIAN ASSOC OF	10,942,900
YOUTH AND FAMILY OUTREACH	1,677,300
TOTAL EXEMPT	2,960,329,630

City of Portland | Office of the Mayor and City Council
Kate Sykes, Councilor (District 5)



To: Anna Trevorrow, Finance Committee Chair
From: Kate Sykes, Councilor
Date: June 18, 2024
Re: Payment in Lieu of Taxes

Councilor Trevorrow,

Portland's many non-profit institutions offer a wealth of educational, cultural, social, and medical services that draw visitors, students, workers, and residents to our city from all over the world. These nonprofits are exempt from property taxes, but they benefit from a variety of public services provided by the City of Portland, such as fire, police, and public works. While nonprofits serve many people who live outside of Portland, the cost of their property tax exemption is borne locally by Portland taxpayers. Larger nonprofits that acquire and hold prime real estate benefit more than smaller non-profit, and they shift more of the tax burden onto taxpayers.

Because the City is limited by State law in how we can raise revenue to offset these losses, I support the Finance Committee's efforts to research and implement a Payment in Lieu of Taxes (PILOT) program. There are many different methods for establishing and operating a PILOT program and after reviewing the literature available on several PILOT initiatives around the country, I suggest incorporating the following characteristics:

- Base the PILOT request on the value of the institution's tax exempt property.
- Make the PILOT request proportional to the cost of City services that the institution benefits from. (For instance, if the cost of Fire, Police and Public Works services is 20% of the City budget, the PILOT request would be 20% of an eligible institution's tax exemption.)
- Exempt small nonprofits from the program.
- Allow up to 50% of the PILOT request to be offset by community benefits that qualify under a set of criteria, such as services that directly benefit Portland residents and align with the City's own budget priorities.
- Establish a formal process by which the City and nonprofits can work together to identify needs and shared goals.

- Require eligible nonprofits to submit a community benefit report annually, along with their PILOT contribution.
- Publish all data on eligible contributing, and eligible non-contributing institutions to the City's website.
- Phase in the program over a five year period

With a fair, transparent, and voluntary PILOT program in place, the City will have additional funds to support our initiatives, we can help nonprofits amplify their impact, and Portland will be stronger, more united, and better positioned to serve our residents.



ICMA

RETHINKING REVENUE

BOSTON'S PILOT (PAYMENT IN LIEU OF TAXES) PROJECT

How the City of Boston worked with local tax-exempt institutions to secure fair and sustainable financial support for city government



ABOUT THE AUTHOR

Shayne C. Kavanagh is the Senior Manager of Research for GFOA.

The author would like to thank the City of Boston for their assistance with this paper.

ACKNOWLEDGMENTS / REVIEWERS

Adam Langley, Associate Director of U.S. & Canadian Programs, Lincoln Institute of Land Policy

Chris Morrill, Executive Director / CEO, Government Finance Officers Association

This paper is part of The Rethinking Revenue initiative.



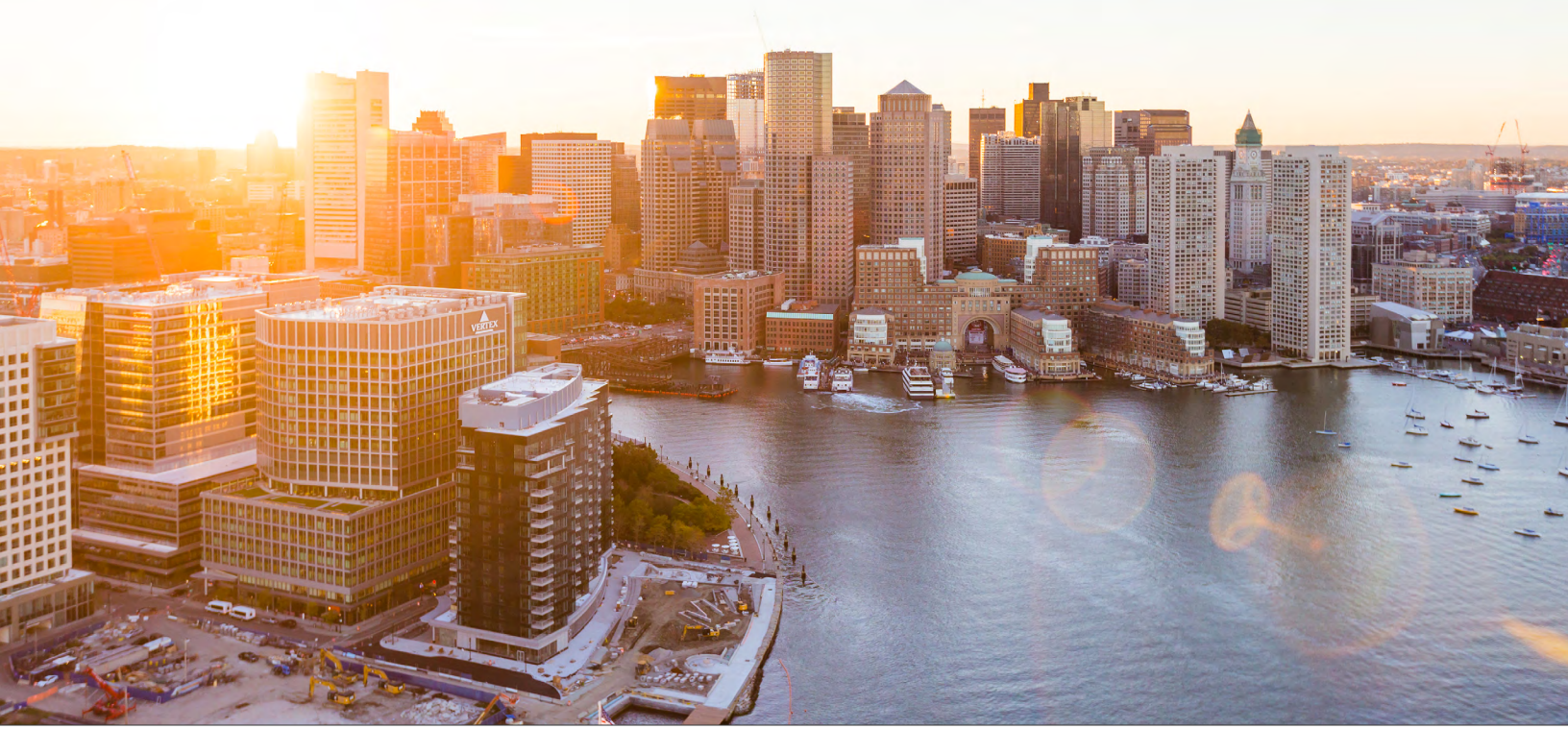
gfoa.org/rethinking-revenue

ABOUT THE RETHINKING REVENUE PROJECT

Local government revenues must adequately fund the public services that a community desires without creating excessive inefficiencies or unfairness in the revenue raising system. However, local government revenue structures are largely based on assumptions that no longer hold today due to digitization, globalization, demography, political changes, and other trends. Furthermore, fairness is becoming an increasingly important concern for public finance. It follows that this concern should include how revenues are raised. For these reasons, the Rethinking Revenue project is taking a fresh look at how revenues are raised. The project will raise new and interesting ideas like those featured in this paper and will produce guidance for state and local policy makers on how to local government revenue systems can be modernized. We hope the ideas presented in this paper will spur conversation about the possibilities for rethinking revenue.

The Rethinking Revenue initiative is a collaborative effort involving:

- American Planning Association (APA)
- Government Finance Officers Association (GFOA)
- International City/County Management Association (ICMA)
- National Academy of Public Administration (NAPA) Center for Intergovernmental Partnerships
- National League of Cities (NLC)
- Center of Municipal Finance at the University of Chicago's Harris School of Public Policy,
- Government Finance Research Center at the University of Illinois at Chicago's College of Urban Planning and Public Affairs

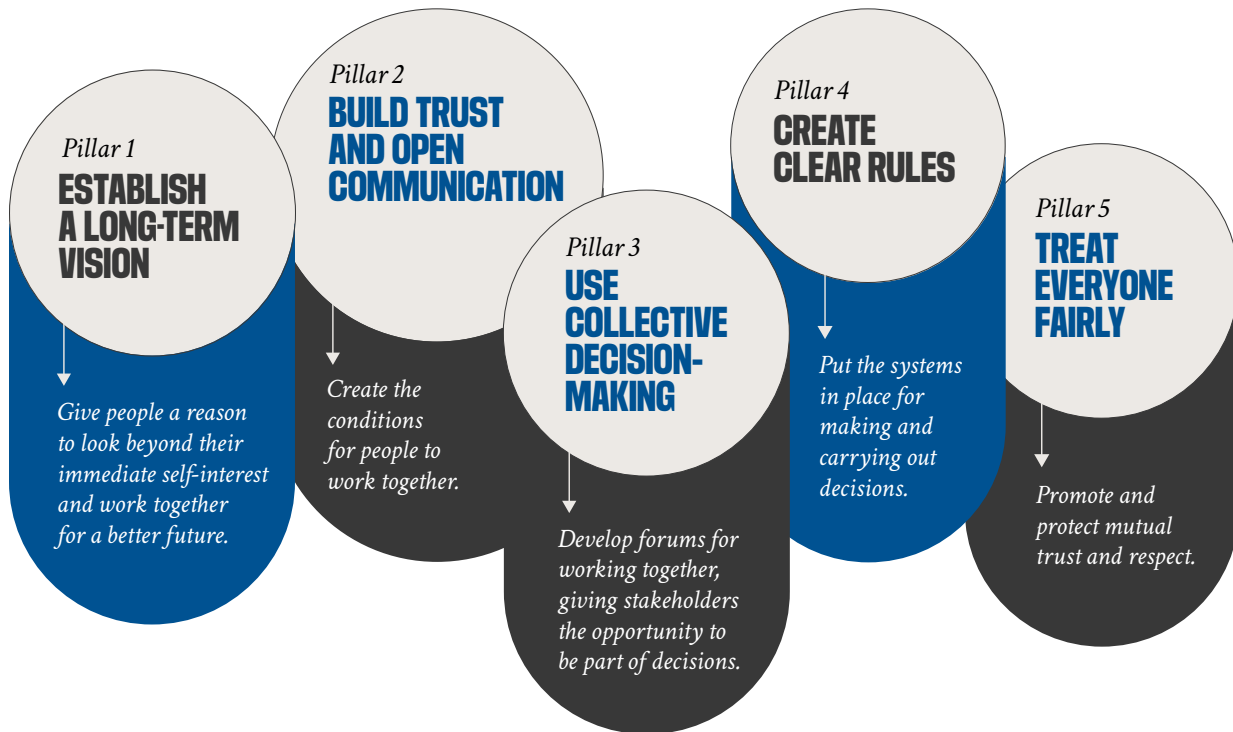


Many local governments have several tax-exempt properties within their boundaries. For those governments that rely on property taxes, tax-exempt properties can create a drag on the local budget: These properties pay no taxes but still must be served by local government. The City of Boston is one such government. Boston has several colleges, universities, and hospitals. As of 2007, the city's Assessing Department estimated that the 16 colleges and universities they examined totaled \$7.0 billion in property value, and the 12 hospitals examined totaled \$5.7 billion in property value. The Assessing Department estimated that, if taxed at the commercial rate in fiscal year 2009, these institutions combined would have generated \$345.0 million. By comparison, the commercial sector generated \$764.5 million in the same period.¹

Local governments like Boston have a conundrum: how to balance A) the contributions that tax-exempt properties make to the local government budget and community well-being by virtue of their pro-social missions versus B) the resources these properties consume from the local budget. This conundrum is what is known in economics as a “common-pool resource” problem. The local government budget is “owned” by everyone in the community, but any single person has the incentive to avoid contributing to the pool (the budget) while still using resources from the pool (services). Fortunately, the Government Finance Officers Association has developed a method, based on Nobel Prize-winning work, to solve common-pool resource problems: [Financial Foundations for Thriving Communities](#). The Financial Foundations framework consists of five “pillars” described below and shown in Exhibit 1.

- **Establish a long-term vision.** Give people a reason to look beyond their immediate self-interest and work together for a better future.
- **Build trust and open communication.** Create the conditions for people to work together.
- **Use collective decision-making.** Develop forums for working together, giving stakeholders the opportunity to be part of decisions.
- **Create clear rules.** Put the systems in place for making and carrying out decisions.
- **Treat everyone fairly.** Promote and protect mutual trust and respect.

EXHIBIT 1 | THE FINANCIAL FOUNDATIONS FRAMEWORK



In this paper, we will use the Financial Foundations framework to describe how Boston addressed this common-pool resource problem and gained about \$17 million in new cash payments in lieu of taxes (PILOTs) from tax-exempt properties *annually* and \$50 million in new in-kind contributions *annually*.^{1,3} This compares to Boston's operating budget of \$3.76 billion in 2022. We should recognize that Boston has enjoyed an unusual degree of success with its PILOT program among local governments. Other cities have tried to mimic features of the Boston program but with less success. By using the lens of the Financial Foundations framework, we hope to reach deeper into why Boston's program has worked. A deeper understanding should allow for more successful replications.

Boston did not start from zero. Over many years, it has arrived at a series of disparate agreements with owners of tax-exempt properties. For the sake of brevity, we will refer to these owners as nongovernmental

HOW DO TAX-EXEMPT PROPERTIES CREATE COSTS?

It is easy to appreciate that tax-exempt properties create costs when they use a service like police or fire. A less well-appreciated way tax-exempt properties create costs is that they reduce the effective density of the property tax base. Research has shown that all else being equal, denser areas are cheaper to serve than less dense areas.² For example, in denser areas, police, fire, and public transit vehicles have less distance to travel and there are fewer lane miles of roads to maintain. Local governments must still maintain the roads that abut a tax-exempt property, and fire stations must be built to maintain acceptable response times regardless of whether properties in their service area are tax exempt.

¹In fiscal year 2011, the City of Boston collected \$15.2 million from nonprofits. 2011 was the last year before the city started the new approach that is described in this paper. In fiscal year 2012, the first year under the new PILOT program, the city collected \$19.5 million. By fiscal year 2016, the PILOT program had matured and the city collected \$32.1 million or \$16.9 million more than in 2011. Collections have remained fairly steady from 2016 until the present time (\$34.4 million collected in fiscal year 2020). See endnote 2 for more information.

organizations (NGOs). City officials were pleased to be getting some contributions, but there was a sense that the success was uneven and that the city could do better.

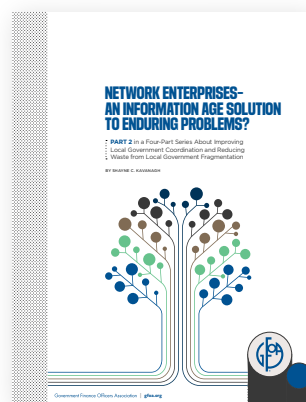
The starting point was a **clear vision** (*Pillar 1*). This started with acknowledging that NGOs create costs for the city but don't contribute their share to the budget. Further, not only do NGOs benefit from municipal services, they benefit from a thriving urban environment that the municipal government helps to maintain. These conversations were happening in 2009, so resource scarcity from the 2008 Great Recession emphasized the need to secure contributions from all stakeholders that benefited from city services. However, the vision can't be purely about filling the coffers of local government. As we will see, the PILOT program also recognized the contribution to the community made by NGOs and seeks to better coordinate the efforts of NGOs and the city government on pursuing shared goals. See the sidebar on this page for more on how to form a vision that NGOs (and others) can convene around.

Another part of the vision was **fairness** (*Pillar 5*). NGOs who already were making voluntary contributions to the city government felt the status quo was unfair: Participation by NGOs in making voluntary contributions was erratic, and the amounts of contributions they were making were inconsistent. So contributing NGOs felt that noncontributing NGOs were getting a free ride. To illustrate, two comparable institutions of higher education were paying markedly different amounts, with one institution paying over 10 times as much as the other!⁴

In response to these concerns, the city convened a PILOT Task Force that included representatives of NGOs. People will usually be more accepting of a solution that they helped develop rather than a solution imposed from the outside (*Pillar 3*, **use collective decision-making**). Over 15-months, the task force reviewed information about the cost of services the city provided to NGOs, the benefits that the community received from services provided by large universities and hospitals, the legal issues involved in PILOTs, and more. According to the task force's final report, "the core principles of a fair and balanced PILOT program are transparency and consistency."⁵ This parallels the second and fifth pillars of Financial Foundations: **build trust and open communication** and **treat everyone fairly**.

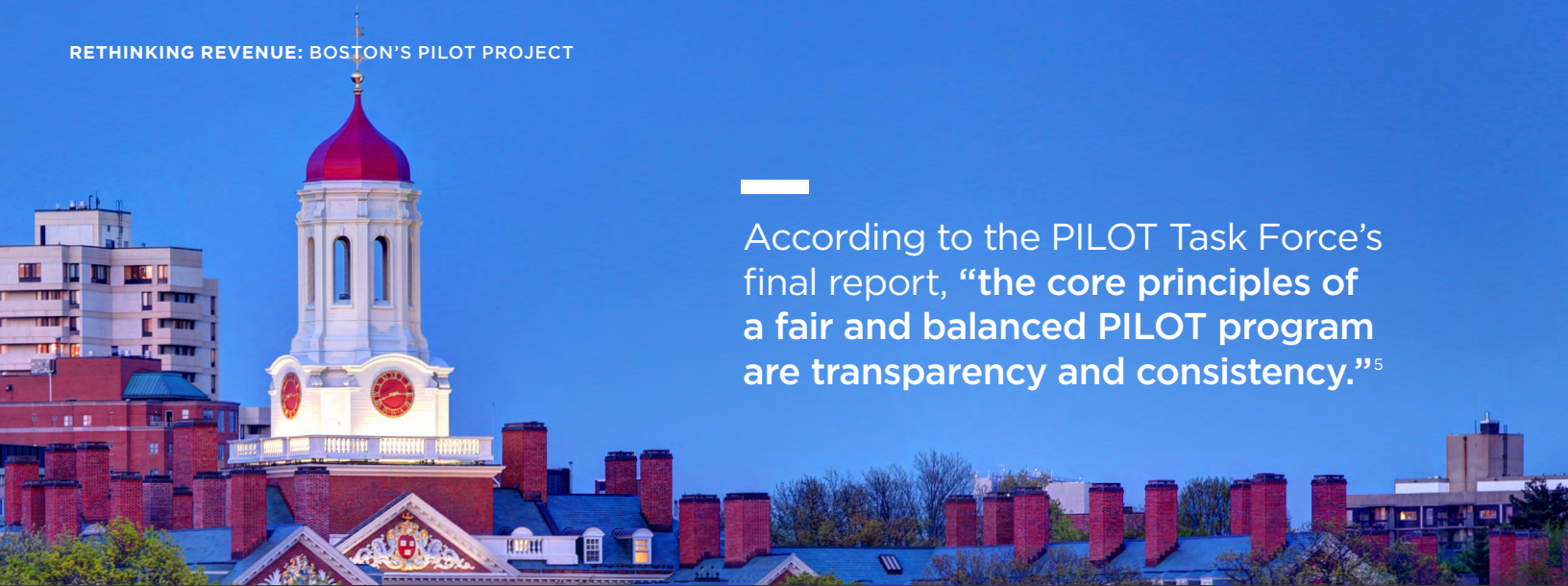
These principles supported the task force's five recommendations.

The first recommendation was that the PILOT program should remain voluntary. Giving NGOs the ability to opt in to the program supports a sense of fairness and collaborative decision-making. But this recommendation also speaks to another element of common-pool resource problems. There had been some talk among city officials of taking legal action to mandate contributions from NGOs.



A CLEAR VISION INSPIRES LOCAL NETWORKS

The GFOA report **"Network Enterprises—An Information Age Solution to Enduring Problems?"** describes how local governments can access networked forms of organization to solve community problems. Local governments have financial limits to what they can do within their authority and resources. Further, many problems of great concern to the public require the efforts of multiple sectors and may not fall within the core responsibility of one local government. A clear vision can convene a network for public, private, and nonprofit organizations to pursue a shared goal. This report shows how different approaches local governments have taken to establishing a vision and attracting others to that vision.



According to the PILOT Task Force's final report, “the core principles of a fair and balanced PILOT program are transparency and consistency.”⁵

Part of *Pillar 4*, **create clear rules**, is to develop incentives to shape behavior. The threat of a legal mandate to force contributions from NGOs likely played a role in encouraging NGOs to develop an arrangement that was not mandated but was an improvement on the status quo for the city.

The second recommendation was that the PILOT program should be applied to all NGOs, with an exception for small NGOs. The task force suggested \$15 million in assessed value as a threshold for participation in the program, including discounts for NGOs that were just over the threshold. This supports fairness by calling for consistent participation from larger NGOs while recognizing that smaller NGOs may not be able to afford contributions.

Third, the PILOT contributions should be based on the value of real estate owned by the NGOs. Working with the city staff, the task force concluded that an amount that accounted for police, fire, snow removal, and other essential services would be appropriate, while also providing a discount to NGOs relative to what a fully taxable property would pay. Based on this, the task force recommended PILOT payments be based on an amount equal to 25% of what a similar nonexempt property would pay. This provided a **clear rule** (*Pillar 4*).

Fourth, the benefits that the Boston community receives from NGO services should be recognized and qualify as PILOT credit. NGOs provide services that benefit the public. The task force felt it was **fair** to account for this in the PILOT payments. The task force also defined **clear rules** for what could qualify as a PILOT credit:

- ➔ The service must directly benefit the City of Boston residents.
- ➔ The service must support the city's mission and priorities. Put another way, the city would support such a service in its budget if the NGO did not provide it.
- ➔ The service should be quantifiable.
- ➔ The service should emphasize ways in which the city and the NGO can collaborate to address shared goals.
- ➔ Service credits should generally be limited to up to 50% of an NGO's PILOT contribution, with exceptions made for NGOs that have extraordinary capabilities to provide services that benefit the community. This rule recognizes that while service credits are important, the city also needs cash contributions to support the municipal services that NGOs use.

The fifth recommendation was that the program be phased in over at least five years. The amount of support expected from NGOs exceeded what most NGOs were providing to the city at the time. Phasing would give NGOs time to make the needed adjustments to their budgets. Also, the city agreed to a general principle of being consistent and transparent in its request for PILOT payments so that NGOs can plan appropriately.



The result of the task force's recommendations was for the city and NGOs to act as partners in creating a financially sustainable future for the city. The city makes a request of each NGO twice per year, based on rules just outlined, and, as needed, meets with NGOs to explain the request. At the meeting, the city acknowledges the value created by the NGO's contributions and explains why it is important for NGOs to stay active in the PILOT program: to support essential city services and to be a part of the community of NGOs that support the wider Boston community. The city also learns of any concerns the NGO might have and gets a sense of plans the NGO may have that could shape the nature of the NGO's future participation in the PILOT program.

Thus, the PILOT program is built on strong relationships and outreach between the city and the NGOs (***trust and open communication***, *Pillar 2*). This contrasts with the city's less successful approach to securing contributions from NGOs before. The old approach was legalistic, where there were a series of agreements between the NGOs and the city to make a contribution. These agreements resembled contracts but weren't binding on the NGOs because the legal basis for the city to demand such contributions was questionable. Further, the terms and conditions of these agreements weren't consistent from one NGO to the next. Hence, though contracts might have given the appearance of "clear rules," upon closer inspection, the rules were not all that clear. Though the new PILOT program has not secured 100% participation from all the eligible NGOs, the city has found that the "peer pressure" on NGOs to participate in a voluntary arrangement that NGOs themselves recommended is far more effective than the old approach. The city no longer maintains agreements with the NGOs and just makes the requests based on the rules that came out of the task force's recommendation.

The result of the task force's recommendations was for the city and NGOs to act as partners in creating a financially sustainable future for the city.

So, what lessons can other local governments take from Boston's experience?

First, an effort to secure PILOT support must be based on a clear vision. That vision shouldn't be limited to just financial support for the public budget. The City of Boston's vision emphasized NGOs' value in supporting the wider Boston community and the possibility of the city and NGOs to work together toward shared goals. It is worth recalling that the Great Recession provided additional urgency to reaching a better arrangement for PILOTs in Boston. In the absence of a recession, other local governments might be able to highlight other aspects of the environment that call for urgency. For example, recently there has been an interest in improving coordination between the city and NGOs in addressing high-profile issues like affordable housing and opioids.⁶

Second, a strategy based on trust and open communication likely has more potential than one rooted in a legalistic approach.⁷ As Boston's experience showed, there may not be a strong legal case, and the adversarial relationship that is implied with the legalistic approach invites NGOs to reject the (potentially flimsy) legal premise of the request for financial support. That said, if a local government has no history with receiving PILOTs from NGOs, a written agreement could provide useful clarity to both parties, if approached correctly (e.g., not adversarial, based on expectations from year to year).

Third, invite NGOs to help define the arrangement under which their PILOT contributions will be made. NGOs will look more favorably upon an arrangement they had a hand in creating. Also, this might help create a sense of peer pressure among NGOs to take part in the PILOT program.

Fourth, define clear rules that govern the size of the contributions that will be requested of NGOs. Boston's experience shows that it is important for the rules to recognize: 1) the nonfinancial, in-kind contributions made by NGOs to the local community; and 2) the local government needs some amount of cash contributions to fund essential municipal services.

Fifth, make sure NGOs feel fairly treated. Boston's experience shows that important elements of fairness include: consistency in how NGOs are treated under the PILOT system; recognizing the value of NGOs' nonmonetary contributions; and accommodations for smaller NGOs with less capacity to provide PILOTs.

Finally, it should be noted that Boston has not reached a state of PILOT perfection and has recognized the need for the PILOT program to be refined to remain vital and relevant. In the summer of 2021, Boston announced a new task force to revisit the PILOT program. The task force will build upon the program we described in this paper. It will continue a collaborative approach by working with NGOs and emphasizing trust and open communication. It will seek to address issues of fairness, where the contributions of some NGOs are disproportionate to the contributions of other NGOs. And the task force will refine and clarify the rules of the program to address the changing value of property owned by NGOs and the role of community service as an offset for cash contributions to the city.⁸

Additional Resources on PILOTs From the Lincoln Institute of Land Policy⁹

- [Nonprofit PILOTs, Policy Brief](#)
- [Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests, Policy Focus Report](#)
- [Tax Battles: Cities Seek Higher Payments in Lieu of Taxes from Nonprofits, Land Lines Article](#)

Readers without access to the hyperlinks can find full citations in the endnotes

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Payments in Lieu of Taxes

Balancing Municipal and Nonprofit Interests



DAPHNE A. KENYON AND ADAM H. LANGLEY

Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests

Daphne A. Kenyon and Adam H. Langley

Policy Focus Report Series

The policy focus report series is published by the Lincoln Institute of Land Policy to address timely public policy issues relating to land use, land markets, and property taxation. Each report is designed to bridge the gap between theory and practice by combining research findings, case studies, and contributions from scholars in a variety of academic disciplines, and from professional practitioners, local officials, and citizens in diverse communities.

