

# Payments in Lieu of Taxes by Nonprofits

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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 by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them**

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# Definition of PILOT

- Payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes
- Report excludes payments from public institutions (public universities and public authorities) and state governments or businesses
- Payments typically result from negotiations between local government officials and individual nonprofits, but exact arrangements vary widely both in terms of regularity of payments

# Heightened Interest in PILOTs

- Press accounts suggest growing interest in PILOTs since early 1990s due to:
  - Revenue pressures faced by municipalities
  - Growing scrutiny of the nonprofit sector
  - Anti-tax climate

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# Growth of Nonprofit Sector in Cities

- *Governing Magazine* found the tax-exempt share of property value increased in 16 of the 20 largest cities with data available, in recent years
- For cities for which data were available on all tax-exempt properties, on average exempt property accounts for 26% of total value, an increase on average of 2.5 percentage points over the last 4-6 years

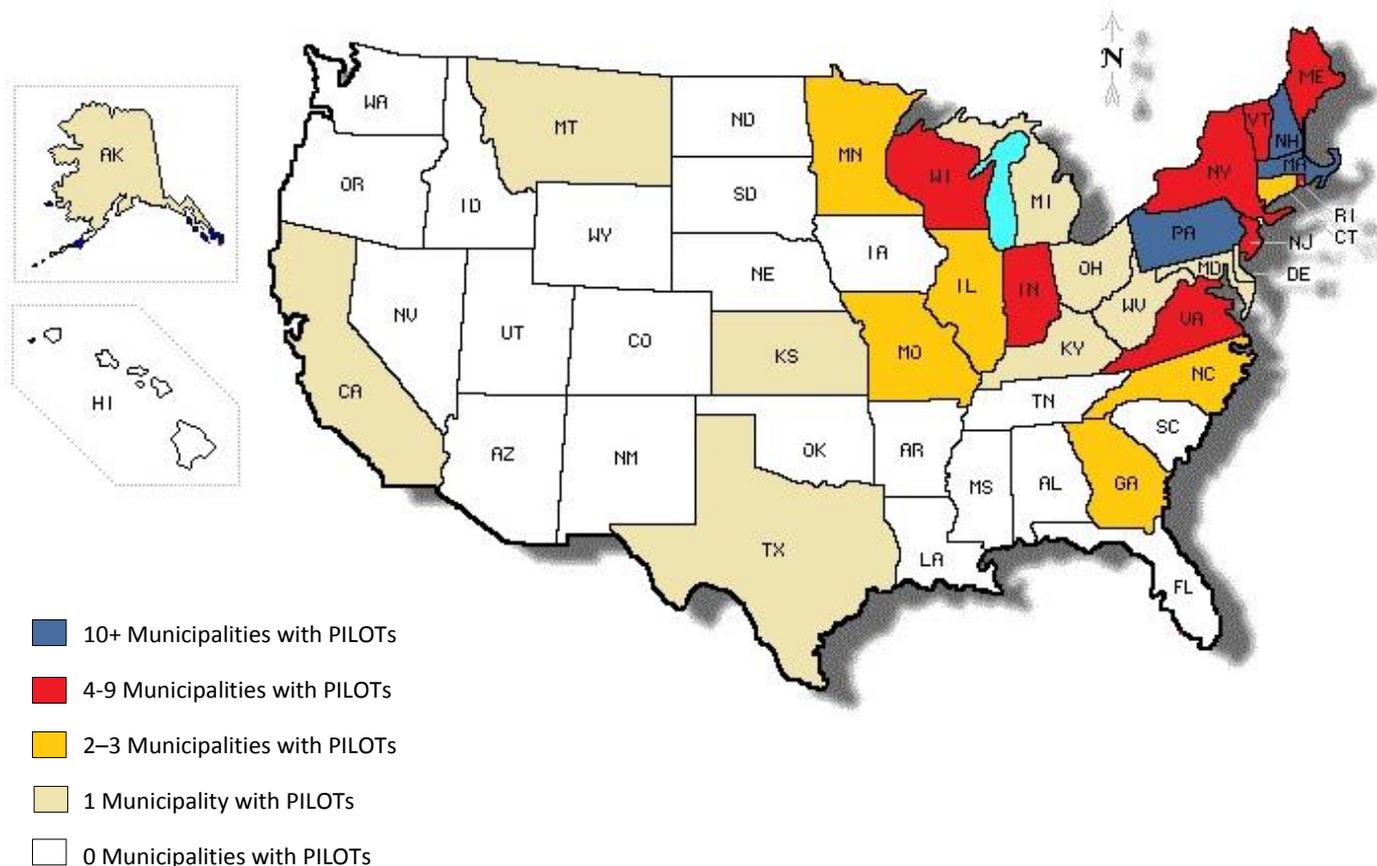
# Growth of Nonprofit Sector in Cities

## Total % Exempt Assessed Value by Year

Baltimore	2006	25.70%	2012	30.30%
Boston	2007	24.90%	2012	29.30%
Columbus	2006	21.60%	2011	28.50%
Indianapolis	2007	7.10%	2011	7.50%
New York	2006	42.90%	2011	42.20%
Philadelphia	2006	27.70%	2012	30.90%
Phoenix	2007	16.60%	2012	23.70%
Seattle	2006	18.40%	2012	22.20%

Source: Mike Maciag, *Governing Magazine* (November 2012)