About This Report

In recent years, local government revenue pressures have led to heightened interest in payments in lieu of taxes (PILOTs), which are payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes. This report provides case studies of several municipalities that have pursued PILOTs in the past decade, as well as a broader picture of PILOT use in the United States.

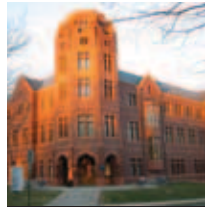
While PILOTs can provide crucial revenue for municipalities with large nonprofit sectors, there are also major problems with how they are currently collected in many places. To avoid these problems, the report provides general guidelines for when municipalities should consider PILOTs, highlights the importance of municipal–nonprofit collaboration on PILOTs, and outlines alternative ways to raise revenues from tax-exempt nonprofits. It also offers more detailed recommendations for how to design PILOT programs that are fair to nonprofits while raising meaningful revenue for municipalities.

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Executive Summary

Charitable nonprofit organizations, which include private universities, hospitals, museums, soup kitchens, and churches, are exempt from property taxation in all 50 states. 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. Payments in lieu of taxes (PILOTs) are payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes.

In recent years, local government revenue pressures have led to heightened interest in PILOTs, and over the last decade they have been used in at least 117 municipalities in at least 18 states. Large cities collecting PILOTs include Baltimore, Boston, Philadelphia, and Pittsburgh. Boston has one

of the longest standing PILOT programs and the most revenue productive program in the United States.

PILOTs are a tool to address two problems with the property tax exemption provided to nonprofits. First, the exemption is poorly targeted, since it mainly benefits nonprofits with the most valuable property holdings, rather than those providing the greatest public benefits. Second, a geographic mismatch often exists between the costs and benefits of the property tax exemption, since the cost of the exemption in terms of forgone tax revenue is borne by the municipality in which a nonprofit is located, but the public benefits provided by the nonprofit often extend to the rest of the state or even the whole nation.

PILOTs can provide crucial revenue for certain municipalities, and are one way to make nonprofits pay for the public services



they consume. However, PILOTs are often haphazard, secretive, and calculated in an ad hoc manner that results in widely varying payments among similar nonprofits. In addition, a municipality's attempt to collect PILOTs can prompt a battle with nonprofits and lead to years of contentious, costly, and unproductive litigation.

This policy focus report offers the following recommendations.

PILOTs are one revenue option for municipalities. They are most appropriate for municipalities that are highly reliant on the property tax and have a significant share of total property owned by nonprofits. For example, a Minnesota study found that while PILOTs could increase property tax revenue by more than ten percent in six municipalities, there was negligible revenue potential from PILOTs for the vast majority of Minnesota cities and towns. Similarly, PILOTs are not appropriate for all types of nonprofits. PILOTs are most suitable for nonprofits that own large amounts of tax-exempt property and provide modest benefits to local residents relative to their tax savings.

Municipalities should work collaboratively with nonprofits when seeking PILOTs. The best PILOT initiatives arise out of a partnership between the municipality and local nonprofit organizations, because PILOTs are voluntary payments and because both sectors serve the general public and have an interest in an economically and fiscally healthy community. In some cities, case-by-case negotiation with one or several nonprofits is best, as is the case between Yale University and New Haven. In cities with a large number of nonprofits, such as Boston, creating a systematic PILOT program can promote horizontal equity among tax-exempt nonprofits and raise more revenue than negotiating individual agreements.

State and local governments should consider alternatives to PILOTs. State governments should consider providing grants to local governments that host tax-exempt nonprofits to compensate them for their loss of property tax base, as in Connecticut. Municipalities can also consider alternative ways to raise revenue from tax-exempt nonprofits, such as increasing user fees.





CHAPTER 1

The Nonprofit Sector and Local Government Finances



The United States benefits from a large and diverse nonprofit sector that includes a wide array of organizations: private universities, hospitals, art museums, soup kitchens, and churches. Many nonprofits reduce spending by municipalities by offering services that would otherwise be provided by the local government.

However, nonprofits also impose a cost on municipalities because they consume public services, such as police protection and roads, but normally do not pay taxes for these services since most property owned by charitable nonprofits is exempt from taxation in all 50 states. Some municipalities have attempted to recoup part of this cost through payments in lieu of taxes (PILOTs)

from some nonprofits. This report defines PILOTs as payments “made voluntarily by tax-exempt nonprofits as a substitute for property taxes” (Brody 2005, 275).

OVERVIEW OF THE NONPROFIT SECTOR

The nonprofit sector accounts for roughly one-tenth of the U.S. economy, whether measured by employment or total spending (Walker 2005). This report focuses on 501(c)(3) charitable nonprofits, which include most of the nonprofits active in the arts, education, health care, human services, and religion—1.14 million of which are registered with the Internal Revenue Service (IRS). Nonprofits with 501(c)(3) status include both public charities and private foundations. There are

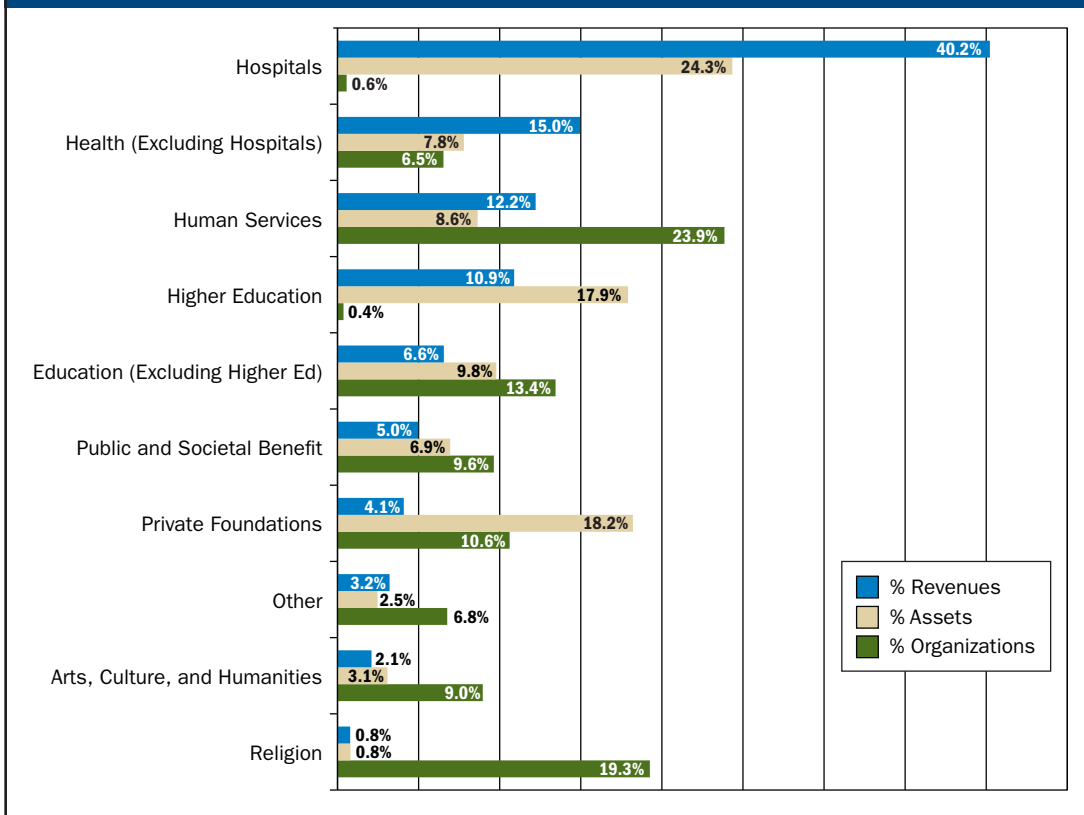
also 456,000 other nonprofits registered with the IRS that do not qualify for 501(c)(3) status, including business leagues, labor unions, social clubs, professional organizations, and political action committees. These other nonprofits are generally not exempt from property taxes (National Center for Charitable Statistics 2010).

Figure 1 shows the relative importance of each type of charitable nonprofit sorted by each category's share of total revenues in the charitable sector. Hospitals and higher education institutions control 51 percent of total revenues and 42 percent of assets, but account for only 1 percent of charitable nonprofits

registered with the IRS. In contrast, religious and human services organizations account for 43 percent of registered charitable nonprofits, but only a small fraction of total assets or revenue reported to the IRS.

In general, resources in the charitable nonprofit sector are extremely concentrated. The great majority of organizations are small and have few financial resources, while a small number of large nonprofits have the great majority of revenues, assets, and employees. For example, 62 percent of charitable nonprofits filing IRS Form 990 (the tax return most nonprofits are required to file), had annual revenues below \$100,000,

FIGURE 1
Charitable Nonprofits Registered with the IRS (April 2010)



Note: Religious congregations are not required to register with the IRS; nonprofits with gross receipts under \$25,000 and religious congregations are not required to file IRS Form 990 with financial information. The number of organizations includes all 501(c)(3) charitable nonprofits registered with IRS (1,138,289), but revenues and assets for each subsector only include charities that filed IRS Form 990 (598,110).

Source: National Center for Charitable Statistics (2010).

accounting for 1.2 percent of total revenue for all filing charitable nonprofit organizations; 2.9 percent had annual revenues above \$10 million, accounting for 84.7 percent of total revenue. Average revenues were \$45,500 for the first group and \$134 million for the second group (National Center for Charitable Statistics 2010).

Throughout this report, the term *non-profit* is used to refer to the subset of nonprofits typically eligible for exemption from property taxation, which are the 501(c)(3) charitable nonprofits, although state requirements for exemption often diverge from federal law.

WHAT ARE PILOTS?

Payments in lieu of taxes are usually negotiated between a municipality and individual nonprofits. PILOTs can be ad hoc payments by one or more nonprofits, or they can be standard payments from a wide range of nonprofits when a local government has a systematic PILOT program that provides guidance regarding expected contributions. PILOTs can be one-time payments, but negotiations sometimes lead to contracts stipulating continued payments for many years.

PILOTs are often framed in two ways. First, they are considered a means to partially offset property tax revenue forgone because the nonprofit's property is tax-exempt. Second, they are thought of as contributions to cover the nonprofit's share of the cost of public services provided by municipalities that are normally funded with property taxes (e.g., fire services, road maintenance, or snow removal). Regardless of the stated rationale, both of these arrangements are PILOTs according to the definition used in this report.

The basis for deciding upon an appropriate PILOT amount varies across municipalities. Some ask tax-exempt institutions to

pay a specific proportion of the property taxes the institution would owe if taxable. Others base the PILOT on some measure of the size of the nonprofit's property, such as square footage, or the size of its economic activity, such as number of employees or dormitory beds. The cost of basic services provided to nonprofit institutions is also used as a guide, but in many cases PILOTs are completely ad hoc and negotiated without any apparent basis.

In all cases, a primary characteristic of a PILOT is that it is voluntary; that is, there is no law requiring a nonprofit to make a PILOT. However, municipalities may encourage PILOTs in several ways. Nonprofits may agree to make PILOTs because they realize that they share an interest in the fiscal health of the local government. For example, a college's ability to attract students would be impacted negatively if the college is located in a run-down city with inadequate public services. Some nonprofits may feel pressured to make a PILOT because they know local agencies have the power to grant or withhold zoning changes, building permits, and the like. Finally, in a few cases municipalities have threatened to revoke a nonprofit's tax exemption or levy a tax or fee in order to obtain a PILOT.

Unless otherwise specified, in this report the term PILOT refers only to voluntary payments made by nonprofits to municipalities. However, the term is often used more broadly, and can refer to payments from the state or federal government to local governments to compensate them in part for the forgone property tax revenues on publicly owned property. Also, local governments sometimes offer businesses the opportunity to make a PILOT instead of full payment of property taxes as an economic incentive to encourage the business to locate or stay in that municipality.

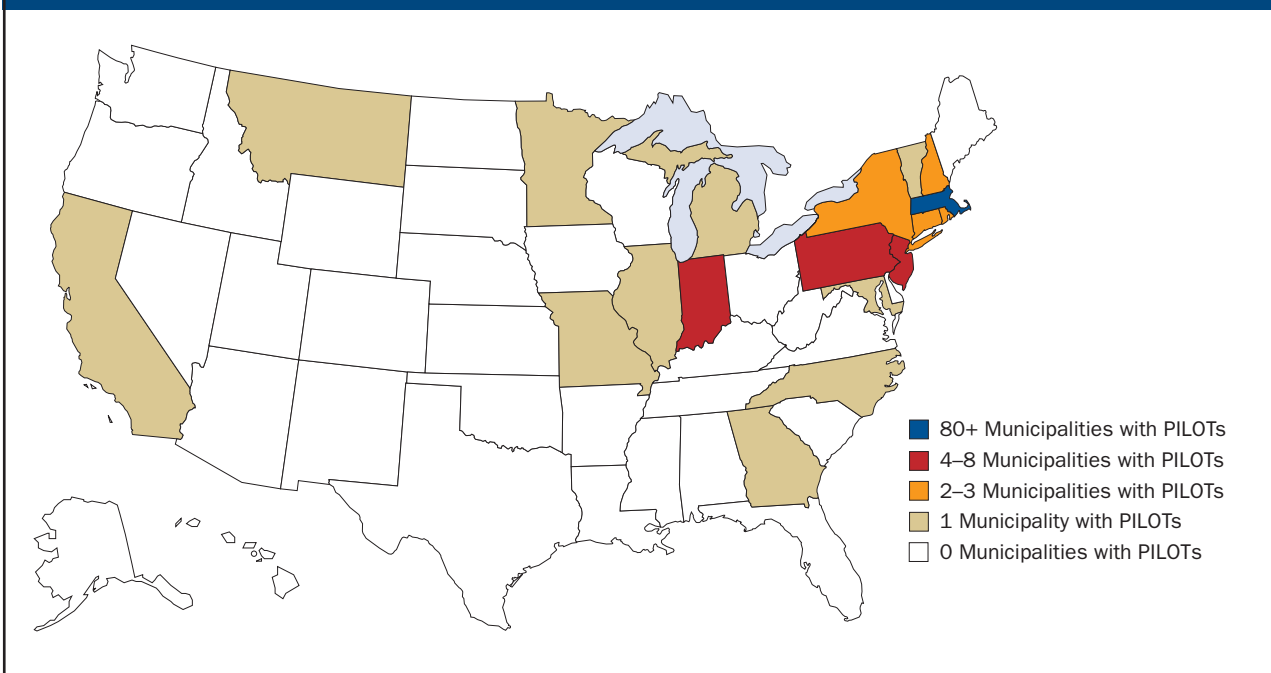
HEIGHTENED INTEREST IN PILOTS

Press accounts suggest growing interest in PILOTs since the early 1990s. Recent high-profile efforts to create or expand PILOT programs have occurred in Pittsburgh, Providence, Boston, and elsewhere. Although no systematic comprehensive survey of PILOT use is available, this report found that since 2000 PILOTs have been used in at least 18 states (figure 2). Seventeen of those states account for 35 cities and towns with PILOTs. In addition, 82 out of a total of 351 municipalities in Massachusetts have collected PILOTs (Massachusetts Department of Revenue 2003). Two major factors drive the high level of interest in PILOTs around the country: growing scrutiny of the nonprofit sector, and increasing pressure on municipalities to find new sources of revenue.

Growing Scrutiny of the Nonprofit Sector

Commercial activity in the nonprofit sector and news reports scrutinizing the behavior of nonprofit organizations have raised issues about the nonprofit property tax exemption, and have possibly reduced public support for it. In some cases, public support for tax exemption of nonprofits is tied to their charitable nature, but that support is reduced when they pursue commercial activities. Weisbrod (2004, 43) describes a “wave of commercialization among nonprofits,” which includes charging user or admission fees, seeking revenues from marketing relationships, research and development partnerships with for-profits, joint purchasing partnerships between nonprofits and for-profits, and engaging in unrelated business activities that have little to do with the nonprofit’s social mission.

FIGURE 2
States with Municipalities Collecting PILOTs (2000–2010)



Source: Authors’ research (see chapter 3).

Cordes and Steuerle (2010, 2) describe a blurring of the line between nonprofit and for-profit organizations: “Many nonprofits have found it advantageous to operate more like businesses in some respects; some for-profit businesses have adopted some nonprofit attributes; and businesses and nonprofits have discovered mutual benefit from acting as partners, both in for-profit and not-for-profit ventures.”

Public confidence in nonprofits has fallen in the last decade. A 2008 Brookings Institution study found that, “General confidence in charitable organizations appeared to hit its modern low point in 2003 and has not moved up or down significantly since” (Light 2008, 2). Although some of this decline in confidence may simply reflect the public’s increasing cynicism about all public institutions, including government and the media, since the 1990s several high-profile events

have likely reduced public trust in nonprofits.

In one case, the head of the United Way of America served seven years in jail for defrauding that organization of more than \$1 million. Other reports showed that Stanford University overcharged the federal government by more than \$200 million, including charges “for flowers, furniture, parties, a grand piano, football tickets, and depreciation on a yacht as ‘indirect research costs’” (Youngman 2002, 39). About the same time, the *Philadelphia Inquirer* ran a series of articles on the high salaries and assets that exist in some parts of the nonprofit sector in that city. Youngman (2002) points out that even when there is no real change in behavior, media attention and government investigations can create the perception that there is a spike in scandals.

Beginning about 2005, reports that hospitals were charging uninsured patients more



than privately insured patients caught the public's ire (Anderson 2007). More recently, both New Hampshire and New Jersey government officials have focused on the issue of high salaries for nonprofit executives, and New Jersey legislators have placed limits on what charities can pay their CEOs if they provide services for the state (Gose 2010).

This increasing public scrutiny has led to challenges of nonprofits' tax-exempt status (Strom 2010). PILOTs made by nonprofits offer what some consider a middle-ground approach, whereby nonprofits maintain their property tax exemption, but municipalities still receive some money to offset revenues forgone due to the exemption.

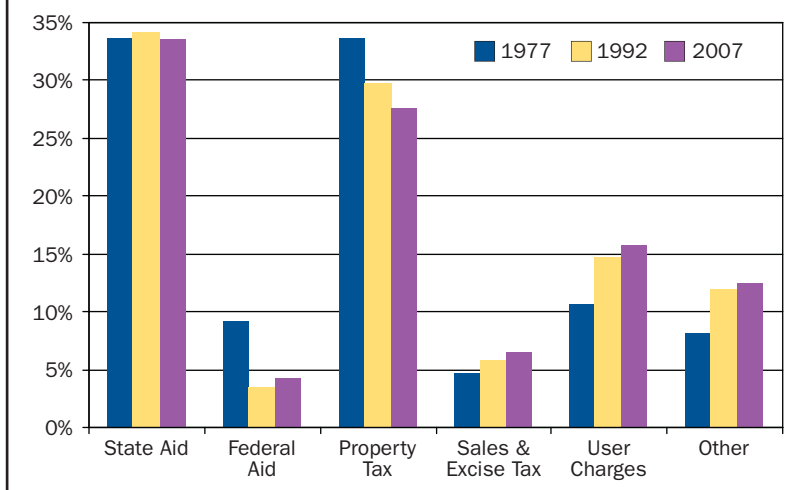
Local Government Revenue Pressures

In a September 2009 survey of city fiscal conditions, the National League of Cities reported that pessimism about the ability to meet city fiscal needs was at its highest level in the history of its 24-year survey (Hoene and Pagano 2009). Even worse, because city fiscal conditions typically lag behind economic conditions by about two years, many municipal officials expect budget shortfalls to worsen through 2012 (McFarland 2010).

Over the last three decades local governments have faced a combination of steep declines in federal aid and erosion of the property tax base. Figure 3 shows sources of general revenue for local governments, which include cities, towns, and villages; counties; school districts; and special districts. Between 1977 and 1992, federal aid to local governments as a share of total general revenues—which was never high—fell 62 percent. It has risen since then, but is still less than half of what it was 30 years ago. The share of general revenues from state aid in 2007 is identical to the share in 1977.

During this 30-year period, the relative importance of the property tax has declined—falling from 34 percent of general revenues

FIGURE 3
General Revenue Sources for Local Governments (1977–2007)



Source: Census of Governments.

in 1977 to 28 percent in 2007. The erosion in the property tax base is due to a wide variety of factors, including the growth of tax limitations, exemptions, and other forms of special property tax treatment, none of which are expected to turn around in the foreseeable future (Augustine et al. 2009, 4).

For example, since the late 1970s many states have imposed property tax limits on local governments. By 2006, 34 states had some type of limit on property tax rates, 29 states had limits on property tax revenues, and 14 states had statewide limits on property tax assessments. Only seven states did not have any of these limits, and thus left complete control of property tax decisions to local governments (Anderson 2006).

With declining federal aid and constraints on property taxes, local governments have needed to find other ways to raise revenue. The most notable increases are seen in user charges, but in some municipalities, efforts to find new revenue sources have included soliciting PILOT contributions from nonprofits that own property exempt from property taxes.



CHAPTER 2

The Property Tax Exemption for Nonprofits



Payments in lieu of property taxes must be understood within the context of the history, rationale, and dimensions of the property tax exemption for charitable nonprofits, which is provided in all 50 states and the District of Columbia. The roots of the property tax exemption are based on case law and can be traced to the British legal traditions that settlers brought with them to the American colonies, although explicit property tax exemption did not arise until much later (Gallagher 2002, 3). Annual state property taxation did not become the norm until the 1830s, and explicit codification of property tax exemption for charitable nonprofits followed. For example, in 1859 the Kansas Constitution became the first state constitution that explicitly exempted churches from taxation (Diamond 2002, 120–121).

RATIONALES FOR THE TAX EXEMPTION

Various rationales for the charitable property tax exemption have evolved over time, including two that are particularly relevant today. First, the property tax exemption for charitable nonprofits can be justified as part of the decision to properly define the property tax base. Swords (2002) argues that the proper base of the property tax is property in private hands. Since nonprofits are established in order to benefit the public, property owned and used by nonprofits should not be part of the tax base.

Second, the property tax exemption is often justified as an appropriate subsidy to encourage the activity of nonprofits, also known as the *quid pro quo* theory. According to this theory, because nonprofits provide benefits to society, including reducing the

services that need to be provided by government, they are deserving of a tax subsidy. In recent years, the quid pro quo rationale has become increasingly important at the state level, as states have moved toward narrower definitions of organizations eligible for exemption than those used at the federal level (Brody 2007).

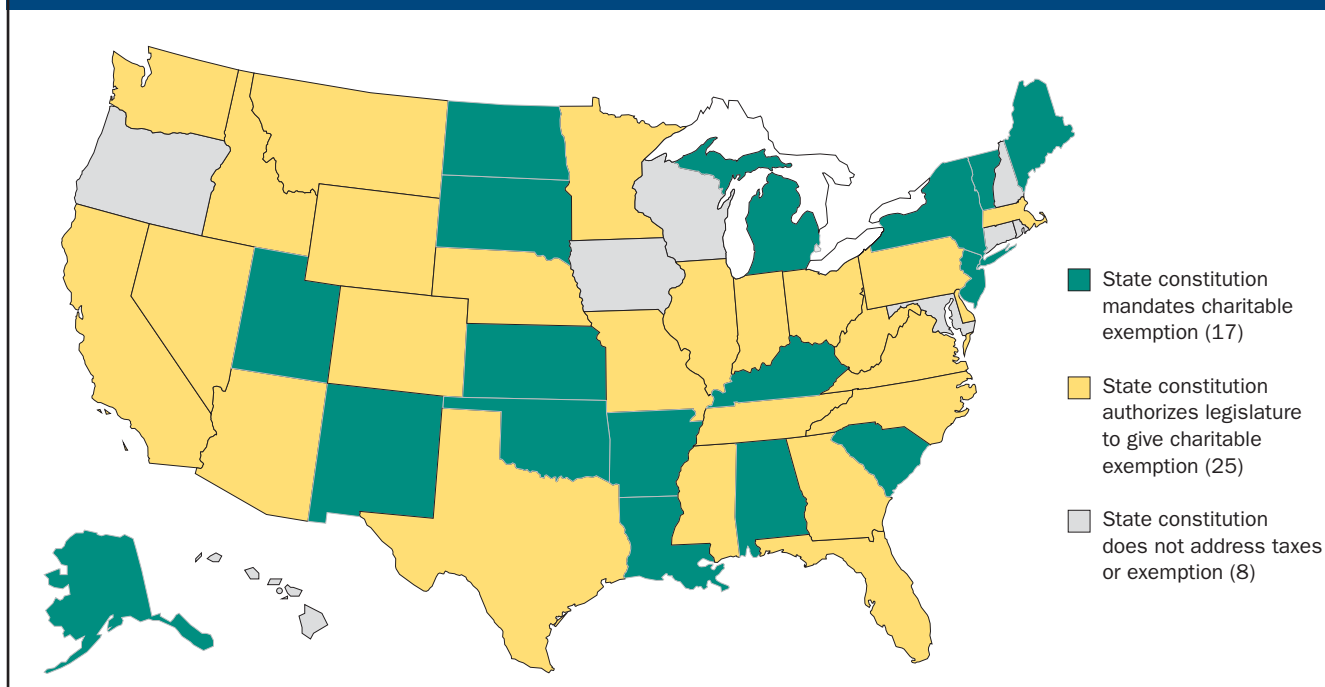
Critics point out that the property tax exemption is an imprecise policy for subsidizing charitable activities, because it primarily benefits nonprofits with the most valuable landholdings, not those providing the greatest public benefits (Bowman, Cordes, and Metcalf 2009, 280–281). There is also a geographic mismatch between the benefits provided by a tax-exempt nonprofit and the cost of the exemption in forgone property tax revenues. While the benefits are often broadly dispersed throughout a metropolitan area, a state, or the nation, the cost of the property tax exemption is concentrated in the host municipality.

STATE VARIATIONS IN LEGAL REQUIREMENTS

The criteria that nonprofits must satisfy to qualify for a property tax exemption are determined at the state level—in state constitutions, statutes, and rulings by state courts. In 27 states federal designation as a 501(c)(3) organization is necessary for state tax exemption (Bowman, Cordes, and Metcalf 2009, 273). However, states often adopt a narrower definition, and thus 501(c)(3) designation is no guarantee that a nonprofit will be tax-exempt at the state level. Seventeen states grant local governments the authority to determine which nonprofits qualify for tax exemption within certain categories, although the enumerated categories may be a fairly small part of the nonprofit sector (Bowman 2002, 32).

State constitutions normally provide for a charitable tax exemption, but vary in whether this exemption is mandated or authorized (figure 4). Since the majority of state

FIGURE 4
Charitable Tax Exemption in State Constitutions



Source: Brody (2010a).

constitutions leave authority over the charitable tax exemption to legislatures, “states generally have laws exempting the property of churches, schools, and ‘charitable’ organizations;” in states where the constitution is silent on this exemption, courts have ruled that “granting exemption is within the inherent power of the legislature” (Gallagher 2002, 4–5). However, only 11 states define charity statutorily, and thus clarifying the parameters of what types of nonprofit organizations qualify for the charitable tax exemption is often left to state courts (Bowman and Fremont-Smith 2006, 203).

Since all states have a charitable tax exemption, the definition of what constitutes a charity may be the most important issue in determining the breadth of a state’s exemption. Particularly important is whether a charity must provide a public benefit or relieve government of a burden to obtain tax-exempt status. Providing a public benefit is the broader definition that often results in a wider range of nonprofits receiving

tax-exempt status. That said, relief of a government burden is not normally interpreted narrowly to mean services that government actually provides, but rather, services that government views as beneficial (Brody 2007, 276).

Table 1 shows the range of state requirements that charities must meet to obtain tax-exempt status. These differences across states mean that legal challenges to nonprofits’ tax-exempt status will also vary. At least 10 states have multipart tests that have been specified by state courts or in state statute to determine whether a nonprofit qualifies for the charitable tax exemption, such as Illinois’ five-part test described in box 1 (Bowman 2002, 43).

Normally property must be both owned and used by a nonprofit to qualify for exemption from the property tax. In no state is nonprofit ownership alone sufficient for an exemption; the property must actually be used for an exempt purpose. As a result, many charitable nonprofits do in fact pay

TABLE 1
State Requirements for Charitable Tax Exemption

	Number of States			% Yes for Known States
	Yes	No	Unknown	
Tax-exempt charities are ALLOWED TO:				
Charge a fee to recipients of its services	41	3	6	93.2
If yes, must charge poor people below cost	12	27	8	30.8
Make a profit, as long as it is retained for institutional purpose	36	7	7	83.7
Support political candidates or influence legislation	16	23	11	41.0
Serve a predominantly social function	12	28	10	30.0
Distribute net income to its members or officers	0	42	8	0.0
Tax-exempt charities are REQUIRED TO:				
Provide a general public benefit	38	7	5	84.4
Provide service to rich and poor without regard to ability to pay	24	13	13	64.9
Relieve government of a burden	19	21	10	47.5
Provide a substantial part of its services for free	15	22	13	40.5
Derive most income from public funds or private donations	14	23	13	37.8

Source: Compiled from Bowman (2002, 40–44).

substantial property tax bills. For example, in Cambridge, Massachusetts, the Massachusetts Institute of Technology is by far the largest property taxpayer in the city because of its ownership of properties used by biotechnology firms, for rental housing, and other noneducational activities (City of Cambridge 2009, 85).

The “use” requirement also means that taxes are owed when a nonprofit holds property for future development, although some period of time for construction is allowed. The treatment of ancillary property—especially parking lots—is a frequent subject of litigation, and state courts vary in whether they interpret the use requirement narrowly for each property, or whether they take into consideration that an individual property may not itself be used for an exempt purpose but is necessary for a charity’s overall operations (Bowman 2002, 35–37). Finally, state laws vary in the treatment of property that is partially used for an exempt purpose, with nonprofits sometimes completely losing or maintaining their exemption. The most common approach is to allocate property taxes based on the share of the property used for a nonexempt purpose (Brody 2007, 283).

The treatment of rental property can be complicated. Nonprofits that rent space from a for-profit entity are normally not eligible for a property tax exemption. Property that is owned by a nonprofit and rented to another charity that uses it for an exempt purpose is also sometimes taxable, although courts have occasionally decided “to permit exemption only when the lease arrangements are at or below cost” (Gallagher 2002, 8).

CHALLENGES TO THE PROPERTY TAX EXEMPTION

The complexity of property tax laws, revenue pressures of municipalities, evolving organizational practices of nonprofits, and the



changing political climate all contribute to challenges to the property tax exemption for nonprofits. “Nonprofit entities have shown remarkable success in state supreme courts and statehouses in defending exemptions against municipal and legislative challenge” (Brody 2010b, 88). However, the following situations often lead to challenges to a nonprofit’s exemption and are considered by courts (Brody 2007, 275–279):

- Charging fees: Normally charging fees does not in and of itself lead to a revocation of tax-exempt status, especially if the fees are below market rates, a large share of customers are charged a lower

fee based on their ability to pay, or the fees subsidize a charity's general mission.

- Not receiving a large share of revenue from donations: Nonprofits that are largely financed with fees may face more scrutiny, but generally courts treat government funding and private donations similarly.
- Competing with for-profit businesses: Competition alone does not normally lead to revocation of tax-exempt status, but it is a consideration. Perhaps most important is whether a nonprofit's operations are distinguishable from for-profit competitors.
- Serving a broad charitable class: Courts often consider whether a charity serves

a broad group, as opposed to being more like a member-serving organization.

- High executive compensation: While courts do not seem to have consistent rulings on this issue, they distinguish between cases of justifiable high pay for executives who have successfully managed large nonprofit organizations, and cases of nonprofits that unjustifiably appear to be zeroing-out profits by passing on large salaries to executives.

In addition to these scenarios that might lead to questions about certain nonprofits' tax exemptions, several types of organizations are particularly likely to face challenges

BOX 1

Court Challenges to Exemptions for Nonprofit Hospitals

Nonprofit hospitals attract frequent legal challenges to their tax exemptions, and three such cases decided by state supreme courts are of particular interest. Two cases decided in 1985 show how similar rulings can lead to very different outcomes. In *Utah County v. Intermountain Health Care*, the Utah Supreme Court found that two nonprofit hospitals failed to meet the state constitution's charitable standard because they provided insufficient charity care, and thus their tax exemption was revoked (Fanning 2008, 33). Similarly, in *Hospital Utilization Project (HUP) v. Commonwealth of Pennsylvania*, the Pennsylvania Supreme Court found that a hospital support facility could not qualify for a sales tax exemption because it did not meet the requirements of a purely public charity in the state constitution. This ruling also had implications for the property tax exemption in the state (Gallagher 2002, 12).

The impact of these rulings played out very differently, however. In Utah, health care organizations worked with the State Tax Commission to develop standards requiring health care nonprofits to maintain charity care plans, publicize the availability of subsidized care, and provide unreimbursed care that exceeds the value of their



property tax exemption. The Utah Supreme Court upheld the constitutionality of these standards in a 1994 decision. Utah's approach, which has been termed a "community benefit reporting requirement," has been adopted in some form by 16 states.

The Pennsylvania Supreme Court established a five-part test to determine whether a nonprofit qualified for a charitable tax exemption. This HUP test set a high threshold to qualify for the charitable tax exemption, and resulted in confusion due to the many different interpretations by courts around the state.

to their exemptions. While court rulings vary depending on state law, it is possible to make some generalizations.

Hospitals attract more court challenges to their tax-exempt status than any other type of nonprofit organization. One important reason is that uninsured patients have been charged significantly higher rates than insured patients, because private insurers and the government negotiate large discounts for their members, and then nonprofit hospitals have employed aggressive tactics to obtain payments from their patients (Connolly 2005). It can be difficult to distinguish the operations of nonprofit and for-profit hospitals, because they often provide similar levels

of charity care (Brody 2007, 279; Shafroth 2005). A search of state cases in which health care institutions litigated a denial of property tax exemption found that for the 1990–2007 period there were 141 cases from 42 states. These cases were decided about evenly for and against the health care institution (Fanning 2008).

Nonprofits providing long-term-care housing, including retirement homes and low-income housing, may be the second most frequent target of legal challenges to the nonprofit property tax exemption, particularly when the housing is offered at market rates. Courts recognize “the clear contrast between, for example, elderly

By 1994 at least 1,000 nonprofit organizations had their tax-exempt designation challenged formally or informally (Leland 1995, 592). The HUP test and subsequent court cases led “cities, counties, townships, and school districts across Pennsylvania to solicit PILOTs under the threat of challenges to charitable tax exemptions,” including the creation of one of the nation’s most comprehensive PILOT programs in Philadelphia (Gallagher 2002, 16).

In 1997 Pennsylvania’s legislature passed Act 55, the Purely Public Charity Act, clarifying ways charities could meet the requirements for tax exemption, which made it easier for nonprofits to qualify as public charities. The Pennsylvania Supreme Court affirmed these new standards, and challenges to nonprofits’ tax exemption and pressure to make PILOTs abated. For example, PILOT contributions in Philadelphia fell from \$8.8 million in 1996 to roughly \$800,000 in 2001 (Glancey 2002).

The third case, *Provena Covenant Medical Center v. The Department of Revenue*, was decided by the Illinois Supreme Court in 2010. The Illinois Department of Revenue had ruled that a nonprofit hospital should lose its property tax exemption because it did not meet parts three and five of the five-

part test put forth in 1968 by the court in *Methodist Old Peoples Home v. Korzen*):

1. The nonprofit must have no capital stock or shareholders.
2. It must earn no profits or dividends, but instead derive funding mainly from private and public charity.
3. It must dispense charity to all who need and apply for it.
4. It does not provide gain or profit in a private sense to any person connected with it.
5. It must not place obstacles in the way of those who need the charitable benefits it provides.

The court upheld the revocation of the hospital’s tax exemption because *Provena* provided insufficient charity care and granted price reductions to less than one percent of its patients under the hospital’s charitable care program. It is too soon to tell what the repercussions of the *Provena* ruling will be. Some commentators predict that it will affect health care nonprofits across the country (Yue and Colias 2010); others note that the Illinois charitable standard for nonprofits differs from that in other states and predict that the major impact of the ruling will be limited to health care nonprofits in that state (Columbo 2010).



people who live in their own homes and pay taxes, and those who live in a property owned by a charitable institution that does not” (Gallagher 2002, 5–6).

Health clubs also face challenges to their property tax exemption because of similarities between nonprofit clubs like the YMCA and for-profit competitors. Other types of targeted nonprofit organizations include arts organizations (Gallagher 2002, 5); childcare facilities (Brody 2007, 282); “land set aside for conservation” (Brody 2007, 285); and organizations taking “controversial positions on social, economic, and cultural issues” (Youngman 2002, 33).

On the other hand, universities do not seem to face frequent challenges to their tax-exempt status, except for ancillary properties that are not being used for educational purposes. This is likely because the majority of state constitutions explicitly provide for property tax exemptions for educational institutions. Churches and religious organizations also are usually free of such chal-

lenges, due both to constitutional protections and political support, although they sometimes must account for individual properties not directly tied to religious activities. Social service organizations provide a large share of government services through contracts, often have limited revenues, and enjoy considerable political support, so they, too, are largely unaffected by challenges (Lemov 2010).

TAX SAVINGS FOR DIFFERENT TYPES OF NONPROFITS

The importance of the property tax exemption varies significantly for different types of nonprofits. Many nonprofit organizations rent space instead of owning property, and thus generally do not receive any benefit from the property tax exemption. Among nonprofits that do own real property, the tax savings from the exemption vary widely. Although it is difficult to confirm hard numbers, table 2 shows estimates of the tax savings from the property tax exemption for

different types of nonprofit organizations (Cordes, Gantz, and Pollak 2002). Overall, this study estimates that only one-third of nonprofit organizations own real property, but this fraction is much higher for larger nonprofits with higher revenues and for nonprofits that need significant amounts of property in order to carry out their core missions, such as retirement homes, hospitals, and higher education institutions. The table highlights the concentration of financial resources in the nonprofit sector, because a small number of large nonprofits with very

large tax savings inflate the average savings (\$203,144) far above the median savings (\$18,259) received by nonprofits that own property.

For the typical nonprofit organization, the savings from the property tax exemption equals roughly 2 percent of total revenues for the organization. However, for the small minority of nonprofits with revenues below \$100,000 that own real property, the property tax exemption is much more important—the median tax savings equals 14 percent of total revenues. On the other hand,

TABLE 2
Estimated Tax Savings from the Property Tax Exemption for Nonprofits that Own Real Property (1997)

	Number of Nonprofits that Own Real Property	Percent of Nonprofits that Own Real Property (%)	Tax Savings for Organizations that Own Real Property (\$)		Tax Savings as a Percent of Total Revenues (%)	
			Average	Median	Average	Median
All Organizations	151,689	33	203,144	18,259	9	2
Revenue Level						
\$100,000 or less	54,762	7	13,018	7,001	54	14
\$100,001–\$500,000	48,526	28	32,861	8,961	11	4
\$500,001–\$1,000,000	15,435	51	30,546	13,313	4	2
\$1,000,001–\$5,000,000	21,430	70	58,577	24,257	3	1
\$5,000,001–\$10,000,000	4,998	83	147,031	82,281	2	1
Over \$10,000,000	6,538	88	1,390,062	427,902	2	2
Organization Type						
Performing Arts	5,491	19	79,103	10,079	4	2
Human Service/ Multipurpose	24,138	40	49,989	13,443	5	2
Museums	1,904	44	133,682	20,181	16	4
Housing/Shelter	6,613	58	63,526	27,576	20	9
Higher Education	1,898	62	1,477,483	381,507	4	2
Retirement Homes	4,393	81	214,039	80,492	15	6
Hospitals	4,000	70	1,736,467	515,603	4	2

Notes: This table presents rough approximations, not precise calculations. The authors used the following methodology. First, they took the Federal Reserve Board's estimate of real estate owned by nonprofits in 1997 (\$900 billion), and made adjustments to remove property owned by churches and nonprofits that are not registered as 501(c)(3) organizations, and to account for nonprofits excluded from the National Center for Charitable Statistics' (NCCS) database of IRS Form 990 returns. These adjustments resulted in a \$365 billion estimate of property owned by charities in the sample. Second, the \$365 billion total was allocated to individual charities based on each organization's share of the total value of land, buildings, and equipment. The authors address the inclusion of equipment by assigning a value of \$0 to all organizations with a value of land, buildings, and equipment below \$100,000. Third, to reach an estimate of each charity's tax savings from the property tax exemption, each organization's estimated real property value is multiplied by the average effective commercial property tax rate for each state in 1997 (Minnesota Taxpayers Association 1999).

Source: Cordes, Gantz, and Pollak (2002, Table 4–6).

the total dollar value of the property tax exemption goes primarily to large nonprofits. Those with revenues above \$10 million receive nearly two-thirds of the total tax savings from the property tax exemption, despite representing only 4.3 percent of nonprofits that own real property.

Large discrepancies in tax savings are also evident when looking at different types of nonprofits. The importance of the tax savings when measured as a percent of total revenues is highest for retirement homes and other nonprofits engaged in housing

and shelter. Hospitals and higher education institutions receive by far the largest absolute tax savings from the property tax exemption. There are also large differences in the importance of the property tax exemption within each type of nonprofit.

TAX REVENUE FORGONE DUE TO THE PROPERTY TAX EXEMPTION

The reduction in the property tax base caused by the charitable tax exemption has two related effects on municipalities—decreased property tax revenues, and higher property tax rates for businesses and homeowners. Assuming tax rates are constant, the percentage of would-be property tax collections forgone due to the charitable tax exemption ranges widely at the state level depending on the size of the nonprofit sector, from about 1.5 percent to 10 percent, with a national average around 5 percent of property tax revenues (Bowman, Cordes, and Metcalf 2009).

Looking at statewide averages obscures the fact that nonprofit property tends to be highly concentrated in central cities and college towns (Netzer 2002). For these municipalities, the nonprofit tax exemption can significantly shrink the tax base. *The Chronicle of Philanthropy* analyzed property assessment rolls in 2006 to determine the impact of the nonprofit property tax exemption in 23 of the 30 largest cities in the United States (Lipman 2006a). Figure 5 shows that the value of exempt property owned by nonprofits varies widely, from 10.8 percent of total property value in Philadelphia to 1.9 percent in Memphis and El Paso.

While this figure highlights the variation across cities, the statistics for individual cities should not necessarily be viewed as definitive, given differences in the emphasis placed on assessing tax-exempt property (Lipman 2006b). For example, the Boston Assessing

FIGURE 5
Estimated Value of Exempt Property Owned by Nonprofits
as a Percent of Total Property Value



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).

Source: Lipman (2006a).



Department recently conducted a detailed assessment of tax-exempt property and found that properties owned by universities and medical institutions alone were equivalent to 14.0 percent of total assessed value (City of Boston 2009), which is much higher than the 8.4 percent shown in figure 5.

In addition to the percentage of property value owned by tax-exempt nonprofits, a city's reliance on the property tax relative to other revenue sources affects the impact of the nonprofit property tax exemption on municipal budgets. Forgone property tax revenue will not have as large an impact on the budgets of local governments with a heavier reliance on sales and excise taxes, user fees, or state aid.

In general, the nonprofit tax exemption is small compared to the total property tax base, but is large compared to other kinds of state and local tax exemptions for nonprofits (box 2). Furthermore, the value of government-

BOX 2
Revenue Forgone from Various State and Local Tax Exemptions

After the property tax exemption, the two largest state and local tax savings for nonprofits are exemptions from income and sales taxes. Nonprofits also receive an indirect tax subsidy from the deductibility of charitable contributions from state and local income taxes, and from the ability to issue tax-free bonds. Every state exempts charitable nonprofits from property taxes, and all 45 states with corporate income taxes also exempt charitable nonprofits.

Exemption from sales taxes is not as common: 24 of 45 states with general sales taxes exempt purchases by charitable nonprofits, while another 16 states exempt purchases for specific categories of charitable nonprofits. Only 15 of 45 states exempt sales by charitable nonprofits (Bowman and Fremont-Smith 2006).

Sherlock and Gravelle (2009) made the following estimates of fiscal year 2009 forgone revenue from the charitable tax exemption at the state and local level:

- Property tax exemption: \$17–32 billion
- Income tax exemption of investment income: \$7–9 billion
- Income tax deduction for charitable contributions: \$3.6 billion
- Sales tax exemption: \$3.3 billion

These estimates are a lower bound, because they do not include the value of religious property and the sample does not include all charitable nonprofits (although it includes almost all large nonprofits). Both of the studies cited here estimated the forgone revenues from these state and local tax subsidies for nonprofits using data from the IRS Form 990 and information about the extent of nonprofit tax exemptions in each state.

owned property that is tax-exempt is generally much greater than the value of tax-exempt nonprofit property. In some cases the exempt value from property tax relief programs for homeowners, business tax abatements, and other tax incentives may also be larger than the value of the nonprofit tax exemption. Furthermore, a large portion of nonprofit tax exemptions accrue to religious entities, which are generally not targeted for PILOTs.



CHAPTER 3

Case Studies of PILOT Programs and Initiatives



Harvard Medical School, Boston

Obtaining systematic information on PILOTs is difficult for a number of reasons. Governments that employ a payment arrangement defined here as a PILOT do not always use that term. Alternatively, some governments apply the term PILOT to a type of payment not included in our definition, such as a payment from a governmental or for-profit entity to a municipality as a substitute for full property taxes. It is easier to obtain information on broadly applied PILOT programs such as the one in Boston, but more difficult to obtain information on PILOTs made by single institutions under ad hoc or short-lived agreements. Furthermore, neither party to the transaction may be willing to make detailed PILOT information public.

To understand the scope of PILOTs in recent years, this report began with a 1998

survey of municipal finance directors and key community leaders in 73 large cities across the United States. This study was the first to gather information on PILOT activity nationwide (Leland 2002). It found PILOTs in seven large cities in six states: Baltimore, Boston, Detroit, Indianapolis, Minneapolis, Philadelphia, and Pittsburgh.

We have used Google's search engine and a comprehensive literature review to compile information on municipal PILOTs in place since 2000. This compilation included both large cities and smaller municipalities that host an educational institution or hospital that plays a major role in the city's economy, such as the small town of Lebanon, New Hampshire, which receives payments from the Dartmouth-Hitchcock Medical Center. Each of the seven cities where Leland found a PILOT program in 1998

has continued to collect revenues from PILOTs since 2000, and our research uncovered many additional municipalities with PILOTs. This finding might leave the impression that PILOT use is growing. However, both the scope (large cities vs. all municipalities) and methodology (survey vs. literature review and Google search) in these two studies are different, and thus no definitive conclusion regarding any trend in PILOT use can be reached.

A systematic, comprehensive survey of PILOT use for every municipality in the United States is not available, but several sources provide information on their likely magnitude. First, U.S. Census data show that PILOTs made by nonprofits are just one of many items included under “miscellaneous revenue, not elsewhere classified” or falling “within the definition of general revenue, but not classifiable as a tax, intergovernmental revenue, or current charge.” That entire category accounted for 5 percent of municipal revenue in FY2007 (Census of Governments 2007), indicating that, in aggregate, PILOTs contribute only a small fraction of municipal revenues.

Second, a study of hospital PILOTs focused on the 10 private hospitals included in the *U.S. News* 2004 Honor Roll (Schiller 2004). Five of them made PILOTs, one formerly made a PILOT, and four had not made any. Hospital PILOT amounts ranged from a \$300,000 fire service fee paid to Durham, North Carolina, by the Duke University Medical Center to \$5.8 million in fire and police service fees paid to Palo Alto, California, by the Stanford Hospital and Clinics.

A third source in *The Chronicle of Higher Education* (2010) examined PILOTs made by research universities across the United States. After applying the PILOT definition used in this report, and focusing only on private colleges, we determined that 16 of the top private research universities in the

United States made PILOTs to the municipalities in which they are located. Among the universities that reported PILOTs, annual contributions ranged from \$500,000 from the University of Notre Dame to \$7.5 million from Yale University.

Some of these PILOTs are long-standing, dating to the 1920s, but four were instituted since 2000. The basis for payments ranges from assessed value, number of employees, or number of residence beds to what the university thought it could afford. In Pittsburgh, all voluntarily contributing nonprofits pay into a public service fund organized by local nonprofits, but the individual contribution amounts are not revealed.

Information on PILOTs in selected cities and towns illustrates that the revenue generated by PILOTs is often small, amounting to a fraction of 1 percent of the city budget (table 3). However, on occasion PILOT revenue can comprise a significant portion of the budget, as in Bristol, Rhode Island, where PILOT revenue from Roger Williams University contributes nearly 5 percent of the city budget. Several case studies illustrate the factors affecting both the potential and pitfalls of PILOTs.

BOSTON, MASSACHUSETTS

As a city renowned for its many world-class colleges, universities, and hospitals, Boston has one of the longest standing PILOT programs and the most revenue productive program in the country. In FY2009 Boston obtained \$15.7 million in PILOTs from all tax-exempt nonprofits. Even so, this is a small percentage of the total city budget (0.66 percent). Educational and medical institutions accounted for \$14.9 million of this total, which is only 4.3 percent of what these organizations would have paid if they were liable for property tax payments at the commercial rate (table 4). Educational and medical organizations would have

contributed 24.6 percent of city property tax revenue if they were taxable entities (City of Boston 2008; 2009; Boston Assessing Department 2010).

When a nonprofit expands its real estate holdings, particularly when it acquires previously taxable property and applies for tax exemption or when it begins new construction, the Boston city government initiates a conversation with the objective of reaching a PILOT agreement between the city and the nonprofit. Factors that affect the payment include the size and usage of the property or project. Agreements extend between 10 and 30 years, and negotiated payments are subject to an annual escalator clause. Community service benefits provided by nonprofits are taken into account and can offset up to 25 percent of the negotiated cash PILOT.

In January 2009 Boston Mayor Thomas Menino initiated a PILOT Task Force to review the current PILOT program, with the likely but not explicitly stated goal of raising additional revenue from nonprofits. While Boston University, Harvard University,

Massachusetts General Hospital, Brigham and Women's Hospital, and Tufts Medical Center each make annual payments to the city over \$1 million dollars, many nonprofits make no PILOT. An additional concern is the wide range in payments. In the latest year for which data are available, Harvard paid nearly \$2 million, while Boston College paid less than \$300,000.

The issue of increasing PILOT amounts is viewed very differently by some government officials and representatives of nonprofit groups. According to City Councilor Stephen Murphy, a member of the city's PILOT Task Force, 13 of the city's 16 private colleges and universities contribute revenues under PILOT agreements, but these agreements fail to compensate the city adequately for its services (Marcelo 2009). Twice Murphy has petitioned the legislature to allow full taxation of nonprofit organizations and Representative Michael Moran (D-Boston) sponsored a bill to assess nonprofits at 25 percent of the value of their property. In contrast, Richard Doherty, president of the Association of Independent Colleges and Universities in

TABLE 3
PILOT Contributions to Municipal Revenues

City	Revenue Generated (\$)	City Budget (\$)	Year	Revenue Generated as Share of Total Budget (%)
Baltimore, MD	5,000,000	1,493,018,000	FY2001	0.33
Boston, MA	15,685,743	2,380,000,000	FY2009	0.66
Bristol, RI	2,100,000	44,017,031	FY2009	4.77
Butler, PA	15,000	8,442,098	FY2010	0.18
Cambridge, MA	4,508,000	466,749,012	FY2008	0.97
Detroit, MI	4,160,000	2,460,000,000	FY1998	0.17
Lebanon, NH	1,280,085	42,312,510	FY2010	3.03
Minneapolis, MN	158,962	1,400,000,000	FY2009	0.01
New Haven, CT	7,500,000	648,585,765	FY2010	1.16
Pittsburgh, PA	4,416,667	496,611,848	FY2007	0.89
Providence, RI	2,500,000	444,544,123	FY2010	0.56

Note: In the cases of Baltimore, Bristol, Pittsburgh, and Providence, the total payment was divided by the number of years for an estimated annual payment.

Source: Authors' research.