# States with Jurisdictions Collecting PILOTs



# PILOTs by Region

- The Northeast comprises 80 percent of the localities that receive PILOTS and 73 percent of the institutions that make PILOTs, and 83 percent of PILOT revenue is generated by PILOTs
- The most likely reasons for the prevalence of PILOTs in the Northeast are:
  - High reliance on the property tax
  - Large nonprofit sector
  - Copycat behavior within the region

**Table 1: Overview of PILOTs by Region**

<b>Census Region</b>	<b>No. Localities</b>	<b>No. Nonprofits</b>	<b>Revenue from PILOTs</b>
Northeast	174	308	76,514,989
South	15	55	6,889,381
Midwest	26	53	2,133,703
West	3	4	7,116,596
<b>Total</b>	<b>218</b>	<b>420</b>	<b>92,654,669</b>
<b>Census Region</b>	<b>Pct. Localities</b>	<b>Pct. Nonprofits</b>	<b>Pct. PILOT Revenue</b>
Northeast	79.8%	73.3%	82.6%
South	6.9%	13.1%	7.4%
Midwest	11.9%	12.6%	2.3%
West	1.4%	1.0%	7.7%

# Sources of PILOTs

- “Eds and meds” account for 92 percent of PILOT revenue, and 46 percent of organizations that make PILOTs
- Universities and colleges contribute over two thirds of total PILOT revenue

## Overview of PILOTs for Different Types of Nonprofit Organizations

Type of Nonprofit	PILOT Revenue (\$Thousands)	No. Nonprofits	Median (\$)
Arts/Culture	146	11	1,033
Education (Higher Ed.)	56,919	70	158,426
Education (Other)	844	11	13,798
Health (Hospitals)	20,886	63	161,952
Health (Other)	905	13	7,500
Housing	2,046	47	21,925
Religious	545	36	600
Social Services	130	15	2,408
Other	1,950	22	6,898
<b>All Nonprofits</b>	<b>84,370</b>	<b>288</b>	<b>30,000</b>

# Revenue from PILOTs

- PILOTs typically account for less than 1 percent of general revenues in localities that report their use
- The ten localities that receive the most revenue from PILOTs account for 74 percent of all PILOT revenue

## Ten Localities Receiving the Most PILOT Revenue

City	State	Year	Total (\$Millions)	PILOT Revenue Pct. General Revenue	No. Nonprofits Making PILOTs
Baltimore	MD	2011	5.4	0.16%	15
Boston	MA	2012	19.4	0.58%	33
Cambridge	MA	2008/2012	5.0	0.40%	15
Erie	PA	2011	2.8	0.48%	13
New Haven	CT	2012	9.1	1.16%	2+
Palo Alto	CA	2009	7.1	3.44%	1
Pittsburgh	PA	2011	2.6	0.39%	46
Princeton	NJ	2010/2012	2.5	4.09%	6
Providence	RI	2012	8.9	1.08%	7
Watertown	MA	2012	5.3	4.85%	1
Top 10 Localities			68.1		139

# Arguments in Favor of PILOTs

- Although PILOTs provide limited revenue, that revenue can be significant
- Nonprofits should pay for the public services they consume
- PILOTs can address two problems with charitable property tax exemption: spatial mismatch and imprecise subsidy

# Arguments Against PILOTs

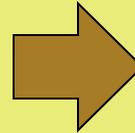
- PILOTs could lead nonprofits to raise fees or cut services
- Limited and unreliable revenue source
- PILOTs often ad hoc, secretive, and contentious
- PILOTs lead to horizontal and vertical inequities

# Two Types of Problems with PILOTs

## Problem

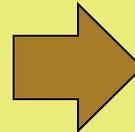
## Solution

Attempts to Obtain  
PILOTs Highly  
Contentious



Collaborative Approach:  
PILOTs Serve  
Mutual Interests

Voluntary Nature  
Leads to Inconsistent  
Treatment of Nonprofits



Systematic Approach:  
Provides Framework for  
Individual Negotiations

## Case Study: Boston, MA

- Boston has a large nonprofit sector and high reliance on the property tax
  - Over half of city's land is tax exempt
  - Property tax accounts for 2/3 of local revenue
- The city has a long history of PILOTs:
  - Many view payments as simply part of being in the city
- Revenue from PILOTs had been small with large variation in payments among nonprofits

# Case Study: Boston, MA

- Task force of 9 diverse stakeholders took 2 years to craft recommendations for reforming PILOTs
- The city requested uniform PILOTs from all nonprofits equal to 25% of amount due if taxable, but did not seek contracts
- In the first year of the program, the City collected over 90% of amount requested and increased PILOT revenue by over 28%

# Alternative Sources of Revenue

- User Fees
- Special Assessments
- Municipal Service Fees

# User Fees

- Nonprofits are not exempt from paying for services like garbage collection, water, and sewer
- User fees are the most common type of payment made by nonprofits to state and local governments
- 41.6 percent of nonprofits reported paying user fees in a recent survey (Salamon, Geller and Sokolowski 2011)

# Special Assessments

- Used to pay for improvements that benefit specific properties
- Nonprofits are typically not exempt from special assessments

# Municipal Service Fees

- Mandatory payments on nonprofits used to fund public goods like street maintenance
- Payments are not directly related to the amount of service used by a nonprofit and are not based on property value
- Municipal service fees can apply only to tax-exempt or to both taxable and tax-exempt organizations

# Conclusion

- PILOTs are one revenue option for municipalities
- Municipalities should work collaboratively with nonprofits when seeking payments
- State and local governments should consider alternatives to PILOTs

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