TABLE 4

Estimated Property Tax Revenue if Taxable and PILOTs for Nonprofits in Boston (FY2009)

Institution	Exempt Value (FY2009) (\$)	Property Tax Revenue if Taxable (\$)	PILOT Amount (\$)	PILOT as % of Revenue if Taxable
Educational Institutions				
Boston University	2,115,919,700	57,362,583	4,892,138	8.53
Harvard University	1,477,225,500	40,047,583	1,996,977	4.99
Suffolk University	237,230,300	6,431,313	375,290	5.84
Berklee College of Music	161,741,600	4,384,815	361,222	8.24
Boston College	561,952,500	15,234,532	293,251	1.92
Mass. College of Pharmacy	106,910,300	2,898,338	227,980	7.87
Tufts University	151,760,200	4,114,219	152,159	3.70
Emerson College	177,826,400	4,820,874	139,368	2.89
Showa Institute	54,718,800	1,483,427	120,966	8.15
Wentworth Institute of Technology	207,977,400	5,638,267	40,747	0.72
Northeastern University	1,351,225,100	36,631,712	30,571	0.08
Simmons College	152,572,500	4,136,240	15,000	0.36
New England Law Boston	15,888,500	430,737	13,125	3.05
Emmanuel College	165,162,000	4,477,542	0	0.00
Fisher College	16,719,000	453,252	0	0.00
Wheelock College	60,362,200	1,636,419	0	0.00
Medical Institutions				
Massachusetts General Hospital	1,457,667,100	39,517,355	2,200,964	5.57
Brigham and Women's Hospital	815,886,700	22,118,688	1,315,822	5.95
Tufts Medical Center	581,770,900	15,771,809	1,015,628	6.44
Mass. Bio-Medical Research Corp	146,236,500	3,964,472	818,728	20.65
Children's Hospital	691,857,800	18,756,265	250,000	1.33
Boston Medical Center	300,928,700	8,158,177	221,644	2.72
Beth Israel Deaconess Med. Center	823,114,100	22,314,623	167,000	0.75
Dana Farber Cancer Institute	226,522,000	6,141,011	131,475	2.14
Spaulding Rehabilitation Hospital	86,751,700	2,351,839	77,534	3.30
Caritas St. Elizabeth's Med. Center	252,504,700	6,845,402	0	0.00
Faulkner Hospital	181,881,400	4,930,805	0	0.00
New England Baptist Hospital	144,781,500	3,925,026	0	0.00
Total of All Institutions	12,725,095,100	344,977,325	14,857,589	4.31

Note: PILOT includes three categories: cash PILOT (91.6% of total), community service credits (5.3%), and property taxes paid on properties that would normally qualify as exempt based on their use (3.2%).

Source: City of Boston (2009, 44–45).

Massachusetts, has stated, “The colleges and universities and teaching hospitals in Boston pay about \$15 million a year in payments in lieu of taxes . . . that’s the highest amount, I believe, of any city in the country” (Short-sleeve 2009).

The PILOT Task Force issued recommendations in April 2010 that cover many important features for a systematic PILOT program, including using a basis for calculating PILOT amounts (in this case, assessed value); granting community benefit offsets

that reduce a nonprofit's cash PILOT; and extending the range of nonprofits targeted for payments beyond colleges, universities, and hospitals to secondary educational institutions and cultural institutions, such as museums (City of Boston 2010).

THE MACDOWELL COLONY IN PETERBOROUGH, NEW HAMPSHIRE

The MacDowell Colony, founded in 1907 to promote the arts, operates an artists-in-residence program in 32 art studios and various common buildings on 450 acres in Peterborough, New Hampshire. Artists from across the country compete for a MacDowell Fellowship.

Former fellows include Leonard Bernstein, Willa Cather, Aaron Copland, Alice Walker, and Thornton Wilder.

In 2005, 246 artists including one New Hampshire resident were selected to receive fellowships. The Peterborough Board of

Selectmen challenged the colony's tax exemption on the basis that, among other reasons, it "failed to meet the statutory requirement that residents of New Hampshire be admitted to a charity's benefits." Selectmen offered to accept a substantial PILOT, but when MacDowell refused the offer, the town revoked the organization's tax exemption. Without its tax-exempt status, MacDowell Colony's property tax bill would have been \$160,000 per year (*Town of Peterborough v. The MacDowell Colony, Inc.* 2008).

MacDowell appealed the selectmen's decision. Eventually the New Hampshire Supreme Court voted in favor of MacDowell, ruling its promotion of the arts benefits the general public, which automatically includes residents of New Hampshire. A MacDowell Colony (2008) press release states, "While defending MacDowell's charitable status required significant time and resources, the Colony's board of directors felt the issue was sufficiently important to pursue at the

**MacDowell
Colony**



highest level. MacDowell hoped the case would set a precedent, one that would safeguard other charitable organizations from increasing pressure by municipalities to pay taxes they do not owe.”

PROVIDENCE, RHODE ISLAND

In 2003 the City of Providence reached an agreement with its four private colleges for payments in lieu of property taxes totaling \$48 million over 20 years. At the time Mayor David Cicilline argued, “With total annual budgets of \$750 million, combined endowments of \$2 billion, and over 25,000 students—the vast majority of them from outside of Providence—these institutions are thriving in our city. Yet for all the annual police, fire, public-works, and other services these enormous institutions consume, they pay virtually no compensation to the city” (Perry 2003).

By 2009 the economic downturn forced Providence to search for more revenue, and the value of property owned by nonprofits had more than doubled since the start of the decade. For both reasons, Providence sought to increase the revenues raised from colleges, and planned to obtain PILOT revenue from hospitals for the first time. The colleges objected, citing the earlier agreement and noting they faced their own financial challenges.

State legislation was filed that would allow a tuition tax, a \$150 fee per semester for each full-time student from out of state, as well as legislation to allow Rhode Island cities to collect payments up to 25 percent of the property tax liability that would be owed if exempt properties were subject to full taxation (Marcelo 2009).

In September 2009 the city established a Commission to Study Tax-Exempts with several objectives, including determining the costs associated with providing city services to tax-exempt organizations and developing a methodology for valuing community partnerships made by tax-exempt institutions.



Yale University

The commission has not yet issued its final report. It is important to note that Rhode Island and Connecticut are the only two states where the state government makes PILOTs to municipalities hosting private non-profit hospitals and educational institutions.

YALE UNIVERSITY IN NEW HAVEN, CONNECTICUT

In 1991 Yale entered into a formal agreement with New Haven to make a \$1.2 million annual PILOT, and over time that financial contribution has risen (Kodrzycki and Munoz 2009, 23). In February 2009 Yale agreed to increase its payments by 50 percent, with the university contributing around \$7.5 million per year starting in 2010 (Zapana 2009), but the story of Yale’s contribution to New Haven goes far beyond its PILOT.

Since the mid-1980s, Yale has been actively involved with public officials and corporate leaders in fostering New Haven’s economic development. A study of resurgent U.S. cities concluded that universities can make a substantial difference in a city’s economic future, noting that, “Yale emerged as the engine of New Haven’s revitalization”

(Kodrzycki and Munoz 2009, 21). In addition to its role as a major employer and incubator for the biomedical sector, Yale has been involved in the city's revitalization in other ways, including funding The Center for the City, an organization aimed at tapping New Haven's civic resources to tackle its social problems; redevelopment of several blocks of the city's retail center; and paying a stipend for Yale employees buying homes in the city (Kodrzycki and Munoz 2009, 23).

Although Yale's efforts stand out for their magnitude, other town-gown economic development collaborations have evolved in places such as Greensboro, North Carolina; Philadelphia, Pennsylvania; and Worcester, Massachusetts. From the local government perspective, colleges and universities can be important anchors for employment and economic development, and from the college or university perspective, fixed assets make relocation difficult and a city's positive image helps it attract students, faculty, and staff (Sungu-Eryilmaz and Greenstein 2010, 8).

STATE AND FEDERALLY FUNDED PILOT PROGRAMS

State-funded programs in Connecticut and Rhode Island make PILOTs to municipalities for exempt property owned by nonprofit educational and medical institutions. Sometimes these are called GILOT programs (grants in lieu of taxes) to distinguish them from the types of PILOTs described previously.

Under Connecticut's program, which is the more long-standing and well-financed of the two, the state reimburses municipalities for revenue forgone because of the property tax exemption afforded to colleges and hospitals. Initially the state reimbursed local communities for 25 percent of the amount that colleges and hospitals would

have paid in property taxes if they were taxed. Over time, this percentage was raised several times, until it was set at 77 percent in 1999 (Carbone and Brody 2002). In FY2008, Connecticut's total payment under the program was \$122.4 million, which was paid to 57 municipalities and 7 special districts (State of Connecticut 2008).

Rhode Island reimburses municipalities for tax revenue forgone from nonprofit educational institutions and hospitals, state-owned hospitals, veterans' residential facilities, and correctional facilities, but on a much smaller scale. Under this program, introduced in 2006, municipalities are reimbursed for 27 percent of tax revenue forgone. For FY2010, Rhode Island will pay out \$27.6 million (State of Rhode Island 2009).

One of the strongest arguments in favor of a state-funded PILOT program is that the property tax exemption for nonprofits is created by the state and typically provides benefits to citizens beyond municipal borders. Another argument is that the statewide treatment of nonprofits can be more systematic than local PILOTs, which often appear to be ad hoc in nature.

There are some difficulties with such a program, however. State budget problems may mean that the funding is unreliable from year to year. Just as states tend to cut aid to local governments during recessions, they are likely to cut appropriations under PILOT programs. A different kind of problem is an incentive for local assessors to overstate the value of nonprofit property covered under such a program, since any overstatement will increase state grant revenue at no cost to the municipality. To counteract this temptation, a state PILOT program must include some monitoring of local assessment practices.

The federal government also has several programs for compensating local governments

for forgone taxes on property owned by the federal government. The U.S. Payments in Lieu of Taxes (PILT) program makes payments to local governments (primarily counties) for public land owned by the Interior Department or the U.S. Forest Service. In FY2009, the PILT program directed \$382 million to local governments, with 84 percent going to 12 states in the Mountain West and Pacific regions, including Alaska (U.S. Department of the Interior 2010). Many states also make PILOTs on behalf of state-owned property, notably in capital cities.

POTENTIAL FOR MUNICIPAL PILOT PROGRAMS

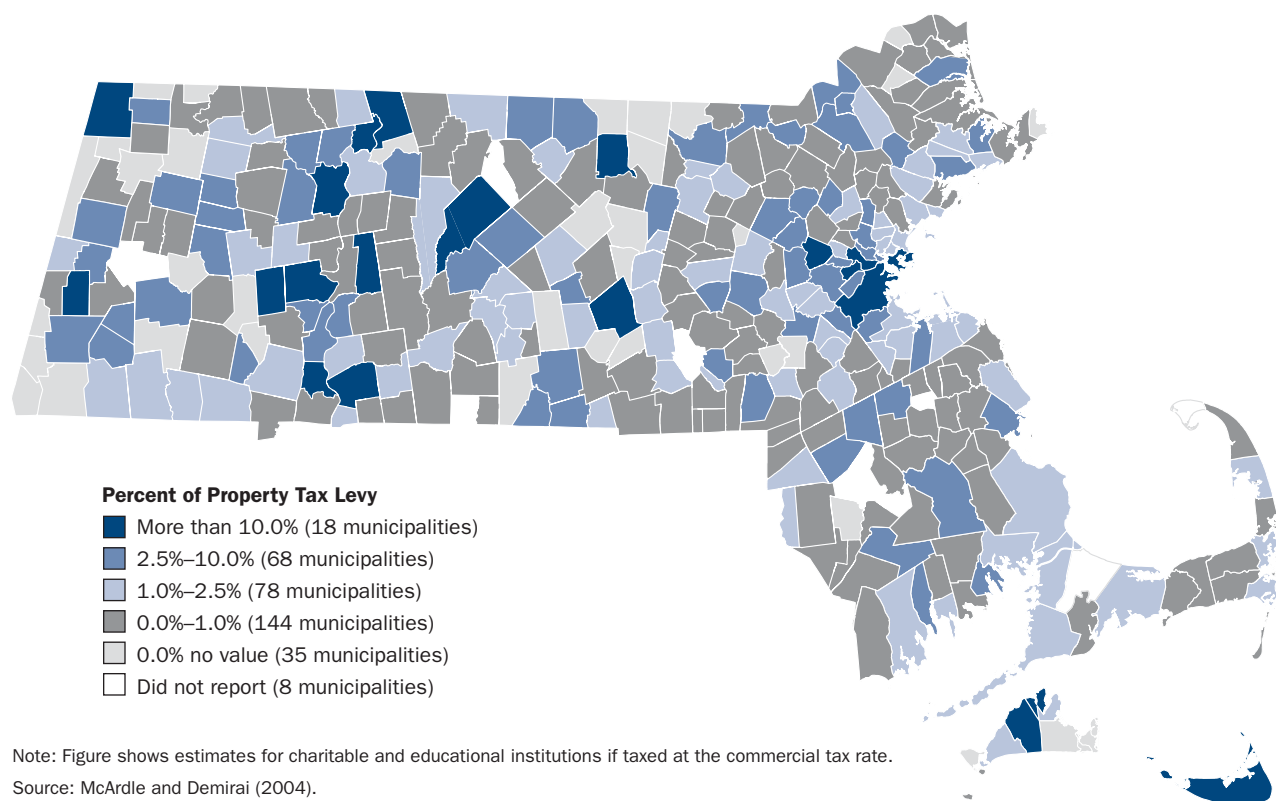
Nonprofits vary greatly in the amount of revenue they earn and the value of the assets they control. Four nonprofit sectors—

hospitals, health other than hospitals, higher education, and human services—account for 59 percent of nonprofit assets and 78 percent of revenues. Of these four sectors, hospitals have the largest proportion of both revenues and assets.

The Massachusetts Department of Revenue conducted a survey in FY2003 of the state's 351 municipalities to look at property owned by tax-exempt charitable and educational institutions (McArdle and Demirai 2004). These organizations owned property worth \$22 billion, or approximately 3 percent of total property value in the state. However, there were large variations across communities. Figure 6 shows the share of property tax revenue from these organizations if the property tax exemption was removed and they were taxed at the commercial tax

FIGURE 6

Share of Property Taxes Paid to Massachusetts Municipalities by Nonprofits if Exemption Removed (FY2003)



rate in each municipality. While tax revenues forgone due to the property tax exemption were less than 1 percent of total property tax revenues in the majority of the state's municipalities, they exceeded 2.5 percent of total property tax revenues in one-quarter of the municipalities, and exceeded 10 percent of total revenues in 18 communities.

The Minnesota Budget Project and Property Tax Study Project (2000) researched the revenue potential of PILOTs in the state's 2,700 cities and towns based on the value of property owned by charitable institutions and hospitals, but not governments, churches, or colleges. Table 5 indicates that if cities and towns were to collect property taxes from charitable institutions and hospitals, the impact on total local property tax revenues would vary greatly. While 78 percent of Minnesota cities and towns would receive no additional property tax revenue because they have no charitable institutions or hospitals, six cities and towns would be able to increase property tax collections by more than 10 percent, assuming they held the tax rate constant. Alternatively, they could reduce the tax by 10 percent on the rest of the taxpayers.

TABLE 5
Revenue Potential of PILOTs in Minnesota

Number of Cities and Towns	Potential Increase in Property Tax Revenue
2,105	0, No potentially taxable nonprofits
447	Less than 1%
125	1–5%
17	5–10%
6	Greater than 10%

Note: Revenue would be collected from charitable institutions and hospitals but not governments, churches or colleges. A tax rate of 0.38% was assumed.

Source: Minnesota Budget Project and Property Tax Study Project (2000).

The number of nonprofits, expenses, and assets by U.S. region is shown in table 6. Northeastern states host a disproportionately large share of nonprofit organizations, while the South has the smallest share. This same pattern holds for nonprofits' expenses, although nonprofits in the West have the lowest level of assets. The potential to raise revenue from PILOTs is likely to be concentrated in the Northeastern states and in certain cities and towns, with health and education nonprofits being the most likely revenue generators.

TABLE 6
Nonprofits by U.S. Census Region (2005)

Region	Number of Organizations per 10,000 Population	Expenses per Capita (\$)	Assets per Capita (\$)
Northeast	12.8	5,462	11,325
Midwest	10.9	3,800	7,139
South	9.0	2,690	5,186
West	10.5	3,125	4,757
Total	10.9	3,601	6,751

Source: Wing, Pollak, and Blackwood (2008, 198–200).



CHAPTER 4

Arguments For and Against PILOTs

There are several compelling reasons to expect charitable nonprofits to make PILOTs to their host municipalities, but major problems exist in the way PILOTs are currently collected in many places.

ARGUMENTS FOR PILOTs

Nonprofits should pay for the public services they consume.

Perhaps the most basic reason to expect nonprofits to make PILOT contributions is that these organizations directly benefit from the public services provided by municipalities, and thus should make payments to offset their cost. Some of the services provided by municipal governments are essential for the operation of nonprofits, while others are not. One way for municipalities to determine an appropriate level of PILOT contributions is to distinguish between public services that directly benefit nonprofits, as opposed to services that benefit specific residents or the community as a whole.

For example, members of Boston's PILOT Task Force have established a 25 percent standard, whereby the city would seek PILOTs equal to 25 percent of the property taxes that would be owed if the nonprofits' properties were fully taxable. This goal was set "since approximately 25 percent of the City's budget is allocated for core City services such as police protection, fire protection, and public works—services consumed by tax-exempt institutions" (City of Boston 2009, 26).

Figure 7 shows several categories of spending made by municipal governments in FY2007. The first three categories total 37.8 percent of municipal budgets, and include core public services that are essential



for the operation of nonprofits—police and fire protection, sewers and waste management, and roads. This is considered a low-end estimate of the public services used by nonprofits because other types of services that directly benefit nonprofits are not included in these categories. County governments and special districts also provide services directly benefiting nonprofits, but do not normally receive PILOTs and thus are not included in the figure.

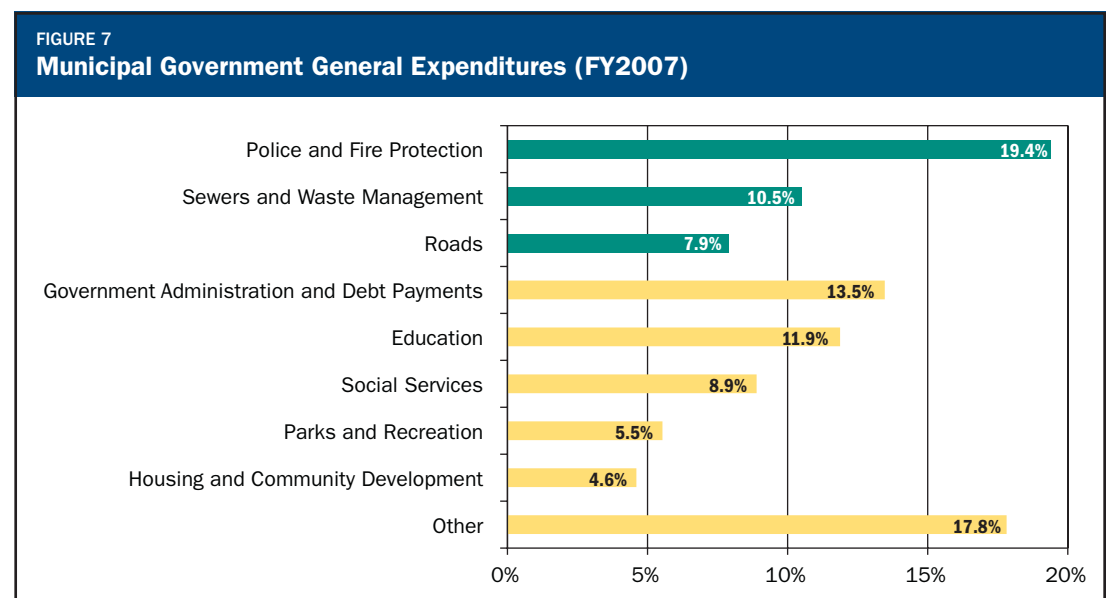
PILOTs provide essential revenue for some municipalities and allow tax exporting.

For municipalities with a large share of tax-exempt nonprofit property, PILOTs can provide essential revenue that can be used to provide improved public services, lower property tax rates, or pursue other policy goals. PILOTs are sometimes dismissed because they currently make a small contribution to municipal budgets when measured in percentage terms. However, the revenue that could be generated with expanded use of PILOTs is considerable, even with non-

profits paying a quarter or less of what they would pay if their properties were all taxable.

Relative size is not the only way to measure the importance of a PILOT program; the dollar value matters, too. For example, in FY2009 nonprofit organizations in Boston made PILOTs worth \$15.7 million. Although that payment was only 0.66 percent of the city’s budget, it was more than enough to fund snow removal for an entire winter, or about half of the budget for the city’s library system (City of Boston 2008; 2009).

PILOTs are also a way for municipalities to export their tax burden to nonresidents, because most revenues for universities, retirement homes, and sometimes hospitals come from people who live outside the municipality (Brody 2005). Some economists may oppose this strategy, because property taxes serve as the “price” for local services (Fischel 2001), and thus a tax that is exported to nonresidents may lead to overspending by municipalities. However, tax exporting may be a justifiable policy to the extent that the benefits provided by nonprofits spill over



Source: Census of Governments.



into surrounding communities, while the costs in terms of forgone revenues are concentrated in one city. This is particularly the case when economically strong suburbs surround a center city whose tax base has been depleted due to a high number of nonprofits.

PILOTs can address inequities created by the charitable property tax exemption.

One critique of the charitable property tax exemption is the perceived inequity in the distribution of tax savings. Generally the greatest tax savings go to large nonprofits with the most valuable landholdings, especially hospitals, higher education institutions, and tax-exempt housing facilities, while most small nonprofits receive relatively little in tax benefits. The large nonprofits are the same ones most frequently targeted for PILOTs. Conversely, smaller nonprofits, especially social service providers, are rarely targeted.

Because nonprofits that rent space from private owners are generally not eligible for

the property tax exemption, about two-thirds of nonprofit organizations do not receive any benefit from the exemption (Cordes, Gantz, and Pollak 2002). However, to the extent that landlords pass on some portion of their property taxes in the form of higher rent, organizations that rent still pay property taxes. This raises concerns about horizontal equity, since two nonprofits that are similar in almost every respect may receive dramatically different tax benefits solely because one nonprofit owns its property while the other one rents.

PILOTs can reduce inefficient location decisions made by nonprofits.

According to economic theory, the charitable property tax exemption distorts the location decisions of nonprofits because it creates an incentive for them to locate in center cities where the tax savings are high compared to adjacent municipalities (Quigley and Schmenner 1975). It is well established that property taxes are capitalized into selling

prices—for otherwise identical properties, the one with higher property taxes will have a lower selling price, which equalizes total expenses over the life of the property (Yinger et al. 1988). Consequently, within a given metropolitan area, nonprofits have a financial incentive to locate in municipalities with high tax rates, because their decisions are based solely on selling prices, not property taxes (McEachern 1981).

The empirical evidence that the charitable tax exemption leads nonprofits organizations to locate in municipalities with high property tax rates more frequently than they would without the tax exemption is weak, but this potential inefficiency is still a concern (Hansmann 1987; Chang and Tuckman 1990).

By making nonprofits pay more for choosing to locate in high-tax municipalities with a large share of tax-exempt properties, PILOTs can help offset distortions created by the property tax exemption. PILOTs can also address two other inefficiencies: the incentive for tax-exempt nonprofits to have a higher ratio of capital and land to labor, and to own property instead of renting.

ARGUMENTS AGAINST PILOTs

PILOTs are often ad hoc, secretive, and contentious.

Table 7 contrasts PILOTs with many desirable features of a tax system. Many of the problems with PILOTs result from the fact that they are voluntary payments. As a result, PILOTs are haphazard—the level of PILOT amounts normally depends more on the aggressiveness of municipal officials than on property values or the level of public services consumed by nonprofits. Consequently there are huge horizontal inequities, with similar nonprofits making very different PILOTs even within the same municipality.

The processes that lead to PILOTs are harshly criticized by many nonprofits that view PILOTs as a kind of extortion. Even though they are legally tax-exempt, nonprofits may feel that it is in their best interest to make a contribution, because otherwise they could face the possibility of having their property tax exemption challenged in court, face resistance when trying to secure building permits, or lose government contracts. In the process of fighting over PILOTs, both municipalities and nonprofits can spend

TABLE 7
Desirable Features of a Tax System vs. PILOTs

Desirable Features of a Tax System	Common Pitfalls with PILOTs
Horizontal equity: Taxpayers in similar situations pay similar taxes. For example, two homeowners with similar property values pay similar property taxes.	Because PILOTs are voluntary, two tax-exempt nonprofits with similar property values often make very different PILOTs.
Vertical equity: Taxpayers with a greater ability to pay often face higher tax bills.	Large nonprofits with highly valued real property may pay less in PILOTs than smaller nonprofits with lower property values.
Low administrative costs: The costs of government administration plus compliance costs for the private sector are low relative to the amount of revenue raised.	The costs of government administration for PILOTs (including costs for assessing tax-exempt property), the expenditures nonprofits make to avoid or reduce PILOTs, and the potential costs of litigation for both parties can all be high.
Revenue sufficiency: The tax system raises enough revenue to pay for the desired level of public services.	PILOTs normally raise little revenue relative to what nonprofits would pay if taxable, but can still provide crucial revenue for some municipalities.
Transparency: The tax system should be simple and easy to understand.	PILOTs are often negotiated secretly, and the payments are often determined in an ad hoc way with no underlying basis.
Predictability: Tax rates should be fairly stable from year to year so taxpayers can plan for future liabilities, and government should be able to rely on a stable revenue stream.	PILOTs are often short-term agreements, which leave municipalities uncertain that they will continue to raise sufficient revenue, and nonprofits concerned that they will be asked for higher and higher payments in the future.

significant amounts of money on legal fees and end up with their reputations tarnished.

PILOTs provide limited and unreliable revenue.

PILOT programs normally do not generate significant revenue relative to the size of municipal budgets. Leland (2002) summarized PILOT programs in several large cities in the 1990s, and found that PILOTs as a percentage of these cities' budgets were relatively small: 0.15 percent in Baltimore; 0.17 percent in Detroit; 0.54 percent in Philadelphia; 0.77 percent in Pittsburgh; and 1.37 percent in Boston.

It can also be difficult for municipalities to negotiate long-term PILOT agreements that provide a reliable revenue source, even from nonprofits willing to make significant financial contributions. Brody (2010b, 88) outlines a frequent source of conflict between municipalities and nonprofits:

Municipalities above all seem to be seeking a predictable revenue stream that they can count on for budgeting purposes, but colleges [and other nonprofits] justifiably fear agreeing to long-term commitments. It is not just concern about future revenue needs—colleges worry about a creeping line of scrimmage. Hence the insistence by nonprofits that contributed to the Pittsburgh Public Service Fund that each year's collective multimillion dollar PILOT was a "gift" that couldn't be compelled or become a base line for future contributions.

Nonprofits often reject the idea of making PILOTs because they want to avoid any direct challenge to the property tax exemption itself and are worried about creating the impression that they are taxable organizations. Concern about establishing the precedent that nonprofits are taxable is justifiable. While most state constitutions allow for tax exemp-

tions for charitable nonprofits, state court decisions and new statutes can dramatically narrow the interpretation of these constitutional provisions. It is important for local governments interested in voluntary contributions from nonprofits, but not interested in challenging the property tax exemption itself, to make this intent explicit in the contracts signed between nonprofits and municipalities that form the basis of ongoing PILOT agreements.

The limited revenue potential of a PILOT program must be weighed against the possibility of significant legal and administrative costs. To be fair for nonprofits, PILOT programs should consider the community benefits provided by each nonprofit organization, and the assessed value of its tax-exempt property. However, collecting these data entails some administrative costs for municipalities and compliance costs for nonprofits. Finally, heavy-handed requests for PILOTs can strain relationships between municipalities and nonprofits, which is another cost to consider since successful partnerships can be very beneficial for municipalities.

PILOTs could lead nonprofits to raise fees, cut services, or reduce employment.

The added cost of making PILOTs may have some negative consequences for nonprofits, such as the possibility that they will raise fees charged to their beneficiaries, cut services, reduce employment, or relocate. Certainly it is important to consider the implications of the extra expense. Nonprofits will respond differently based on the type of organization, their reliance on different revenue sources, their current budget situation, and other factors. However, as long as PILOTs are truly voluntary, and not just voluntary in name, a nonprofit presumably would decline to make a PILOT if doing so would have severe



consequences, such as forcing the non-profit to drastically cut core services or relocate.

One of the most likely reactions of non-profits to the extra expense of a PILOT is to increase user fees, which accounted for 49 percent of revenues for charitable non-profits in 2005 (Wing, Pollak, and Blackwood 2008, 134). This response is especially likely for nonprofits that rely heavily on fees and provide services where demand does not fall much in response to higher prices, such as a marginal increase in college tuition. Because fees will normally be paid in part by beneficiaries who live outside the municipality, this response is effectively a type of tax exporting, and possibly a better match between the benefits and costs of the nonprofit.

While it is doubtful that nonprofits would make severe cuts to their main operations because of a PILOT, they could decide to cut charitable services that are not central to their core mission. For example, in response to making a \$2 million PILOT, Brown University “eliminated more than \$600,000 in support for HELP, an urban health and education program” (Worcester Regional Research Bureau 2004, 3).

Nonprofits often argue that PILOTs could force them to cut payrolls or make other changes that would diminish the economic benefits that accrue to the local community. There is no doubt that these benefits can be significant. In addition to direct employment, large nonprofits such as hospitals, universities, and museums can serve as anchor institutions that bring non-residents into city centers, create businesses to supply goods and services demanded by the anchor institutions, and foster urban renewal (Penn Institute for Urban Research 2009). Universities can provide particularly large dividends for a community’s long-term success, including a more highly skilled workforce, innovative start-ups, a vibrant cultural life, and all of the jobs and tax revenue that go along with these benefits (Appleseed Consultants 2003).

However, focusing on the general economic benefits generated by nonprofits is not an argument against PILOTs per se. For-profit businesses are also major employers and generate similar economic benefits, and do pay property taxes. Higher PILOTs could reduce property tax rates for for-profit businesses, and in turn increase employment in the private sector.

Other possible responses by nonprofits include attempts to raise donations to cover the expense of the PILOT, or to lower operational costs through efficiency improvements. However, it is normally not possible to rely on increased donations to cover the cost of PILOTs, because PILOTs are unlikely to encourage philanthropy and are often sought during recessions when nonprofits also face declines in donations and government grants (National Council of Nonprofits 2010). Furthermore, during a recession nonprofits will have already pursued cost-cutting measures to raise efficiency in response to general declines in revenue.



CHAPTER 5

Implementing and Structuring a PILOT Program



In light of the problems with the way PILOTs are currently solicited in many municipalities, this chapter offers some guidance on how to avoid common pitfalls for municipalities interested in seeking PILOTs from nonprofits and describes the processes often used to obtain PILOTs. It also examines various features of established PILOT programs and some alternative ways to raise revenues from nonprofits and other entities.

PILOTs are not appropriate for all municipalities. Before implementing a PILOT program, municipal officials should consider some key information—most importantly, the value of tax-exempt property owned by nonprofits as a percentage of total property value in the municipality. PILOTs can provide essential revenue for municipalities with a large share of tax-exempt property, but

they may not be worth the cost and effort in municipalities without a large nonprofit sector. Municipalities should also consider the types of nonprofits that own property in their communities, and their ability to contribute to the local budget (Worcester Regional Research Bureau 2004).

Public officials also must have a solid understanding of the legal basis for the charitable property tax exemption. Municipalities are probably more likely to receive significant PILOTs if they are located in states with a narrower definition of charity or more stringent requirements on the use of exempt property. In addition, local political support for PILOTs must be considered. Tax-exempt nonprofits often fight PILOT attempts aggressively, and municipalities are more likely to obtain PILOTs if they have support from taxpayers, politicians, public

employees, the local media, and others before trying to institute such a program.

MUNICIPAL STRATEGIES TO OBTAIN PILOTS

Municipalities that have successfully solicited PILOTS from nonprofits have often employed a “carrot and stick” approach—with explicit appeals to the nonprofits’ sense of community responsibility, as well as the potential consequences of not contributing.

The Carrot: Appeals to Community Responsibility and Fairness

Requests for PILOTS are often couched in terms of community responsibility and fairness. In particular, some people argue that it is fair to expect nonprofits to make payments to partially cover the cost of local public services, and that a contribution is part of being a good neighbor.

For example, a letter from the City of Cambridge, Massachusetts (2010), to tax-exempt property owners appeals to a sense of fairness: “It is only fair to expect exempt property owners to make some contribution towards the cost of municipal services.” It notes that despite being much less than what a taxable entity would pay, a payment would be a “significant and appreciated contribution to the fiscal well-being of the City.” The letter also explains that PILOTS help provide an adequate level of public services that benefit both tax-exempt property owners and other residents of the community, which is another common appeal.

Universities in particular are often sympathetic to this argument since so many of their students and faculty live in the area and a vibrant community helps attract students. Finally, making a PILOT can improve a nonprofit’s public image, which can be particularly important for nonprofits with strained relations in the local community or with controversial expansion plans.

The Stick: Coercive Strategies that Lead to PILOTS

Appeals to community responsibility are often not enough for municipalities to obtain significant PILOT amounts, so local governments may choose to use one or more other strategies to obtain PILOTS.

First, the threat of new fees or taxes on charitable nonprofits—imposed either locally or at the state level—has led nonprofits to make PILOTS, because these voluntary contributions are viewed as preferable to the fees or taxes. While it is impossible to know the intentions of municipal officials, it appears that fees on nonprofits are often introduced as a strategic tool to compel PILOTS.

For example, a tuition tax proposed in Pittsburgh in 2009 was dropped when local colleges and universities agreed to make PILOTS worth about \$5 million per year (Urbina 2009). In Baltimore, a 2001 proposal to impose an energy tax on all nonprofits was dropped once “the city’s nonprofit hospitals, colleges, universities, and nursing homes agreed to pay the city a total of \$20 million over the next four years” (Anft 2001). In Watertown, Massachusetts, Harvard University agreed in 2002 to make a PILOT worth at least \$3.8 million per year with a 3 percent annual adjustment through 2054. Based on an interview with the town manager, a newspaper article said that “the turning point in the negotiations followed a push by Watertown officials for a bill in the Legislature that would have forced all tax-exempt institutions to pay taxes on properties that represent more than 2.5 percent of a community’s tax base” (Flint 2002, A1).

Second, potential challenges to a nonprofit’s property tax exemption have led to PILOTS because the nonprofit believes these payments are better than risking a complete revocation of the organization’s tax exemp-



tion. A tax-exempt nonprofit may decide that making a PILOT will help avoid any formal challenge to the organization's exemption. In other cases, a nonprofit may face a legal challenge to its property tax exemption and decide that its best option is to settle and reach a PILOT agreement, either because of the uncertainty of litigation or simply to avoid further legal fees (Leland 1994).

Third, municipalities have control over building permits, zoning decisions, and other factors that influence nonprofits' operations, and nonprofits may decide to make PILOTs to maintain good relations with local government officials and receive favorable treatment in the future.

Using these or other coercive strategies is a high-risk, high-reward decision for municipalities. Some of the largest PILOTs in the country were preceded by these tactics, at least implicitly. However, this approach often antagonizes the nonprofit community, can entail significant legal costs, may hurt the local government's reputation, and is not guaranteed to work. The legality of fees and taxes imposed on tax-exempt organizations is often uncertain, and may be overturned by courts. At the same time, charitable nonprofits have a strong track record of defending their property tax exemptions against a legal challenge (Brody 2010b).

Ultimately, while nonprofits may make PILOTs to receive favorable treatment

on building permits, zoning decisions, and other regulations, an explicit quid pro quo arrangement is probably illegal. A federal district court ruled in *Northwestern University v. City of Evanston* (2002) that the city could not place a large part of the university's campus in a historic district—which solely contained the university—with restrictions on future development in retaliation for the university's refusal to make PILOTs. In many respects, threatening to use the stick appears better than actually using it.

BUILDING SUPPORT FOR A PILOT PROGRAM

PILOTs are voluntary payments, and thus building support for a PILOT program among tax-exempt nonprofits is essential, even when a degree of coercion is involved. Even if a municipality is insistent on receiving some sort of PILOT, maintaining flexibility about specific program features is important. For example, nonprofits may wish to receive more credit for community benefits, or have plans for phasing in a PILOT agreement. While the municipality may receive smaller PILOTs than it had hoped for at the beginning of negotiations, working in collaboration with nonprofits will make them more likely to participate in a PILOT program. Having most major nonprofits in a municipality buy into a proposed PILOT program has major benefits,

such as reducing criticism related to horizontal inequities and putting more pressure on nonprofits to make voluntary payments so they would not be one of the few institutions not participating.

Boston's creation of a task force in January 2009 to expand its PILOT program provides some guidance for other cities. The task force included representatives from the major stakeholders: hospitals (2 task force members); universities (2); businesses (2); local government (1); community organizations (1); and labor (1). Despite their divergent interests, the members met regularly over 14 months and were able to reach agreement on a series of recommendations. Forming a similar task force is one way for municipalities to build support for a PILOT program in their communities.

PILOT PROGRAM FEATURES

Systematic PILOT Program vs. Individual PILOT Agreements

For larger cities with a significant number of nonprofits owning tax-exempt property, a systematic PILOT program is desirable because it can address many of the problems associated with PILOTs. However, for smaller municipalities that only have one or a handful of nonprofits that will be targeted for PILOTs, it may be more realistic to reach individual agreements with each organization.

Types of Nonprofits Targeted

Municipalities must decide which types of nonprofits to target for PILOTs. While many people oppose the idea of asking small social service providers or religious organizations for PILOTs, turning this basic idea into a consistent policy can be difficult because of the wide range of services provided by nonprofits and the fact that people often disagree about which types of activities should be subsidized via tax exemption.

One way to address this problem is to develop a list of general principles, and then solicit PILOTs only from nonprofits that do not satisfy these requirements. This approach was taken under Philadelphia's Voluntary Contribution Program in the mid-1990s. The city sought PILOTs from charities that did not meet the five criteria of a "purely public charity" as defined by the state supreme court. As a result, only about 50 of 580 charities in the city were asked for a PILOT. While this approach worked reasonably well in Philadelphia, courts had widely varying interpretations of the "purely public charity" test throughout the rest of the state, which illustrates the ambiguities that can result from this type of list of general principles (Glancey 2002).

An alternative approach is to set a threshold level of assessed value or operating revenues for inclusion in a PILOT program. For example, Boston's PILOT Task Force recommended establishing a threshold of \$15 million in assessed property value for a nonprofit to be included in its PILOT program. This approach focuses attention on those nonprofits that would normally make the largest PILOTs, but can result in similar nonprofits being treated very differently solely because of their size, which is a poor proxy for both the community services provided by nonprofits and their ability to make PILOTs.

Some municipalities ask for PILOTs from specific types of nonprofits. For example, Detroit has targeted housing facilities for low-income residents and the disabled (Leland 2002, 203). Finally, in many municipalities the decision about which organizations to target is easy, because their nonprofit sector is dominated by a single large institution.

Another view is that fairness requires municipalities to ask all property-owning tax-exempt nonprofits for PILOTs. These advocates argue that since PILOTs are voluntary, obtaining at least modest contributions from

all nonprofits builds support for a PILOT program, because large nonprofits and specific types of organizations do not feel unfairly singled out. With a universal program, incorporating community benefit offsets is an even more important element in the negotiations.

Trigger for Inclusion in PILOT Program

Municipalities must decide when it is appropriate to request PILOTs from nonprofits. One approach is to solicit PILOTs when nonprofits purchase previously taxable property and thus remove it from the tax rolls, or when they make significant improvements to existing tax-exempt properties. This approach is currently used in Boston. Nonprofits may be more likely to support this approach, because they can take the PILOT cost into consideration when deciding to expand, as opposed to being surprised by a new request for PILOTs over which they have no control.

Municipalities also will be able to more gradually adjust their budgets instead of facing a sudden drop in their tax base, and are in a better position to request a PILOT when the nonprofit is requesting a building permit from the local government. However, relying on a trigger for inclusion in a PILOT program leaves a large share of tax-exempt property out of consideration for PILOTs, and thus will normally not raise as much revenue as a strategy of targeting all nonprofits would raise. In addition, seeking PILOTs only during expansion discourages capital investment and raises the cost of entry for new nonprofits.

Basis Used to Calculate PILOTs

Arguably the fairest basis to calculate PILOT amounts is the assessed value of tax-exempt property, because the PILOT is proportional to the nonprofit's tax savings from the prop-

erty tax exemption. Like regular taxpayers, owners of exempt property are more likely to view a PILOT request as fair if they view the assessed value as accurate. While current assessments are often unreliable, it is not as difficult to obtain accurate assessments of exempt property as is commonly believed.

Some guidance can be found in recent efforts by the Boston Assessing Department to estimate the value of exempt property owned by educational and medical institutions in the city for FY2009. The department first used its statutory authority to obtain detailed facility information from these organizations.

Since the types of properties owned by many nonprofits have relatively few transactions that can be used for comparable sales, the city relied primarily on the income approach for assessments and used a cost approach for some special purpose items. The department then allowed the institutions to review these assessments, and made adjustments when necessary (City of Boston 2009, 40). The Boston PILOT Task Force recommended seeking PILOTs equivalent to 25 percent of the taxes a nonprofit would have paid if their properties were not exempt.

Other cities take different approaches. For example, Cambridge, Massachusetts, uses square footage as the basis. In Baltimore, PILOTs were based on an organization's annual operating income, which is a rough proxy for a nonprofit's ability to make a PILOT (Leland 2002, 203). PILOTs can also be linked to some measure of economic activities, as in the part of Yale's PILOT that is based on the number of residence beds and the number of employees (Kelderman 2010). Sometimes there is no apparent basis for a PILOT other than the negotiations between the nonprofit and municipality to set an acceptable amount.

Multiyear Agreements

Some PILOTs include a multiyear agreement between the nonprofit and the municipality, often with an escalator clause. For example, the Massachusetts Institute of Technology's PILOT to Cambridge is subject to a 2.5 percent annual increase (Kelderman 2010). The advantage of a multiyear agreement is that it reduces uncertainty for both nonprofits and municipalities.

Community Benefit Offsets

One of the central arguments for PILOTs is that some charitable nonprofits provide modest public benefits to local residents relative to their tax savings. There are two ways to address this critique: these organizations can make PILOTs (essentially reducing their tax savings), or they can provide greater public benefits for local residents.

Some municipalities have pursued the second approach by incorporating community benefit offsets into their PILOT programs. That is, the nonprofits' target cash PILOTs are reduced in return for providing public services directly benefiting local residents. This approach was a key component of Philadelphia's Voluntary Contribution Program in the mid-1990s, and the PILOT Task Force in Boston also emphasized the

importance of community benefits in their recommendations.

There are several reasons that municipalities interested in PILOTs should consider community benefit offsets. First, nonprofits may be better able to provide many public services than municipal governments, and they can often do so at a lower cost. For example, given their resources and expertise, nonprofit hospitals are in a particularly good position to provide free health clinics for local residents. This approach is also more likely to foster mutually beneficial partnerships between municipalities and nonprofits. Nonprofits are normally more willing to contribute in-kind services than to make PILOTs, and may be able to raise private donations to support these initiatives, whereas PILOTs could possibly discourage philanthropy.

The difficult part about incorporating community benefit offsets into a PILOT program is deciding what services should count for offsets. It is crucial that a municipality is clear and consistent about its priorities—that is, which types of services would be most beneficial for residents. Then nonprofit leaders and city officials can work together to identify the best opportunities to leverage nonprofits' expertise,

TABLE 8
Community Benefit Offsets to Reduce Cash PILOTs

Should count as an offset	Should not count as an offset
Job training for local residents	Job creation
Scholarships reserved for local residents	Scholarships available to all students
Public health clinic	Unreimbursed medical care that was billed for
Property taxes voluntarily paid on property being used for an exempt purpose	Property taxes paid on property that is not actively used for an exempt purpose
After school tutoring for local students	Not applicable
Legal aid	Not applicable
After school arts, music, and sports programs	Not applicable

Note: These are rough guidelines, but decisions about which benefits should count depend on the needs of individual municipalities and the capacity of local nonprofits to provide services. For another set of guidelines, see City of Boston (2009, 75–79).

TABLE 9
Ways Municipalities Can Obtain Financial Contributions from Nonprofits

	Voluntary Contribution	Contingent Contribution	Compulsory Contribution
Nonprofits Only	PILOTs SILOTs	Municipal service fees	Tuition tax
All Property Owners	n/a	Fees Charges Special assessments	For-profit entities pay property taxes on all property; Nonprofits pay property tax on property not used for exempt purposes

resources, and interests to reach these goals. The Boston PILOT Task Force recommends that only “those services that are ‘above and beyond’ the tax-exempt organization’s business model should be considered for PILOT credits” (City of Boston 2009, 7). Table 8 provides some suggestions for which types of activities should count for community benefit offsets based on the description above.

To consider community benefit offsets, municipalities must have a way to estimate the cash value of donated in-kind services or volunteer hours to reduce a nonprofit’s target cash PILOT. Experience from Philadelphia’s Voluntary Contribution Program shows that nonprofits can be “trusted to value their services fairly” (Glancey 2002, 217). Finally, municipalities may wish to establish a limit on the amount that community benefits can reduce a nonprofit’s target cash PILOT. For example, one of the Boston PILOT Task Force’s recommendations was to increase the maximum community benefit offset from 25 percent of the cash PILOT to 50 percent (City of Boston 2010).

ALTERNATIVES TO PILOTS

There is a wide range of alternatives to formal PILOT programs for cash-strapped municipalities with a substantial or growing nonprofit sector. Table 9 divides the options into those that apply to nonprofits only or to all entities, and distinguishes three types of contributions.

Voluntary Contributions

Nonprofits can make direct contributions to their municipalities by providing needed services such as health clinics, legal clinics, or scholarships, often referred to as services in lieu of taxes, or SILOTs. These arrangements are very similar to community benefit offsets, but a city can have SILOTs without having a PILOT program. For example, Vanderbilt University does not make a PILOT to Nashville, but does provide police protection for areas of Nashville surrounding its campus (Nelson 2010).

Some analysts believe that municipalities would be better off pursuing partnerships with local nonprofits to provide needed public services and foster economic development than by seeking PILOTs. For example, the Worcester Regional Research Bureau (2004, 16) concluded that instead of seeking PILOTs “the City [would] be better served by increasing the tax base through economic development projects in collaboration with the institutions of higher learning.”

Contingent Contributions

Municipal service fees are charged only to nonprofits to pay for government services that taxable entities pay for with property taxes or other general revenues, such as police protection and road maintenance. This option is rarely used because of legal challenges, but since 1973 Minneapolis has levied street maintenance fees against nonprofits based on the square footage

of exempt properties. In 2010 this fee is expected to generate \$775,000 in revenue from 1,600 tax-exempt organizations including churches and cemeteries (Hjelle and Hjermstad 2009).

User fees are typically paid by nonprofits and for-profit businesses alike, so when municipalities reduce the proportion of their budgets financed by property taxes and increase the proportion financed through user fees this shift in revenue sources will bring in additional revenue from nonprofits. For example, if garbage collection is currently financed through the property tax, a municipality can use a fee instead, and apply that fee to nonprofit organizations as well as other property owners.

There are some fees that fall between a user fee (which can be charged to nonprofits) and a tax (which cannot). Fees that fall in this gray area are often litigated in state courts, with the rulings varying by state. In the case of fire protection fees, the highest court in West Virginia ruled that a fire and flood protection fee was not a tax, but the highest court in Massachusetts ruled a Boston fire protection fee to be an unconstitutional tax (Youngman 2002, 25–26). Some issues considered by courts include whether the fee is paid by all organizations or only tax-exempt nonprofits, whether property values are the basis used to calculate the fee, and whether the level of payment is directly tied to the amount consumed by the nonprofit (i.e., garbage removal) or not (i.e., fire protection).

Both nonprofits and other entities usually have to pay special assessments, which are based on property values and used to pay for improvements that benefit specific properties in a municipality. For example, special assessments may be used to pay for sewer hookups for properties in a certain part of a municipality.

Compulsory Contributions

Tuition tax proposals have been proposed or considered in several states and municipalities, but none has yet been levied. However, three Maryland counties do levy energy taxes solely on nonprofits (Anft 2001, 3).

Depending upon the state constitution and state law, a municipality might be able to reduce the amount of property tax revenue forgone by limiting the amount of the tax exemption. This can be done by limiting the dollar value of the exemption (i.e., exempt values only up to \$5 million) or the number of acres that can be exempt.

Many nonprofits own property that is not central to their charitable purpose, known as ancillary property. States take different approaches to determining whether ancillary property should be tax-exempt (Gallagher 2002). For example, Dartmouth College must pay property taxes on dorms and dining halls because they are not exempt under New Hampshire law, but other states do not require colleges to pay property taxes on such ancillary property (J. F. Ryan Associates 2005, 6).

One common critique of the property tax exemption is that it is granted by state governments, but the cost is borne by local governments. Consequently, states may exempt a broader range of nonprofits from taxation than they would if they had to bear the full cost of the exemption. In 2002, Virginia voters approved an amendment to the state constitution that transferred authority over granting tax exemptions to local governments. Fairfax County soon decided to make all future property purchased by nonprofits taxable, although existing tax-exempt property was not affected (Shafroth 2005, 811). An alternative way to address this critique is for the state government to provide grants to municipalities hosting tax-exempt nonprofits, as is done in Connecticut.



CHAPTER 6

Findings and Recommendations



Charitable nonprofits are generally exempt from property taxation across the United States at the same time that they benefit from a variety of public services provided by local governments. Some municipalities have attempted to recoup part of these public service costs through payments in lieu of taxes (PILOTs), which are voluntary payments made by nonprofits as a substitute for property taxes.

In recent years, municipal revenue pressures and greater scrutiny of the nonprofit sector have led to a heightened interest in PILOTs, and since 2000, PILOTs have been used in at least 117 municipalities in at least 18 states. PILOTs typically contribute a small percentage of revenues to city budgets, often less than 1 percent. But the dollar magni-

tudes can be significant, such as Boston's \$15.7 million PILOT from nonprofits in FY2009, and the percentage contribution can be significant in smaller cities, such as in Bristol, Rhode Island, where PILOTs account for 5 percent of the city's budget. With an annual PILOT of \$7.5 million, Yale University makes the largest payment among colleges and universities in the United States.

PILOTs are an attempt to compensate for the revenue loss from the property tax exemption for nonprofits and for several problems with that tax exemption. Nationwide, the forgone revenue from the property tax exemption for nonprofits was estimated at \$17 billion to \$32 billion in FY2009 in one study, and about 5 percent of total property tax revenues in another. The percentage varies considerably among cities depending

upon the size of their nonprofit sector and reliance on property tax revenues. A survey of the largest cities in the United States found that the nonprofit tax exemption reduces the property tax base from 10.8 percent in Philadelphia to 1.9 percent in Memphis and El Paso (see figure 5).

The charitable property tax exemption for nonprofits has several inherent flaws when viewed as a subsidy to encourage charitable activities—the currently dominant rationale for the exemption. Frequently there is a geographic mismatch between the benefits provided by tax-exempt nonprofits and the cost of the exemption in forgone property tax revenues. While the benefits are broadly dispersed throughout a metropolitan area, a state, or the nation, the cost of the charitable property tax exemption is concentrated in a small number of municipalities, especially center cities and college towns.

Additionally, the property tax exemption primarily benefits nonprofits with the most valuable landholdings, not those providing the greatest public benefit. Thus, there are no tax savings for nonprofits that rent, and the greatest tax savings go to large nonprofits,

especially hospitals, universities, and long-term housing facilities.

PILOTs can provide crucial revenue for certain municipalities while addressing some of the problems with the charitable property tax exemption, but there are serious problems with PILOTs as well. Because they are voluntary payments, PILOTs are haphazard and often calculated in an ad hoc manner, with the level of payments normally depending more on the aggressiveness of municipal officials than on property values or the amount of public services consumed by nonprofits. As a result, similar nonprofits often pay very different amounts; PILOTs frequently lack transparency and predictability; they can strain relations with nonprofits; and they often raise little and unreliable revenue. Given the major differences across municipalities, there is no single set of recommendations: PILOTs are appropriate for some municipalities and nonprofits, but not all (table 10).

Among its general recommendations, this report suggests that municipalities should work collaboratively with nonprofits when seeking PILOTs to minimize the burden

TABLE 10
General Recommendations for Municipalities

Recommendation	Explanation
PILOTs are not appropriate for all municipalities.	PILOTs can provide crucial revenue for municipalities highly reliant on property tax revenue or with a significant share of total property value owned by tax-exempt nonprofits. In some cases, legal and administrative costs may outweigh the revenue potential.
PILOTs are not appropriate for all nonprofits.	Municipalities should focus on nonprofits owning large amounts of tax-exempt property and providing modest benefits to local residents relative to their tax savings.
Municipalities should work collaboratively with nonprofits when seeking PILOTs.	This should make local officials more aware of the benefits that nonprofits provide to local residents and the financial constraints they face. Nonprofits may offer suggestions that reduce the burden of PILOTs for their organizations, while still making a financial contribution to the local government.
Negotiating individual PILOT agreements is best for municipalities with few nonprofits.	Case-by-case negotiation enables consideration of the unique financial constraints for each nonprofit, but can lead to large discrepancies in PILOT amounts among similar nonprofits.
Systematic PILOT programs are best for municipalities with a large number of nonprofits.	This approach promotes horizontal equity among tax-exempt nonprofits, fosters transparency, makes payments more predictable, and may raise more revenue than negotiating individual agreements.
Consider alternatives to PILOTs.	Because of the serious pitfalls of PILOTs, alternatives should be considered, ranging from increased user fees to grants from the state to municipalities that host tax-exempt nonprofits.

TABLE 11
Recommendations for Systematic PILOT Programs

Recommendation	Explanation
Set a target for contributions.	A target is a useful starting point for negotiations, and may be based on the percentage of local government spending on services directly benefiting nonprofits.
Use a basis to calculate payments.	Using exempt property values as a basis promotes equity, while using square footage as a basis is easier to administer.
Make adjustments for community benefits.	Nonprofits should be able to reduce their cash payments in return for providing certain public services for local residents.
Consider soliciting PILOTs when property is taken off tax rolls.	Nonprofits avoid an unexpected new expense, and municipalities avoid facing a sudden drop in their tax base. However, this significantly erodes the revenue potential of PILOTs. Phasing in property tax exemptions over several years also achieves these goals.
Use a threshold to determine which nonprofits to include.	A threshold level of property value or annual revenues excludes nonprofits lacking the financial resources to make meaningful contributions.
Reach multiyear PILOT agreements.	Long-term agreements reduce uncertainty about future payments for both nonprofits and municipalities.

placed on nonprofits for the revenue collected (table 11). Negotiating individual PILOT agreements works best for municipalities with few nonprofits, while a systematic PILOT program is best for municipalities with a large number of nonprofits.

For municipalities interested in implementing a PILOT program, the Yale–New Haven collaboration and Boston’s PILOT program provide useful models. Yale’s involvement with the New Haven community is an example of how a single nonprofit can play a critical economic development role in a troubled city. Boston has long obtained PILOTs from many of its hospitals, colleges, and universities. Recently the mayor created a task force consisting of major stakeholders and charged them with reaching a consensus on changes for this voluntary program. The task force illustrates the importance of building support for a PILOT program, and its recommendations cover many important features of a systematic PILOT program.

Because of the serious pitfalls of PILOTs, this report also sets forth a menu of alternatives to PILOTs that municipalities can use to raise revenue from tax-exempt nonprofits. These options include reaching agreements

with nonprofits to provide requested services in lieu of taxes; increasing reliance on user fees and special assessments, which normally can be charged to tax-exempt organizations; and considering revocation of the property tax exemption for individual properties that are not actively used for nonprofits' charitable purposes.

Broader changes can address a problem of accountability with the charitable property tax exemption: that is, it is granted by state governments, but the cost is borne by local governments. Connecticut has addressed this problem by making state payments to municipalities that host tax-exempt hospitals and universities, while Virginia has transferred authority over the charitable property tax exemption from the state to local governments.

In an era of fiscal constraint, in which both municipalities and nonprofits play critical roles in serving the public, PILOTs are no panacea for cash-strapped local governments. However, PILOTs can provide crucial revenue for certain municipalities, and a well-designed PILOT program can address many of the pitfalls in existing PILOT agreements.



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- Pamela Leland, Principal and Founder, The Leland Leadership Group, LLC; and
- David Sjoquist, Director, Fiscal Research Center, Andrew Young School of Policy Studies, Georgia State University.

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- James A Chiavelli, Communications Director, Office of Government Relations and Community Affairs, Northeastern University
- Stephen Cirillo, Director of Finance, Town of Brookline
- Richard Doherty, President, Association of Independent Colleges and Universities in Massachusetts
- John Erwin, Executive Director, Conference of Boston Teaching Hospitals
- Andrew Johnson, Assessing Department, City of Cambridge
- Eric A. Lustig, Professor, New England Law School, Boston
- Kevin A. McCluskey, Senior Director of Community Relations for Boston, Harvard University
- Ronald W. Rakow, Commissioner of Assessing, City of Boston
- John Robertson, Deputy Legislative Director, Massachusetts Municipal Association

Although the authors took reviewer comments seriously in crafting their recommendations, the final report's recommendations are not meant to represent the views of the individuals or organizations listed above.

ABOUT THE AUTHORS

Daphne A. Kenyon is a visiting fellow in the Lincoln Institute's Department of Valuation and Taxation and principal of D. A. Kenyon & Associates, Windham, New Hampshire. She has worked on a wide range of public finance issues as professor of economics at Dartmouth College and Simmons College, as a policy analyst for nonprofits and government, and as a consultant. She currently sits on the New Hampshire State Board of Education and the Education Commission of the States.

Adam H. Langley is a research analyst in the Lincoln Institute's Department of Valuation and Taxation, where he has coauthored papers on property tax relief programs, education finance, and state-local government fiscal relationships. He earned his B.A. in political studies from Bard College, and is currently a master's student in economics at Boston University. He previously worked in the New York State Assembly.

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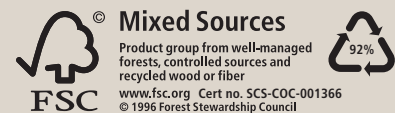
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Payments in Lieu of Taxes

Balancing Municipal and Nonprofit Interests

In recent years, local government revenue pressures have led to heightened interest in payments in lieu of taxes (PILOTs), which are payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes. Over the last decade PILOTs have been used in at least 117 municipalities in at least 18 states. PILOTs can provide crucial revenue for certain municipalities, and are one way to make charitable nonprofits—which are exempt from property taxation in all 50 states—help pay for the public services they consume.

However, PILOTs are often haphazard, secretive, and calculated in an ad hoc manner that results in widely varying payments among similar nonprofits. In this report Daphne A. Kenyon and Adam H. Langley, visiting fellow and research analyst at the Lincoln Institute of Land Policy respectively, explore PILOT use across the United States within the context of municipal revenue pressures and the property tax exemption for nonprofits, and they make these recommendations.

- **PILOTs are one revenue option for municipalities.** PILOTs are most appropriate for municipalities that are highly reliant on the property tax and have a significant share of total property value owned by nonprofits. PILOTs are also most suitable for nonprofits that own large amounts of tax-exempt property and provide modest benefits to local residents relative to their tax savings.
- **Municipalities should work collaboratively with nonprofits when seeking PILOTs.** Because PILOTs are voluntary payments and because both nonprofits and municipalities share a commitment to serving the general public, the best PILOT initiatives arise out of partnerships between municipalities and nonprofit organizations. Boston's PILOT program and the agreement between Yale University and New Haven are examples of successful collaborative arrangements.
- **State and local governments should consider alternatives to PILOTs.** Because there can be problems with PILOTs, this report also sets forth alternatives for augmenting municipal revenues. State governments should consider providing grants to local governments that host tax-exempt nonprofits to compensate them for their loss of property tax base, as in Connecticut. Municipalities can also consider such alternatives as user fees, charges, and special assessments, which are paid by both nonprofits and for-profit entities.



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Fwd: Nonprofit letter for Finance Committee materials

1 message

Brendan T. O'Connell <boconnell@portlandmaine.gov>
To: Tiffany Mullen <tgmm@portlandmaine.gov>

Tue, Sep 24, 2024 at 10:25 AM

Can you add this to the public comment section

Brendan T. O'Connell
Finance Director
City of Portland
P: (207) 874 8642
F: (207) 874 8652

----- Forwarded message -----

From: **Mary Alice Scott** <mascott@nonprofitmaine.org>
Date: Tue, Sep 17, 2024 at 4:30 PM
Subject: Nonprofit letter for Finance Committee materials
To: boconnell@portlandmaine.gov <boconnell@portlandmaine.gov>

Hello Brendan,

My name is Mary Alice Scott, and I am the Public Affairs Manager at Maine Association of Nonprofits.

I wanted to send along this letter on behalf of 20+ charitable organizations who conduct work in Portland on behalf of its residents and surrounding areas, and ask that it be included in the backup materials for next Thursday's Finance Committee meeting.

I have emailed members of the committee and council already, but I wanted to go ahead and pass it along to you, as well.

Thank you so much for your time,

Mary Alice

Mary Alice Scott

she / her / hers ([Why Pronouns Matter](#))

Public Affairs Manager

[Maine Association of Nonprofits](#)

(207) 871-1885

Please update your records with our new address: 30 Danforth St. Suite 213, Portland, ME 04101



Portland Pilot Nonprofit Letter.pdf
63K

Dear Councilors Bullett, Fournier, Trevorrow, and Mayor Dion,

Nonprofits maintain and promote the public good, providing many essential, high-impact and community-based services. By definition, charitable nonprofits ensure that “profit” is reinvested in community benefits. Through this work, we augment government efforts to increase resiliency and support community members in need.

On June 20th, the Portland City Council’s Finance Committee received a presentation on the amount of tax-exempt property in Portland related to the city’s consideration of a Payment in Lieu of Taxes (PILOT) program. The Portland City Council reviewed this concept in 2018 and **ultimately decided to reject the idea**. Our organizations would have valued more discussion at the recent meeting regarding this previous proposal, and why it ultimately failed.

If adopted, a PILOT program would ask charitable nonprofits to make payments to the City of Portland based on the value of the property they own, even though state law expressly exempts charitable nonprofits from paying property taxes. Nonprofits operate on very narrow margins, and typically do not have the same opportunities to generate revenue that for-profit businesses have. When costs increase, nonprofits cannot simply pass those costs along to those they serve.

There is a clear reason why there are so many charitable and tax-exempt organizations in Portland: our city is a hub for helping people and driving the state’s economy forward. Asking nonprofits to pay taxes, even voluntarily, fundamentally goes against the principle of our charitable status, likely forces reductions in our existing programs, and limits our ability to effectively support our community.

This policy proposal is:

- **Harmful and counterproductive:** Portland’s nonprofits would have to either *increase fees* for programs and services or *reduce or eliminate services* for those who utilize them. These are organizations who provide resources related to education, social services, immigrant support services, affordable housing, religion, elder care, mental health, and food insecurity.
- **Coercive:** “Naming and shaming” has the potential to damage relationships between city government and nonprofits.
- **Built on false assumptions:** Assessed property value does not correlate to services used.
- **A minimal revenue generator:** At the June 20th Finance Committee meeting, the total fiscal value of exempt property was stated to be roughly \$2.9 billion. Unfortunately, from the beginning, this number was misleading to the committee. Well over half of that would be exempt from this program because it is land owned by City, County, State, and Federal governments -- reducing the total to less than half at roughly \$1.4 billion. In fact, if fully implemented, this program would only increase municipal revenues by less than 0.5%.
- **Out of alignment with 2024 Council goals:** Addressing housing in Portland is the #2 Council goal. The City’s list of exempt property owners includes ten affordable housing organizations and over a dozen social service nonprofits

that provide services including temporarily housing/sheltering individuals in the Greater Portland area.

In short, this proposal will not address Portland's fiscal challenges, potentially have negative economic impacts, and could exacerbate the community's service needs. Our organizations ask that the City's Finance Committee **reject this proposal** so that it may dedicate its limited time and resources to initiatives that can effectively reduce the tax burden on residents without harming organizations that are working to benefit our community.

Sincerely,

Avesta Housing

Breakwater Learning

The Center for Grieving Children

Cheverus High School

Community Housing of Maine

Gulf of Maine Research Institute

Lincoln Academy

Maine Association of Independent Schools

Maine Association of Nonprofits

Maine College of Art & Design

Maine Historical Society

Maine Independent Colleges Association

Maine Irish Heritage Center

MaineHealth Maine Medical Center

Northern Light Mercy Hospital

Portland Museum of Art

Preble Street

Shalom House, Inc.

Spurwink

Temple Beth El

University of New England

Waynflete School

YMCA of Southern Maine

Testimony Submission from UNE - Finance Committee Meeting September 26

1 message

Edmund Cervone <ecervone@une.edu>

Wed, Sep 25, 2024 at 8:30 AM

To: "finance@portlandmaine.gov" <finance@portlandmaine.gov>

This message was sent securely using Zix®

Good morning,

My name is Ed Cervone. I am the Director of External Relations for the University of New England. Thank you for the opportunity to submit written comments on the PILOT proposal. I would like speak to these Thursday evening during the committee meeting. Please let me know if you need anything else from me.

Thanks – Ed Cervone

Ed Cervone

Director of Strategic Partnerships and External Relations

College of Professional Studies

UNE Online | University of New England

207.713.4034 | online.une.edu

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 **UNEPortlandPilotTestimony(Sep26.2024).pdf**
137K

**University of New England
Testimony in Opposition to The Proposed Portland
Payment-In-Lieu of Taxes (PILOT) Program
Delivered to the City of Portland's Finance Committee
Thursday, September 26, 2024**

Good evening, my name is Ed Cervone. I am the Director of External Relations for the University of New England. UNE appreciates the opportunity to weigh in on this proposal. I am here this evening to respectfully urge the committee to reconsider the PILOT program for Portland and its nonprofit community.

UNE's Portland Campus for the Health Sciences is home to the University's many diverse health professions programs, including dentistry, pharmacy, nursing, and the various allied health disciplines. In the summer of 2025, UNE's medical college — Maine's only medical school — will move from the Biddeford Campus to the new Harold and Bibby Alford Center for Health Sciences in Portland — a \$93 million investment in our community. With this move, the campus will become the nexus of health care education in all of Northern New England.

After the medical school's relocation:

- Nearly 1,400 students will attend classes on the Portland campus
- Over 700 employees will work on the Portland campus

Today, 372 students and 177 employees report a Portland home address. UNE pays over \$17.4 million annually in salaries and benefits to employees living in Portland. UNE annually purchases \$55.4 million in goods and services, mainly from businesses in the region.

There is much more than can be said about UNE's economic impact, but I will focus on UNE's critical role in maintaining the region's social safety net. UNE expects its students, faculty, and staff to give back to our community. It is central to our mission. The following are just a few examples of what that looks like.

UNE partners with over 65 organizations in Portland ranging from major health systems to elder care facilities to our public schools. Hundreds of UNE health care students provide thousands of hours of service to nonprofits in southern Maine and the Portland Region annually. During the pandemic, UNE students and faculty trained local health care professionals, administered vaccines to Portland residents, donated PPE, and provided childcare for frontline health care workers in Portland.

UNE provides health care at no or reduced cost to the residents of our community. In 2023, there were nearly 20,000 visits to one of UNE's Portland-based community outpatient clinics. UNE dental students

have annual rotations at Greater Portland Health. Our hygienists provide services at a number of the City's schools and at Portland WIC sites. Allied health care students provide services to STRIVE, Long Creek Youth Development Center, the Boys and Girls Club, and the Cedars – to name just a few of our partners.

UNE's Center for Excellence in Public Health (CEPH) works with the City of to deliver the State's SNAP-ED program to eligible families in the City. We worked with the City to deliver opioid response training. We partnered with the Maine Access Immigrant Network to address health disparities among immigrants, refugees, and asylum-seeking individuals. Other collaborations include oral health education in Portland public schools, needle exchange programs, school-based vision and hearing screenings, wellness programs in the region's correctional institutions, and health care delivery in the City's homeless shelters.

UNE service learning goes beyond clinical applications and addresses other basic needs of people in our community. Just last week, UNE faculty, staff, and students prepared over 100,000 meals to be shared with various nonprofits in Portland and the region. Our students regularly share meals with the residents of the Baron Center, mentor youth at the Boys and Girls Club, and raise resources for Portland's unhoused community.

UNE is a tuition-dependent institution. Unlike the larger higher education institutions found in Boston, we don't have a large endowment to draw upon for our operations. Our endowment is used to provide scholarships to our students and to ensure a diverse student body. As an example, over one-third of this year's incoming freshman class are first-generation students, that is, the first in their families to attend college.

There are no margins in today's higher education sector, and the financial challenges facing colleges and universities are only projected to grow. A PILOT payment to the City would ultimately come from student tuition. It would negatively impact the activities listed above and would affect our ability to maintain the essential social safety net to the citizens of Portland. We contend that those dollars will go much further in serving underserved residents if UNE can put them to that purpose. We are a good and proud partner of the City. We work tirelessly to minimize our burden on City services while maximizing our positive effect on the health of our community.

Thank you for considering these points. All of this comes from a more detailed report we published on our impact in the Portland Community. That can be accessed at: une.edu/portlandimpact

Thank you,

Ed Cervone
Director of External Relations
University of New England

Finance Committee - Public Comment: PILOT is better than the status quo

George Rheault <george.rheault@gmail.com>

Wed, Sep 25, 2024 at 11:58 AM

To: finance@portlandmaine.gov

The abnormally high percentage of not-for-profit property ownership in the City of Portland just got WORSE as of August 1, 2024 as the Maine Public Broadcasting Corporation purchased the building that formerly housed the "Portland Public Market" which was owned by a for-profit entity.

Please see attached the FY2025 tax bills for this property (it gets two tax bills because it is also within the "Downtown Improvement District").

Where is the City of Portland going to find another \$150,000 to fill this newly created hole? It is this kind of slow "drip, drip, drip" that has been undermining Portland for a long time now and is likely to get worse not better.

For decades now, urban centers have been trying to pivot from deindustrialization and the decline of its commercial activities to "meds and eds" as a way to maintain vitality and its tax base. Unfortunately, if the tax base is continually replaced with tax-exempt entities or properties that receive TIF benefits, then the "commercial core" will continue to be unable to finance its needs and fall further behind in terms of maintaining core municipal services.

Our City Council has to recognize that tax-exempt entities can be just as selfish and self-centered as for-profit entities. It is even worse when many of the leaders of Portland's tax-exempt institutions do not even live within Portland city limits. They simply "take without giving" and it is extremely destabilizing to the rest of the community.

Asking them to help "rebalance" our city's tax base in a fairly modest manner is not at all an unfair demand.

2 attachments



FY2025 Tax Bill for Former Portland Public Market Building.pdf

313K



FY2025 Downtown District Tax Bill for Former Portland Public Market Building.pdf

284K

**CITY OF PORTLAND**389 CONGRESS ST
PORTLAND, ME 04101

For the fiscal year July 01, 2024 to June 30, 2025

BILL #: 2507570
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001
LOCATION: 320 CUMBERLAND AVEEAST END CORP
PO BOX 10291
PORTLAND, ME 04104Owner of Record as of: April 1, 2024
EAST END CORP**CURRENT BILL RATE DISTRIBUTION**

SCHOOL	7.880	\$81,208.92
COUNTY	0.560	\$5,771.19
MUNICIPAL	6.570	\$67,708.45
TOTAL	15.010	\$154,688.56

**THIS IS THE ONLY BILL
YOU WILL RECEIVE**Assessed Property Description:
27-A-1
CUMBERLAND AVE 312-326
PREBLE ST 15-39 ELM ST 32-36
43960 SF
Acres: 1.009**FY25 REAL ESTATE TAX BILL****BILLING INFORMATION**

LAND VALUE	\$1,988,200
BUILDING VALUE	\$8,317,500
TOTAL VALUE	\$10,305,700
EXEMPTIONS	\$0
TAXABLE VALUE	\$10,305,700
TAX RATE	15.010
TOTAL TAX	\$154,688.56
PAYMENTS/CREDITS	\$0.00
ABATEMENT/ADJUST	\$0.00
TAX DUE	\$154,688.56

DATE DUE	AMOUNT DUE
10/18/2024	\$77,344.28
03/14/2025	\$77,344.28

INTEREST AT 8% PER ANNUM CHARGED BEGINNING 10/19/2024 AND 03/15/2025.**TAXPAYER'S NOTICE**Per State law, the ownership and valuation of all real estate and personal property subject to taxation shall be fixed as of April 1st.
For this tax bill, that date is April 1, 2024.**IF THIS PROPERTY HAS BEEN TRANSFERRED, PLEASE FORWARD A COPY OF THIS BILL TO THE NEW OWNER.
THIS IS ONLY FOR THE CURRENT FISCAL YEAR****INFORMATION****Without State Aid for Education, Homestead and BETE Exemption Reimbursement and State Revenue Sharing, your taxes would be 15.7% higher. The current City and School bonded indebtedness is \$374,509,262.**

For information regarding changes or valuations, please contact the Assessor's Office at (207) 874-8486. Information regarding payments, interest, lien cost charges, and/or refunds, please contact the Treasury Office at (207) 874-8490.

REMITTANCE INSTRUCTIONS**THIS IS THE ONLY BILL YOU WILL RECEIVE. THIS BILL INCLUDES TWO (2) PAYMENT VOUCHERS.**Please make check or money order payable to City of Portland and mail to:**City of Portland Treasury
PO Box 16050
Lewiston, ME 04243-9533**For payments in person, please go to the Treasury Office located in Room 102 of City Hall.
If your bank or mortgage company pays your taxes, please review and forward a copy of this bill to them.**FY25 REAL ESTATE TAX BILL** THIS STUB MUST BE RETURNED WITH YOUR **SECOND** PAYMENTBILL #: 2507570
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001INTEREST AT 8% CHARGED
BEGINNING 03/15/2025**CITY OF PORTLAND TREASURY
PO Box 16050
LEWISTON, ME 04243**

DATE DUE	AMOUNT DUE
03/14/2025	\$77,344.28

EAST END CORP

AMOUNT PAID \$ _____

208202550250757062600077344281

☐ OWNER / ADDRESS CHANGE?
CHECK HERE AND NOTE CHANGES ON BACK.**FY25 REAL ESTATE TAX BILL** THIS STUB MUST BE RETURNED WITH YOUR **FIRST** PAYMENTBILL #: 2507570
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001INTEREST AT 8% CHARGED
BEGINNING 10/19/2024**CITY OF PORTLAND TREASURY
PO Box 16050
LEWISTON, ME 04243**

DATE DUE	AMOUNT DUE
10/18/2024	\$77,344.28

EAST END CORP

AMOUNT PAID \$ _____

208202550250757061800077344281

**CITY OF PORTLAND**389 CONGRESS ST
PORTLAND, ME 04101

For the fiscal year July 01, 2024 to June 30, 2025

BILL #: 5397
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001
LOCATION: 320 CUMBERLAND AVE**THIS IS THE ONLY BILL
YOU WILL RECEIVE**EAST END CORP
PO BOX 10291
PORTLAND, ME 04104Owner of Record as of: April 1, 2024
EAST END CORPAssessed Property Description:
27-A-1
CUMBERLAND AVE 312-326
PREBLE ST 15-39 ELM ST 32-36
43960 SF**FY25 DOWNTOWN IMPROVEMENT DISTRICT BILL**

BILLING INFORMATION	
Land Value	\$1,988,200
Building Value	\$8,317,500
Total Value	\$10,305,700
Exemptions	\$0
Taxable Value	\$10,305,700
Tax Rate	0.710
TOTAL TAX	\$7,317.05
Payments/Credits	\$0.00
Abatement/Adjust	\$0.00
TAX DUE	\$7,317.05

DATE DUE	AMOUNT DUE
10/18/2024	\$3,658.53
03/14/2025	\$3,658.52

INTEREST AT 8% PER ANNUM CHARGED BEGINNING 10/19/2024 AND 03/15/2025.**TAXPAYER'S NOTICE**Per State law, the ownership and valuation of all real estate and personal property subject to taxation shall be fixed as of April 1st.
For this tax bill, that date is April 1, 2024.**IF THIS PROPERTY HAS BEEN TRANSFERRED, PLEASE FORWARD A COPY OF THIS BILL TO THE NEW OWNER.
THIS IS ONLY FOR THE CURRENT FISCAL YEAR****INFORMATION**

If you have any questions or wish to submit comments concerning the Portland Downtown District, you may contact either:

City of Portland Economic Development Office
389 Congress St, Room 308
Portland, ME 04101
207-874-8683Portland Downtown District
549 Congress St.
Portland, ME 04101
207-772-6828**REMITTANCE INSTRUCTIONS****THIS IS THE ONLY BILL YOU WILL RECEIVE. THIS BILL INCLUDES TWO (2) PAYMENT VOUCHERS.**
Please make check or money order payable to City of Portland and mail to:**City of Portland Treasury
PO Box 16050
Lewiston, ME 04243-9533**

For payments in person, please go to the Treasury Office located in Room 102 of City Hall.

FY25 DOWNTOWN IMPROVEMENT DISTRICT BILLTHIS STUB MUST BE RETURNED WITH YOUR **SECOND** PAYMENT**CITY OF PORTLAND TREASURY**BILL #: 5397
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001INTEREST AT 8% CHARGED
BEGINNING 03/15/2025**PO Box 16050
LEWISTON, ME 04243**

DATE DUE	AMOUNT DUE
03/14/2025	\$3,658.52

EAST END CORP

AMOUNT PAID \$ _____**208202550000539752600003658523**☐ OWNER / ADDRESS CHANGE?
CHECK HERE AND NOTE ON BACK.**FY25 DOWNTOWN IMPROVEMENT DISTRICT BILL**THIS STUB MUST BE RETURNED WITH YOUR **FIRST** PAYMENT**CITY OF PORTLAND TREASURY**BILL #: 5397
ACCOUNT #: 549
PARCEL ID #: 027-A-001-001INTEREST AT 8% CHARGED
BEGINNING 10/19/2024**PO Box 16050
LEWISTON, ME 04243**

DATE DUE	AMOUNT DUE
10/18/2024	\$3,658.53

EAST END CORP

AMOUNT PAID \$ _____**208202550000539751800003658531**

Testimony/public comment on PILOT

1 message

'Cullen Ryan' via Finance <Finance@portlandmaine.gov>

Wed, Sep 25, 2024 at 6:19 PM

Reply-To: Cullen Ryan <cullen@chomhousing.org>

To: "finance@portlandmaine.gov" <finance@portlandmaine.gov>

Dear Members of the City of Portland Finance Committee – Attached and pasted below, please find my testimony regarding the PILOT proposal being considered on 9/26. I will be unable to attend in person but wanted to share some insights. Thank you for your consideration. Cullen

Cullen Ryan (he/him), Executive Director

Community Housing of Maine

One City Center, 4th Floor

Portland, Maine 04101

207-879-0347

207-879-0348 (fax), Maine Relay 711

[Website](#) | [Facebook](#) | [Twitter](#)

Creating Homes and Inclusive Communities for 30 Years



Testimony re PILOT Proposal City of Portland Finance Committee 9.26.24.docx

59K



Board Members

Jennifer Putnam
Executive Director, Waypoint
Board President

Bill Shanahan
Co-Founder & Senior Advisor, Evernorth
Board Treasurer

Gunnar Hubbard
Former Principal, Thornton Tomasetti
Board Secretary

David Birkhahn
Vice President, TD Bank

Elizabeth Boepple
Partner, Murray, Plumb, & Murray

Cheryl Harkins
Advocate, Homeless Voices for Justice

Ninette Irabaruta
Senior Director, Community Engagement
& Outreach United Way of Southern ME

Chip Newell
Principal, The NewHeight Group

Luc Nya
Mental Health Program Coordinator
OCFS/Corrections Liaison, Maine DHHS

Angela Perkins
Westbrook Resident

Thomas Placek
Advocate, Portland Resident

Jennifer Rottmann
Deputy Director/CFO, The Genesis Fund

John Ryan
Co-Founder and Board Chair,
Wright-Ryan Construction

Aaron Shapiro
Retired Community Development
Director, Cumberland County

Kimberly Twitchell
Senior Director of Affordable Housing,
NBT Bank

Staff Contacts

Cullen Ryan
Executive Director

Samantha Messick
Operations Director

Vickey Merrill
Advocacy Director

Chris Harmon
Finance Director

Jenny Jimino
Office Manager

Bree LaCasse
Development Director

Brian Kilgallen
Development Officer

Robyn Wardell
Development Officer

Sarah Gaba
Asset Management Director

Meredith Smith
Supportive Housing Manager

Sarah Derosier
Asset Manager

Sam Lowry
Compliance Manager

September 25, 2024

Dear Members of the City of Portland Finance Committee:

My name is Cullen Ryan, and I live in Portland and serve as the Executive Director of Community Housing of Maine (CHOM). CHOM's small staff works collaboratively with service providers across Maine to house hundreds of people experiencing homelessness, particularly people who are chronically homeless, victims of domestic violence, and/or homeless Veterans – all of whom require supportive housing, including recovery residences. CHOM is the largest supportive housing provider for homeless populations in Maine.

CHOM partners with the City of Portland to move people experiencing chronic homelessness right into Housing First arrangements. CHOM currently has 220 units serving this purpose, with the vast majority of the placements coming from the City of Portland, originating at the City's adult single shelter. This is not easy work; some of the tenants have not been successful and some of the exits were catastrophic, with windows ripped out, appliances kicked in, cabinet doors ripped off, and significant damage to walls and floors – this coming after a pristine unit went into service housing them. Please imagine the cost of repairs. Thankfully, those situations are rare, and 90% of placements are successful. But I tell you this to ensure you know that this is mission work, and not for the faint of heart. The chronically homeless populations CHOM houses have proven themselves to be up to 29 times more likely to be in the hospital, and up to 57 times more likely to be in jail when unhoused than when housed. By successfully housing this population, we essentially stop them from ricocheting through Portland's most expensive emergency systems, including the shelter, police, EMT and fire/rescue, ambulance, along with overcrowded hospitals and jail. This population can interfere with businesses in the city when unhoused and become stable community members once housed. The choice is right in front of us.

CHOM is a 501(c)(3) non-profit/charitable organization doing mission work. CHOM houses over 1256 people in 89 housing projects across the state, with hundreds of units in Portland, and all of its properties inclusive of supportive housing serving homeless and special needs populations. These populations include people with serious and persistent mental illness, substance use disorders, intellectual and developmental disabilities, and other disabling conditions. We provide recovery residences, including housing for each of the McAuley Residences serving women with substance use disorders. CHOM does important community work. It partners with 55 service provider partners. It does all of this with 12 staff.

CHOM is thinly financed. Tax exempt status makes the difference between CHOM's ability to do this important work and CHOM being unable to do this work at all. The margins are exactly that close.

Please do not impose a PILOT on non-profit organizations in Portland. This is a short-sighted idea. If non-profits stop doing their important work, the City will pay a lot more managing the crises that arise when people are unable to be housed and supported in achieving and maintaining stability in the community. It is the difference between Portland being a nice place to be, to run a business, to visit as a tourist, or to live – and place where people with the most challenging presentations are left in instability, interfering with everything on that list.

Please don't be misled to think that this will make very little difference, or you can apply this in a very selective and limited fashion causing no harm. This is a slippery slope, and it will drive non-profit organizations like ours away from doing their important work in Portland.



Thank you for your consideration.

Maine Association of Nonprofits PILOT testimony

1 message

'Mary Alice Scott' via Finance <Finance@portlandmaine.gov>

Wed, Sep 25, 2024 at 2:05 PM

Reply-To: Mary Alice Scott <mascott@nonprofitmaine.org>

To: "boconnell@portlandmaine.gov" <boconnell@portlandmaine.gov>, "finance@portlandmaine.gov" <finance@portlandmaine.gov>

Hello,

Please find our comments regarding Portland's PILOT proposal attached.

Thank you!

Mary Alice

Mary Alice Scott

she / her / hers ([Why Pronouns Matter](#))

Public Affairs Manager

[Maine Association of Nonprofits](#)

(207) 871-1885

Please update your records with our new address: [30 Danforth St. Suite 213, Portland, ME 04101](#)



PILOT Testimony 9.26 Finance Committee.pdf

74K



Testimony in Opposition to the Proposed Portland Policy for Nonprofit Organizations to Make Payments in Lieu of Taxes (PILOT)

City of Portland Finance Committee Meeting
Thursday, September 26, 2024

Good evening, Chair Councilor Trevorrow, and members of the Finance Committee. My name is Jennifer Hutchins, and I am the Executive Director of Maine Association of Nonprofits (MANP). I am here today to speak in opposition to the proposed policy for charitable nonprofits to make Payments-in-Lieu of Taxes (PILOT).

MANP is a growing membership organization made up of over 1,000 nonprofit members from all 16 counties. For 30 years, MANP has grown to become Maine's comprehensive resource for the tools, knowledge, and connections nonprofits need to be effective and well-run.

Nonprofits maintain and promote the public good throughout our community, providing many essential, high-impact and community-based services. By definition, charitable nonprofits ensure that "profit" is reinvested in community benefits. Through this work, we augment government efforts to strengthen the resiliency of our community, and we support community members in need.

Nonprofits earn their tax exemptions every day by dedicating themselves to the public good, reducing the burdens of government and offsetting expenditures that might otherwise be made from tax revenues, and by giving up profits, privacy, and politics in pursuit of their missions.

As part of our testimony, we have also submitted a letter, signed by two dozen charitable nonprofits, outlining why it makes sense for this committee to reject the PILOT proposal. I would also like to mention that we have spoken with organizations who are reluctant to add their name to this list, or to speak publicly today. These organizations have critical partnerships with the City, and fear that speaking out against this policy could damage that partnership, or even endanger support for their critical programming.

Nonprofits Provide a Community Benefit

The nonprofit community plays a very important role in Maine's economy. Maine nonprofits employ one in six Maine workers and contribute more than \$14 billion dollars per year to the economy through wages paid, retail and wholesale purchases, and professional service contracts. This group of vibrant nonprofit organizations invests significant financial and organizational resources in their communities and mobilizes over 400,000 volunteers annually – volunteers who donate almost \$900 million in time and resources to their communities.

Municipalities provide important services, such as fire and police protection, sanitation services, and general infrastructure, to their communities. Nonprofits also provide important services, such as housing, mental health services, transportation, conservation, job training, and other enrichment opportunities, to municipalities. They can also foster innovation, community engagement and entrepreneurship. Because many of these services, if not provided by nonprofits, would fall to the responsibility of the government, nonprofits relieve some of the burden of government.



We are sympathetic to municipal fiscal pressures – in fact, nonprofits are facing many of the same forces. Nonprofits and municipal governments are both facing receding federal funding, increased labor costs, and a continued need for a high level of service. But it does not make sense for Portland to turn to nonprofits to make up this fiscal shortfall, especially when our organizations also lack the levers that private businesses have to fund programs and services.

Significant Change in Approach

The proposal PILOT and SILOT policy formalizes and significantly changes the city's current PILOT policy. In doing so, it dramatically changes the city's approach to nonprofits. Portland's nonprofits are unique and vary significantly by mission, size, and services. The current PILOT program recognizes that one size does not fit all, and that assessed property value does not correlate to services used. The annual conversation that currently occurs between nonprofits and the city encourages direct and open communication and fosters understanding about the services provided by both parties.

While the proposed policy is "voluntary," the way in which it's written, it appears that "voluntary" is in name only. Nonprofits would be sent a bill twice a year, nonprofits would have only 30 days to submit a SILOT credit application, and the city intends to effectively "name and shame" charitable nonprofits by publishing an annual list of who has been billed, and who has submitted a payment.

The memo even concedes that a mandatory policy "runs counter to the spirit of partnership between the City and its local institutions," and yet *the very next sentence* of the memo says "All non-profit institutions should participate in the PILOT program."

As stated above, charitable nonprofits are already concerned about how speaking out about this program could impact their working relationships with the city. Moving forward with this policy will only make that worse.

Negative Impact on Portland's Communities

Portland's nonprofits provide important services to their community. If the city moves forward with this policy, its nonprofits would have to either increase fees for service or reduce or eliminate services for those with low income, mental health issues, without housing, battling opioid addiction, food insecurity, at-risk youth, etc. Among Portland's nonprofits that would face difficult decisions are organizations that attract visitors who contribute money to the economy while also operating at very tight margins in order to provide cultural attractions that businesses and property owners benefit from.

We urge the committee to leave the current policy as it is and to continue to work together to address the needs of the city. While the city may be interested in increased revenue, nonprofits are facing difficult times. The City and its nonprofits should be working together to continue moving Portland forward and not be pitted against each other.

Thank you for your consideration and we urge you to reject this proposal.

Maine Association of Independent Schools Opposition to PILOT proposal

1 message

Walker, Daniel W. <DWalker@preti.com>

Thu, Sep 26, 2024 at 4:33 PM

To: "finance@portlandmaine.gov" <finance@portlandmaine.gov>

Cc: "Geoff Wagg (gwagg@waynflete.org)" <gwagg@waynflete.org>, "Pecoraro @ Cheverus" <pecoraro@cheverus.org>

This message was sent securely using Zix®

Chair Trevorrow, members of the Finance Committee, and Mayor Dion,

Attached please find testimony opposing the Finance Committee's proposal for a PILOT program in Portland. Please do not hesitate to contact me with any questions.

Thanks,

Dan

Daniel W. Walker

Chair, Government Affairs Practice Group

207.623.5300 Tel

dwalker@preti.com

Bio | LinkedIn | Twitter | preti.com

PretiFlaherty

45 Memorial Circle

P.O. Box 1058

Augusta, ME 04332-1058

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MAIS PILOT opposition testimony to Portland Finance Committee 9-26-24.pdf

417K

MAIS

Maine Association of Independent Schools

September 26, 2024

Portland City Council Finance Committee
Portland, ME

Via e-mail: finance@portlandmaine.gov

RE: MAIS Opposition to Finance Committee's PILOT Proposal

Chair Trevorrow and Members of the Portland City Council Finance Committee:

The Maine Association of Independent Schools is a diverse group of educational institutions¹ including schools with varied missions, schools which serve primarily public-tuition students, and some sectarian schools. MAIS has two member schools, **Waynflete and Cheverus High School**, within Portland, Maine, and we oppose this effort by the Finance Committee to develop a PILOT proposal. Both schools would be negatively impacted by a PILOT program, and we strongly oppose putting this additional cost onto those responsible for K-12 education.

- Many nonprofits, including private schools, operate on tight budgets with little excess cash. They often rely on a combination of tuition, donations, and grants to fund their operations and programs. Any surplus is typically reinvested into improving programs, maintaining facilities, or building modest reserves for financial stability.
 - Instituting this program could mean:
 - Raising tuition or fees, which could make services less accessible
 - Cutting programs or services
 - Reducing staff or salaries
 - Deferring necessary maintenance or improvements
 - Reducing financial aid or scholarships
- A number of Portland residents pay taxes in the City, but choose to send their children to local independent schools, which is a huge savings to the City. The following data relates to students who reside in the City of Portland enrolled at both Waynflete and Cheverus High School:
 - Census – 278
 - Cost per pupil – \$17,597
 - Total saved the City – \$4,891,966

¹ The Bay School, Berwick Academy, Bridgton Academy, Carrabassett Valley Academy, Foxcroft Academy, Fryeburg Academy, George Stevens Academy, Cheverus High School, Erskine Academy, Gould Academy, Hebron Academy, Hyde School, John Bapst Memorial High School, Kents Hill School, Lee Academy, Lincoln Academy, Maine Central Institute, Maine Coast Waldorf School, North Yarmouth Academy, Thornton Academy, Washington Academy, and Waynflete School.

MAIS

Maine Association of Independent Schools

- Portland's independent schools already make a number of payments to the City of Portland and provide much benefit to the City. See attached summary documents from Cheverus and Waynflete.
 - **Cheverus High School current payments to the City of Portland 2023-24 actual:**
 1. Stormwater assessment and compliance \$29,268.00,
 2. Facility usage – Troubh Ice Arena \$25,557.32,
 3. Real estate taxes: 292 Ocean Avenue, 18 Bay Street \$11,414.60,
 4. Facility usage – Merrill Auditorium \$7,775.00,
 5. City of Portland Recreation Department - Fitzzy \$4,975.00,
 6. Police Department \$3,925.05,
 7. Licensing and registration \$3,212.48,
 8. Deering High School – ski co-op fee \$3,150.00,
 9. Portland High School – tournament fee \$100.00Total: \$89,377.45
 - **Waynflete School current payments to the City of Portland 2023-24 actual:**
 1. Stormwater assessment and compliance \$14,787
 2. Portland Water District \$23,770
 3. Real estate taxes for 305 Danforth, 3 Storer, 184 & 290 Osgood St Houses, Chandler St parcels \$34,879
 4. Police Department \$4,200
 5. Fire Department alarm maintenance fee \$675
 6. Licensing and registration \$ 494
 7. Portland High School tournament fees \$2,350Total: \$81,155

Taking into account services that Portland's nonprofits provide to the city residents, the most that City of Portland could raise from such a Portland PILOT program would be around \$2-3M. Raising such a small percentage of Portland's budget from the City's nonprofit community is not worth the effort or damage to these nonprofits and the services they provide to the city and its residents.

Please do not hesitate to reach out to us with any questions or concerns.

Sincerely,

Daniel W. Walker

dwalker@preti.com

cc: Geoff Wagg, Head of School, Waynflete
Father Bob Pecoraro S.J., President, Cheverus High School



Version date: July 22, 2024

Draft for Payment In Lieu of Taxes (PILOT) – City of Portland

Cheverus High School current payments to the City of Portland 2023-24 actual:

1. Stormwater assessment and compliance	\$29,268.00,
2. Facility usage – Troubh Ice Arena	\$25,557.32,
3. Real estate taxes: 292 Ocean Avenue, 18 Bay Street	\$11,414.60,
4. Facility usage – Merrill Auditorium	\$ 7,775.00,
5. City of Portland Recreation Department - Fitzzy	\$ 4,975.00,
6. Police Department	\$ 3,925.05,
7. Licensing and registration	\$ 3,212.48,
8. Deering High School – ski co-op fee	\$ 3,150.00,
9. Portland High School – tournament fee	\$ 100.00
Total:	\$ 89,377.45

Other amenities offered to City of Portland residents:

1. Free access to 267 Ocean Avenue for July 4 fireworks viewing,
2. Free access to clinics: baseball, basketball, football, ice hockey, lacrosse softball, and softball,
3. Free access to games and meets: soccer, field hockey, cross country, baseball, outdoor track, and softball,
4. Paid access to football, ice hockey, basketball, and drama events, and
5. Free overflow parking upon written request

Students who reside in the City of Portland enrolled at Cheverus High School:

Census is: 93 Cost per pupil is \$17,597 Total saved the City is: \$1,636,521

Camper *slots* were enrolled in a summer camp program(s) in **2024**:

Census is: 967 Campers from Portland: 92

Waynflete

Version date: July 24, 2024

Draft for Payment In Lieu of Taxes (PILOT) – City of Portland

Waynflete School current payments to the City of Portland 2023-24 actual:

1. Stormwater assessment and compliance \$14,787
2. Portland Water District \$23,770
3. Real estate taxes for 305 Danforth, 3 Storer, 184 & 290 Osgood St Houses, Chandler St parcels \$34,879
4. Police Department \$4,200
5. Fire Department alarm maintenance fee \$675
6. Licensing and registration \$ 494
7. Portland High School tournament fees \$2,350

Other programs/amenities offered to City of Portland residents:

1. Financial aid to city residents: 81 students totalling \$2,219,462
2. Free access to Fore River Fields walking trails and tennis courts
3. Free access to games: soccer, field hockey, cross country, baseball, lacrosse
4. Neighborhood use of playgrounds at 360 Spring Street
5. Free Level 2 Car Charging at 360 Spring Street
6. Reiche School mentoring program
7. Summer program offerings

Students who reside in the City of Portland enrolled at Waynflete School:

Census is: 185 Cost per pupil is \$17,597 Total saved the City is: \$3,255,445

Camper **slots** were enrolled in a summer camp program(s) in **2024**:

Census is: 664 campers from 514 Households

Campers from Portland: 191 campers from 152 Households

Property taxes paid by Portland residents with students enrolled at Waynflete School:
\$2,382,800.

Maine Independent Colleges Association's Testimony Opposing PILOT proposal

1 message

Walker, Daniel W. <DWalker@preti.com>

Thu, Sep 26, 2024 at 4:53 PM

To: "finance@portlandmaine.gov" <finance@portlandmaine.gov>

Cc: "James Herbert Ph. D. (jherbert1@une.edu)" <jherbert1@une.edu>, "Laura Freid (lfreid@meca.edu)" <lfreid@meca.edu>

This message was sent securely using Zix®

Chair Trevorrow, members of the Finance Committee, and Mayor Dion,

Attached please find testimony from the Maine Independent Colleges Association opposing the Finance Committee's proposal for a PILOT program in Portland. Please do not hesitate to contact us with any questions.

Thanks,

Dan

Daniel W. Walker

Chair, Government Affairs Practice Group

207.623.5300 Tel

dwalker@preti.com

Bio | LinkedIn | Twitter | preti.com

PretiFlaherty

45 Memorial Circle

P.O. Box 1058

Augusta, ME 04332-1058

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MICA Opposition to PILOT to Portland Finance Committee 9-26-24.pdf

491K

Maine Independent Colleges Association

September 26, 2024

Portland City Council Finance Committee
Portland, ME

Via e-mail: finance@portlandmaine.gov

RE: Maine Independent Colleges Association (MICA) Opposition to Finance Committee's PILOT Proposal

Dear Chair Trevorrow and Members of the Portland City Council Finance Committee,

The Maine Independent Colleges Association ("MICA") represents 11 private, nonprofit colleges and universities¹ throughout Maine that serve over 32,000 students, over 4,000 of whom are from Maine. These institutions are located in municipalities of all sizes across the State, including three in Portland — University of New England, Maine College of Art & Design, and the Roux Institute. While they share the attributes of being private and nonprofit, these institutions are highly diverse and serve very different aspects of the educational needs of Maine people. Together they serve thousands of students in Portland (of which many receive financial aid from the institution) employ hundreds of Portland residents, and provide community services to the City.

Although a potential Portland PILOT program is being developed with the noble goal of attempting to provide tax relief to the residents of Portland, MICA cannot support this effort, as it will be destructive to the fabric of nonprofits in the City, especially the private nonprofit higher education institutions.

Attached please find a document from the Maine College of Art & Design detailing their economic impact and community benefits. You should also receive similar information from UNE.

1. Imposing such a fee on private non-profit colleges will only hurt access to higher education and workforce training.

A PILOT fee would be a major blow to the ability of our tuition driven schools to provide affordable higher education, especially to our small schools with minimal endowments. About 2/3rd of future jobs will require a college education and only 1/3 of our workforce currently has a degree. Maine's Independent Colleges play a huge role in attaining that vision for Maine. These higher education institutions provide workforce training and the foundation for job creation with little help from the state and city.

¹ Bates College, Bowdoin College, Colby College, College of the Atlantic, Husson University, Maine College of Art & Design, Roux Institute at Northeastern University, St. Joseph's College of Maine, Thomas College, Unity College, and the University of New England.

Maine Independent Colleges Association

2. Value of services and public benefits provided by Portland's private non-profit colleges and universities to their host communities and the region outweigh the value of the property tax obligation.

MICA member schools provide community services and many varied facilities to Portland residents. Such services include medical and dental clinics and continuing education. These institutions provide cultural and other benefits to the residents of Portland, including acting as a hub and magnet for the City's creative economy and partnering with local businesses, schools, and nonprofits. They also provide access to libraries, athletic facilities, clinics, musical performances, lectures, and career training. A PILOT program would inevitably reduce the level of these free and subsidized services.

Taking into account services that Portland's nonprofits provide to the city residents, the most that City of Portland could raise from such a Portland PILOT program appears to be around \$2M. Raising such a small percentage of Portland's budget from the City's nonprofit community is not worth the effort or damage to these nonprofits and the services they provide.

Please do not hesitate to reach out to us with any questions or concerns.

Sincerely,

Daniel W. Walker
dwalker@preti.com

cc: President James Herbert, University of New England
President Laura Freid, Maine College of Art & Design

Maine College of Art & Design (MECA&D), the only college in the state dedicated to art and design, is Maine's largest employer of visual artists; In 2023, MECA&D supported \$37,683,000 in total economic output with \$10,897,000 in total earnings to Maine workers. Our students have contributed an estimated 97,000 hours of community service. In 2016, MECA&D was awarded the Economic Development Achievement Award from the City of Portland for its longtime commitment to Portland's downtown and its benefits to the current and future workforce.

In Academic Year 2023-2024, more than 31% of our first-year students were first-generation. MECA&D is an internationally recognized magnet for attracting talented artists and designers to the state of Maine; almost 50% of our graduates stay in Maine after completing their education, with half residing in Portland and half living and working in rural areas throughout the state.

Greater Portland's nonprofit arts and culture industry generated \$86 million in economic activity in 2022, according to the Arts & Economic Prosperity 6 (AEP6), an economic and social impact study conducted by Americans for the Arts (AFTA). This study highlighted the vital role of arts and culture in building more livable communities. That economic activity – \$58.2 million in spending by nonprofit arts and culture organizations and \$27.8 million in event-related spending by their audiences – supported 1,872 jobs and generated \$20.7 million in local, state, and federal government revenue. Spending by arts and culture audiences generates valuable commerce to local merchants, a value-add that few other industries can compete with.

MECA&D is a driving force in the local and state creative economies, with a proven record of contributing to Maine's workforce while vitalizing Portland's Arts District. Professional development is embedded in the MECA&D experience through our curricula, internships, grant programs, residencies, and professional practice workshops. Through our Public Engagement Minor, MECA&D has partnered on projects with over 59 Maine nonprofits, 9 Maine local businesses, and 20 Maine schools. A number of MECA&D-related businesses are nationally recognized and over 100 businesses in the greater Portland area were founded by, are owned by, or employ MECA&D alumni.

Our Continuing Studies Program invites individuals of all ages, backgrounds, and skill levels to take advantage of our high-caliber faculty, and professional, intimate learning environments and serves approximately 1200 adult and youth learners annually. Our 10-month Master of Arts in Teaching meets established

workforce needs while creatively serving children and youths in PK-12 schools, museums, community-based, and alternative settings. Our Salt Institute in Documentary Studies is a unique, one-semester, career-driven program, featuring radio, podcasting, and short film tracks. Our studio-based Master in Fine Arts (MFA) program features renowned faculty, visiting artists, and graduate advisors in a structure that promotes the development of a professional lifelong practice. Our 11 BFA Majors and 6 Minors teach students (more than 75% from New England) to become inventive, skilled, self-disciplined, engaged makers in the world. We envision that E-Learning will eventually become a core pathway of delivery for our art education and professional development services.

Our Art and Entrepreneurship Minor gives students the opportunity to pursue an entrepreneurial focus across studio disciplines. Through project-based, experiential courses, client projects, internships, workshops and community partnerships, students develop a range of skills to launch and successfully grow their entrepreneurial endeavors. This interdisciplinary minor is designed to help students transform any discipline or concept into a real-world venture. The Public Engagement Minor is a four-year curricular pathway that integrates art, real world problems and community partners into its teaching curriculum. The minor is a model for interdisciplinary education with an extraordinary pre-professional program, exposing students to skills for a variety of careers in nonprofit and educational organizations, art institutions, graduate study, and expanded notions of entrepreneurial studio practice.

MECA&D has a strong commitment to the creative workforce in Maine. The College's commitment to professional development is woven throughout our curriculum; our commitment to public engagement and working with local partners; our Artists at Work Program for students and alumni, which offers career guidance, a job board, internships, workshops, a Portfolio Review Day; and a variety of other opportunities.



From: Brendan T. O’Connell – Finance Director

To: Danielle P. West, City Manager

CC: Greg Jordan and Dena Libner, Assistant City Managers

Date: September 26, 2024

Re: American Rescue Plan Act – Project and Funding Updates – Final Obligation Amounts and Reallocations prior to 12/31/24 Obligation Deadline

Background and Original ARPA Project Approvals

Under the United States American Rescue Plan Act (ARPA) of 2021, the City of Portland was issued \$46,290,625 in recovery funds to replace lost revenues and respond to the COVID-19 pandemic. The city utilized a public participatory process to set priorities for the funding and the City Council appropriated the American Rescue Plan Act funds over a number of years.

The funding must be fully expended by December 31, 2026 and must be obligated by December 31, 2024. With just over three months left until the December 31, 2024 obligation deadline, local governments must obligate funding now to projects certain to be completed by the end of 2026. Otherwise clawback of the funds by the US Treasury is likely. Due to these timing restrictions, Table 2 of this memo outlines funding reallocations by the City Manager between approved ARPA projects which is allowable by the City Council approved orders governing these funds. These decisions have been guided by input from the Finance Committee.

Initial project titles, appropriation / funding amounts, and date funding was appropriated by City Council with links to backup orders / agendas is included below.

TABLE 1: INITIAL APPROVED CITY COUNCIL APRA PROJECT APPROPRIATIONS

APRA PROJECT TITLE/DESCRIPTION	INITIAL PROJECT ARPA FUNDING AMOUNT	DATE FUNDING APPROPRIATED BY CITY COUNCIL
FY22 ARPA Funding - Revenue Replacement	\$8,750,000	June 7, 2021
Amethyst Park Public Landing Dock	\$475,000	November 1, 2021
Behavioral Health Alternative Response Program	\$85,000	November 1, 2021
Continuation of Economic Development Programs	\$400,000	November 1, 2021
Funding to Address Childcare Needs	\$1,000,000	November 1, 2021

Homeless Service Center	\$3,500,000	November 1, 2021
Housing Programs and Funding Expansion	\$1,000,000	November 1, 2021
HVAC/Air Quality at Expo Center	\$475,000	November 1, 2021
IT Pandemic Related Expenditures	\$400,000	November 1, 2021
Kiwanis Community Pool Replacement	\$3,798,214	November 1, 2021
Maine Behavioral Health/Greater Portland Health/Preble Street - Recuperative Care Program	\$565,000	November 1, 2021
Mental Health Crisis Training	\$40,000	November 1, 2021
Portland Pilots	\$300,000	November 1, 2021
Portland Public Library - Bridging the Digital Divide	\$135,000	November 1, 2021
Portland Public Library - Reimbursement of COVID related expenses / HVAC	\$97,000	November 1, 2021
Portland Water District - Baxter Project	\$400,000	November 1, 2021
Public Health/Social Services Facility - 39 Forest Ave Renovations and Expansion	\$750,000	November 1, 2021
Public Restrooms	\$600,000	November 1, 2021
Replacement and Adding of Big Belly's and Trash Barrels	\$125,000	November 1, 2021
Tree Canopy Funding	\$250,000	November 1, 2021
FY23 ARPA Funding - Revenue Replacement	\$5,500,000	June 6, 2022
FY23 ARPA Funding (additional Revenue Replacement to close GA gaps)	\$2,029,190	June 6, 2022
Vaccination Incentives and Employee Retention Program	\$1,650,000	November 21, 2022

Community Dental	\$490,000	November 21, 2022
Economic Development Programs	\$300,000	November 21, 2022
Electrifying Everything	\$200,000	November 21, 2022
Greater Portland Health - Riverside HSC	\$500,000	November 21, 2022
Hope Acts - Housing Navigation	\$200,000	November 21, 2022
Housing Trust Fund (Original amount \$4,110,000; \$229,385 reallocated)*	\$4,110,000	November 21, 2022
Maine Health - CAMP	\$1,000,000	November 21, 2022
Maine Medical Center - Psychiatry Outreach Program	\$500,000	November 21, 2022
Municipal Workforce Retention	\$2,400,000	November 21, 2022
Opportunity Alliance - Housing Individuals and Families	\$150,000	November 21, 2022
Portland Recovery Center - World Recovery Cafe	\$125,000	November 21, 2022
Portland Regional Communications - Upgrades to Emergency Communications Systems	\$275,000	November 21, 2022
Quality Housing Coalition - Project Home	\$200,000	November 21, 2022
Spurwink - Ashlea's Place	\$750,000	November 21, 2022
FY24-FY25 Revenue Replacement (excluding additional ARPA revenue not appropriated in FY23 operating budget)	\$2,766,221	June 17, 2024
GRAND TOTAL - ALL ARPA STATE AND LOCAL FISCAL RECOVERY FUNDS RECEIVED	\$46,290,625	

Project Status / Spending as of 6/30/24

The following list is a project by project review of status and spending to date. For more historical details around the ARPA public participatory process, project descriptions, project timeline and more, please visit the City of Portland American Rescue Plan [website](#).

Revenue Replacement

It is estimated that nearly \$120 billion in losses were incurred by the COVID19 pandemic in municipalities nationwide. Initial revenue loss estimates were required for ARPA project planning purposes, and the City assumed \$8.75M of loss for FY22 (based on Department estimates of their first fiscal year of COVID budgets), \$5.5M of loss for FY23 and \$2.75M of loss for FY24. However, using actual results from the most recent full fiscal year prior to the pandemic (FY19), based on the revenue loss calculation guidelines from the US Treasury and actual results from FY22, FY23 and FY24, the City of Portland actual revenue loss is now finalized at \$26,406,868.

The revenue replacement category is by far the broadest and least restrictive category of ARPA spending. Most external consultants advising municipalities on ARPA related matters recommend fully maximizing their revenue replacement dollars within their overall ARPA allocation. In the City of Portland our ARPA dollars have helped prevent layoffs and furloughs and have allowed us to sustain municipal services throughout the pandemic. Due to our desire to not cut essential municipal services during the pandemic, the City had the Council appropriate higher than originally anticipated amounts of revenue replacement dollars within the FY24 and FY25 budgets. This project is a very worthy recipient of reallocations of ARPA dollars due to the flexibility provided to municipalities and broad categories of eligible spending.

Amethyst Park Public Landing Dock – Completed – total approved project cost was \$475,000, total eligible ARPA cost is \$480,428.

Behavioral Health Alternative Response Program and Mental Health Crisis Training – These project efforts are set for FY25 with funding to support these programs during the current fiscal year.

Continuation of Economic Development Programs – The two Economic Development programs, one with a \$400,000 budget and one with a \$300,000 budget have been immensely successful and have launched a number of other small programs. The projects are nearly fully expended with less than \$100k remaining as of June 30, 2024. Multiple Housing and Economic Development staff support the various programs launched with these dollars and to date they have supported over 132 businesses.

Funding to Address Childcare Needs – This project was allocated \$1M of ARPA funding. The project was split into two halves with \$500,000 intended to directly support child care providers including help launch new providers. The City launched a Childcare Grant program which has provided funds to 21 daycare providers, with 6 more providers recently approved to

receive funding. Funds have assisted the opening of six new daycares both home-based and centers, and helped ten existing providers increase their capacity, in total opening up 109 additional spots. The program also provides funds to ease the burden of filling staff vacancies. \$160,000 of the \$500,000 has been earmarked to meet the CDBG need related to the Child Care Voucher Program which provides scholarships to low-income families. Through this initiative, children from under-resourced homes will have the opportunity to access high-quality childcare services that they may not have otherwise been able to afford. These \$160k of funds met a need within the CDBG requests to the City in 2024 that otherwise would not have been funded, and it will meet the need for 2025 (and potentially 2026) as well.

The remaining \$500,000 in this allocation was one of a number of funding sources for an ambitious housing and expanded child care project by Youth and Family Outreach (YFO). This project has experienced a number of significant delays and funding challenges. The latest estimated project timeline as submitted by YFO is included below.

Estimated Project Schedule

Planning Board Approval	August 2024
City of Portland Notice of Award	August 2024
LIHTC Application	September 2024
MaineHousing Notice to Proceed	December 2024
Construction Loan Closing	July 2025
Construction Start	July 2025
Construction Completion/Occupancy	October 2026

Planning Board Approval and an award from the City of Portland did occur in August 2024 as anticipated. But the Youth & Family Outreach project allocation still has a number of key project approvals and funding hurdles to clear. \$500,000 was initially envisioned for this project paid from the “Funding to Address Childcare Needs” ARPA project. Due to the uncertain timing of the project and the Council’s continued commitment to seeing the project through to completion, staff recommended that \$500,000 be reallocated into our Revenue Replacement project. By doing this, the City preserves the right to recognize \$500,000 in a future operating budget to sustain municipal services. The City could choose to fund the Youth and Family Outreach project with this \$500,000. If the funds are not reallocated out of the Funding to Address Childcare Needs project and the project was not able to ultimately move forward, the City would lack the flexibility to use the funds for another purpose.

Homeless Service Center – This project has been a huge success with the grand opening of our 208 bed (and subsequently expanded to 258 bed) Homeless Services Center. The funding was used for rent payments which helped support reduced annual costs for the operations of the facility. Total approved project budget was \$3.5M with an additional \$3M award from Cumberland County. Total eligible project cost is significantly higher as the facility has an annual budget of nearly \$12M for FY25. To date at least \$6.6M of expenses, not reimbursed from other sources, are eligible for use of ARPA funds.

Housing Programs and Funding Expansion – Two ARPA projects were authorized by the City Council to contribute to the Housing Trust Fund. A \$1M infusion was approved on 11/1/21 and a \$4.11M infusion was approved on 11/21/22. However, after working closely with a number of developers on potential use of these funds, the ARPA deadlines were deemed too restrictive and put the City at risk of having to return funds to the US Treasury if projects and funds were not obligated by 12/31/24. City Council's action to simply appropriate the funding into the Housing Trust Fund did not by itself qualify as an obligation. At the end of FY24 staff recommended not expending any funds on this effort and instead funding the Housing Trust Fund with a combination of other funding sources for an equal amount. So this project will still move forward and the Housing Trust Fund has been capitalized for this amount – but without use of ARPA funds and the associated deadlines.

HVAC/Air Quality at Expo Center – This project ended up being larger in scope than originally anticipated and needed more than double the original amount of estimated funds to move forward. Although the project is still a need, we recommend putting the ARPA funded project on hold and instead considering the need alongside other CIP needs in the City in future capital improvement plans. Current trends have been towards smaller and more frequent vaccination clinics and therefore we recommend using these funds to support needed HVAC work at the Portland Public Library main branch (see the **Portland Public Library – Bridging the Digital Divide and Reimbursement of COVID related expenses** project section for additional details).

IT Pandemic Related Expenditures – This project was a priority of the City Council at the time of ARPA funding appropriation but staff wasn't fully comfortable that this category of spending was ARPA eligible. Staff ultimately determined that the IT pandemic related expenditures were better spent from the less restrictive revenue replacement category to meet IT related needs for remote work and remote meeting related upgrades.

Kiwanis Community Pool Replacement – As covered in depth within a separate memo, the City is facing a significant funding shortfall on this project. \$2.7M of CIP funds have been allocated and \$3.8M of ARPA funds have been dedicated to this effort with approximately \$370k spent to date. At the August 13, 2024 Finance Committee meeting we discussed options for the future of this project which included pushing forward with a significant additional allocation of ARPA funding, looking to allocate additional CIP funds in the spring, doing private fundraising, or a combination of these efforts.

Maine Behavioral Health/Greater Portland Health/Preble Street – Recuperative Care Program

- The Recuperative Care Program was approved for \$565,000. The program experienced some workforce shortages at the start but has been fully up and running for nearly two years. Since opening there has been 152 unique patient stays, staying a total of 6,759 nights. The program is helping to keep open beds at the hospital. According to program managers, about \$130,000 has been spent on salaries and benefits which has been recently invoiced to the City.

Portland Pilots – Complete

Portland Public Library (PPL) – Bridging the Digital Divide and Reimbursement of COVID related expenses - These two projects (\$125k and \$97k) are in progress and substantially complete with no danger of non-completion by the spending deadline. In addition to these funds, the \$475,000 of funding available for the HVAC / Air quality project at the Expo Center are being recommended for reallocation to this project. The Expo funds of \$475,000 were less than one half of the available funding needed for the project. Because these funds were originally intended to be used for HVAC, the staff recommendation was to reallocate these dollars towards the larger air handling unit project at the Portland Public Library (PPL) main branch as part of the existing Portland Public Library – COVID expenses project. This is an eligible project per US Treasury ARPA guidelines and the Finance Committee expressed support for this reallocation during the August 2024 meeting with some caveats regarding more careful future capital planning at PPL. As a library rooted in serving the community, PPL has remained active in supporting the public health needs of Portland’s residents. Some recent public health initiatives have included:

- Stroke Awareness & Blood Pressure Clinics with the Maine Medical Center Stroke and Neurovascular Care Center
- Vaccine clinics w/ AgeWise Maine and Northern Light Health;
- Health Fairs with Maine Medical Center;
- Post-Partum Support Group with Tufts University School of Medicine Maine Track;
- Public Health Tabling with Portland Public Health;
- MaineCare/CoverME check-ups with the New England Arab American Organization (NEAAO).
- Serves as the City’s cooling center during summer months

The first phase of the air handling unit project is estimated to be \$1.4M – \$1.6M. The Library has funding of approximately \$940k in hand and the reallocation of these funds to this effort would allow them to move forward with contracting for the Phase 1 of the air handling unit project - with obligation by 12/31/24 a certainty and spending by the end of 2025 highly likely. The project will also likely have a significant reduction in emergency repairs and maintenance cost on library air handling units (see table below for costs from FY20 to present).

Portland Public Library
Library costs
Monument Square HVAC systems

	FY 2025 (to date)	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
HVAC repairs/maint	52,396.43	55,874.31	42,578.07	60,180.61	42,965.10	27,351.13
	<u>52,396.43</u>	<u>55,874.31</u>	<u>42,578.07</u>	<u>60,180.61</u>	<u>42,965.10</u>	<u>27,351.13</u>

Portland Water District – Baxter Project – Complete.

Public Health/Social Services Facility – 39 Forest Ave Renovations and Expansion – Completed. Approved project cost was \$750,000, total eligible ARPA costs were \$990,030.

Public Restrooms – This City run project has been a massive success. In the past 3 years we have installed 13 City toilets in a variety of locations across the City. These are a simple design with no running water, so it has permitted these critical dollars to go farther. Each unit costs approximately \$20k-\$40 as opposed to \$500K+ for bricks and mortar restrooms. An additional 5 public restrooms are in progress. Spending is on track for full use by 12/31/26.

Replacement and Adding of Big Belly's and Trash Barrels – This City run project was originally allocated \$125,000 and has spent approximately 80% of their funding to date. It is expected to be completed on time and within budget.

Tree Canopy Funding – This \$250,000 City run project which increases equity in the tree canopy within Portland is in progress and expected to be completed on time and within budget.

Vaccination Incentives and Employee Retention Program – This City run program was completed within the allocated budget with a combination of operating budget funds and revenue replacement funds.

Community Dental – This project is underway and making progress towards completion with full use of their allotted \$490,000 budget.

Electrifying Everything – This City run project is underway and will be completed within budget. Through 6/30/24 the project has expended approximately \$110k of their \$200k budget. The Electrify Bikes! Program offered last summer provided just over \$100,000 to 68 Portland residents. This year with the DIY Electrify! Program, thus far has benefited 31 residents with \$250 rebates towards the purchase of select weatherization and efficiency items. Full details can be found [HERE](#).

Greater Portland Health – Riverside HSC – This project, run by Greater Portland Health to operate a health clinic inside our Riverside Homeless Services Center, has been a great success, seeing a total of 672 patients in 4,292 visits. This includes 3,356 medical visits, 712 dental, 225 behavioral health. The project is expected to be completed on time and within their allocated budget of \$500,000.

Hope Acts – This project which provides housing navigation services has expended approximately \$100,000 of their \$200,000 allocation through 6/30.

Maine Health – CAMP – This project was approved for \$1M of ARPA funding. The renovations at 576 St. John Street are complete and the Comprehensive Addiction Management Program (CAMP) officially launched with an open house on February 5, 2024, offering low-barrier access to Substance Use Disorder treatment five days per week and is currently serving close to 260 patients, a 117% increase from date of opening. CAMP is the main training site for the Maine Health – Maine Medical Center Addiction Medicine Fellowship teaching fellows and residents how to provide compassionate care to addicted patients.

We are expecting a significant request for reimbursement in the coming weeks as they catch up on their backlog of expenses. [Most recent update received from Maine Health on this project.](#)
[Link to CAM Launch and Open House on February 5, 2024.](#)

Maine Medical Center – Psychiatry Outreach Program – Recently renamed as project CONNECT, this program is underway with Maine Medical Center expending approximately one half of their allocated program funds through 6/30/24 and has plans to fully utilize their allocation prior to 12/31/26. Thus far, Maine Health has used funds to procure a mobile health unit and support staff salaries, officially providing clinical services with the mobile unit since July 1, 2024.

Municipal Workforce Retention – This City run program was completed within the allocated budget with a combination of operating budget funds and revenue replacement funds.

Opportunity Alliance – Housing Individuals and Families – The project is underway and is on track towards full spending of their \$150k allocation with approximately \$100k spent to date. In the first quarter of 2024, Opportunity Alliance served 39 households, representing 85 individuals. Funds were used to avoid eviction, obtain/maintain housing.

Portland Recovery Center – World Recovery Cafe – The project is underway and is on track towards full spending of their \$125k allocation with approximately \$80k spent to date.

Portland Regional Communications – Upgrades to Emergency Communications Systems – This project has been completed and the full budget of \$275k has been expended. It is worth noting that the project was over \$1M in total so additional expenditures would be reimbursable under ARPA if necessary.

Quality Housing Coalition – Project Home – The project is underway and has expended approximately half of their \$200,000 allocation through 6/30/24.

Spurwink – Ashlea's Place – The project is underway and has only expended approximately \$65,000 of their \$750,000 allocation through 6/30/24. During this last quarter, Ashlea’s Place served six residents by providing crisis intervention and housing support and was able to hire full-time overnight staff Monday – Friday that is available to provide support and care during non-traditional hours. We expect a revised budget detailing future spending for the remaining project term shortly. Despite a slower start with withdrawing grant funds and a recent administrative change resulting in a lack of reimbursement requests, this project should exhaust all allocated funding.

Housing Opportunities for People in Encampments Program – This new program was authorized by City Council with reallocated ARPA funding in February 2024. The funding has been fully obligated and the allocation of approximately \$225k is expected to be fully expended in the next two fiscal years.

TABLE 2: ARPA RECOMMENDED FUNDING LEVELS AT 9/26/24 (WITH AMOUNTS OF ELIGIBLE EXPENDITURES INCLUDED FOR COMPARISON). PROJECTS IN RED REPRESENT SIGNIFICANT REALLOCATIONS BASED ON COMMITTEE GUIDANCE FROM AUGUST 2024.

APRA PROJECT TITLE	INITIAL PROJECT ARPA FUNDING AMOUNTS	DATE FUNDING APPROPRIATED BY CITY COUNCIL	9/26/24 REVISED RECOMMENDED FUNDING AMOUNTS	ACTUAL PROJECT ELIGIBLE EXPENSES TO DATE
FY22 ARPA Funding - Revenue Replacement	\$8,750,000	June 7, 2021	\$8,750,000	\$8,750,000
Amethyst Park Public Landing Dock	\$475,000	November 1, 2021	\$480,428	\$480,428
Behavioral Health Alternative Response Program	\$85,000	November 1, 2021	\$85,000	\$0
Continuation of Economic Development Programs	\$400,000	November 1, 2021	\$400,000	\$391,941
Funding to Address Childcare Needs	\$1,000,000	November 1, 2021	\$500,000	\$224,521
Homeless Service Center	\$3,500,000	November 1, 2021	\$6,613,844	\$6,613,844
Housing Programs and Funding Expansion	\$1,000,000	November 1, 2021	\$0	\$0

HVAC/Air Quality at Expo Center	\$475,000	November 1, 2021	\$2,210	\$2,210
IT Pandemic Related Expenditures	\$400,000	November 1, 2021	\$4,429	\$4,429
Kiwanis Community Pool Replacement	\$3,798,214	November 1, 2021	\$3,798,214	\$369,531
Maine Behavioral Health/Greater Portland Health/Preble Street - Recuperative Care Program	\$565,000	November 1, 2021	\$565,000	\$0
Mental Health Crisis Training	\$40,000	November 1, 2021	\$40,000	\$40,000
Portland Pilots	\$300,000	November 1, 2021	\$300,000	\$300,000
Portland Public Library - Bridging the Digital Divide	\$135,000	November 1, 2021	\$83,753	\$83,753
Portland Public Library - Reimbursement of COVID related expenses / HVAC	\$97,000	November 1, 2021	\$97,000	\$60,474
Portland Water District - Baxter Project	\$400,000	November 1, 2021	\$400,000	\$400,000
Public Health/Social Services Facility - 39 Forest Ave Renovations/Expansion	\$750,000	November 1, 2021	\$990,030	\$990,030
Public Restrooms	\$600,000	November 1, 2021	\$600,000	\$311,197
Replacement and Adding of Big Belly's and Trash Barrels	\$125,000	November 1, 2021	\$125,000	\$82,501
Tree Canopy Funding	\$250,000	November 1, 2021	\$250,000	\$100,348
FY23 ARPA Funding - Revenue Replacement	\$5,500,000	June 6, 2022	\$5,500,000	\$5,500,000
FY23 ARPA Funding (additional Revenue Replacement to close GA gaps)	\$2,029,190	June 6, 2022	\$2,029,190	\$2,029,190
Vaccination Incentives and Employee Retention Program	\$1,650,000	November 21, 2022	\$0	\$0
Community Dental	\$490,000	November 21, 2022	\$490,000	\$365,355
Economic Development Programs	\$300,000	November 21, 2022	\$300,000	\$214,263

Electrifying Everything	\$200,000	November 21, 2022	\$200,000	\$110,474
Greater Portland Health - Riverside HSC	\$500,000	November 21, 2022	\$500,000	\$337,445
Hope Acts - Housing Navigation	\$200,000	November 21, 2022	\$200,000	\$100,000
Housing Trust Fund (Original amount \$4,110,000; \$229,385 reallocated)*	\$4,110,000	November 21, 2022	\$489	\$489
Maine Health - CAMP	\$1,000,000	November 21, 2022	\$1,000,000	\$0
Maine Medical Center - Psychiatry Outreach Program	\$500,000	November 21, 2022	\$500,000	\$249,509
Municipal Workforce Retention	\$2,400,000	November 21, 2022	\$138,016	\$138,016
Opportunity Alliance - Housing Individuals and Families	\$150,000	November 21, 2022	\$150,000	\$110,989
Portland Recovery Center - World Recovery Cafe	\$125,000	November 21, 2022	\$125,000	\$76,430
Portland Regional Communications - Upgrades to Emergency Communications Systems	\$275,000	November 21, 2022	\$275,000	\$275,000
Quality Housing Coalition - Project Home	\$200,000	November 21, 2022	\$200,000	\$95,911
Spurwink - Ashlea's Place	\$750,000	November 21, 2022	\$750,000	\$65,776
Housing Opportunities for People in Encampments Program		February 5, 2024	\$229,385	\$229,385
Additional FY24 and FY25 Revenue Replacement	\$2,766,221	June 17, 2024	\$9,618,638	\$10,127,679
GRAND TOTAL - ALL ARPA STATE AND LOCAL FISCAL RECOVERY FUNDS RECEIVED	\$46,290,625		\$46,290,625	\$40,231,117



From: Brendan T. O'Connell – Finance Director
Ethan Hipple – Parks, Recreation and Facilities Director
Danielle P. West, City Manager
To: Members of the Finance Committee
Date: September 26, 2024
Re: Update on Kiwanis Pool Replacement Project – Staff
Recommendation for Additional Funding Appropriation

Update Since Finance Committee August 13, 2024 Meeting

At the August 2024 meeting of the Finance Committee, staff was instructed to move forward with closing the funding gap on the Kiwanis Pool Replacement Project, with potential options to include value engineering cost reductions, external fundraising, and identification of internal funding sources. Additionally, staff worked with the low bidder for the project to extend the bid award deadline from October 2024 until November 30, 2024. This allows time for cost savings measures to be fully negotiated, and for the Finance Committee and City Council to consider and take formal action on additional funding sources for the project.

Through negotiation with the low bidder, staff were able to reduce project costs by \$1,290,000. This was accomplished by eliminating winter work and the need to provide heat and snow clearing, adjusting assumptions about hazardous waste soil and reducing the volume of special waste soil disposal, eliminating shade sails, simplifying fencing options, and other cost saving measures.

Staff also met with the Portland Parks Conservancy to discuss outside funding options. The Parks Conservancy Board of Directors voted to support the Kiwanis Pool replacement project and to allocate organizational resources to support a philanthropic capital campaign to raise significant funds for the project.

And finally, City staff and Parks Conservancy staff met with prominent local donors to request their support for the project and advice on fundraising strategies. Those donors have offered to lead a \$1,000,000 philanthropic capital campaign to support the project, in conjunction with the Portland Parks Conservancy.

Funding Summary

Kiwanis Pool Approved Funding	\$6,500,000
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- ARPA funds \$3,800,000
- CIP funds: \$2,700,000

Total Project Budget **\$13,420,000**

- based on July 2024 bid price + Environmental Consulting, Clerk of the Works, FF&E (furnishings, fixtures, and equipment) and separately contracted data, communications and security systems.

Cost Reductions post-bid: **-\$1,290,000**

- Extensive cost reductions negotiated with low bidder, including elimination of winter work which required snow removal and heating for concrete work, elimination of shade sails, substitution of chain link fencing and more.

Revised Total Budget : **\$12,130,000**

- Includes cost reductions of \$1,290,000

Funding Gap: \$5,630,000

- Revised Total budget minus Approved Funding

Staff Recommendation to Finance Committee for Funding Appropriation

With the remaining funding gap of approximately \$5,630,000 now identified, staff is recommending appropriating the following funding sources to move the project forward to completion:

Philanthropic Funds	\$1,000,000
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- \$1,000,000 Private Philanthropic Capital Campaign coordinated by Portland Parks Conservancy.

Interest Income	\$4,630,000
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- The City has not appropriated any of the interest income on deposited ARPA funds to date. City staff had always anticipated using this interest income to support any ARPA project which needed additional funding to move forward. Approximately \$2.5M of interest income is expected to be received on ARPA deposits over the life of the ARPA period of performance. Additionally, when the FY24 budget was being estimated in late 2022 / early 2023, there was widespread expectation of up to three interest rate reductions from the US Federal Reserve during 2023 in anticipation of a potential recession. However,

interest rates continued to stay strong and the City collected significantly more interest income on deposits than anticipated. Using a combination of the interest income on ARPA deposits and appropriation of interest income above budget from FY24, the full \$4.63M of Kiwanis budget gap can be closed.

Public comment and a vote to recommend the additional \$5.63M in appropriations to the full City Council is scheduled for the Thursday 9/26 Finance Committee meeting.