

Recent Municipal Approaches to Non-Profit Contributions

Presented by the Act 47 Coordinator for Pittsburgh

September 24, 2012



Non-Profit Contributions Are Common in Our Region

- Throughout the Northeast and Midwest, colleges & universities, non-profit hospitals, foundations and other institutions provide direct financial support to older core cities.
- No two states are alike; some have very strict laws on non-profit contributions, others less so.
- Some states – including Connecticut and Rhode Island – have reimbursed local governments with heavy concentrations of specific types of tax-exempt institutions.
- This presentation is designed to provide the ICA Board with examples of how regional non-profits support local government.
- The presentation is not prescriptive or exhaustive.
- Due to significant changes in the PILOT landscape over the past year, older and newer information is provided for comparison.

Two Documents Worth a Careful Read

Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests

Lincoln Institute of Land Policy, 2010

Mayor's PILOT Task Force: Final Report & Recommendations

City of Boston, December 2010

Lincoln Report Observations

“PILOTs are a tool to address two problems with the property tax exemption provided to non-profits. 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.”

Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests, page 2

Lincoln Report Observations

“...PILOTs are often haphazard, secretive, and calculated in an ad hoc manner that results in widely varying payments among similar non-profits.”

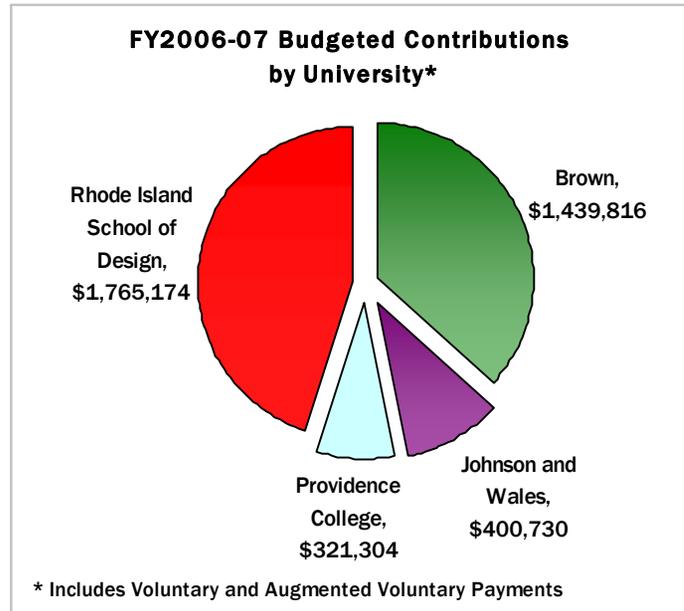
Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests, page 3

Lincoln Report Recommendations

- PILOTs are one revenue option for municipalities
 - When highly reliant on the property tax
 - When non-profits have a significant share of total property
- Municipalities should work collaboratively with non-profits when seeking PILOTs
- State and local governments should consider alternatives to PILOTs

Higher Education Contributions to Providence, Rhode Island, 2007

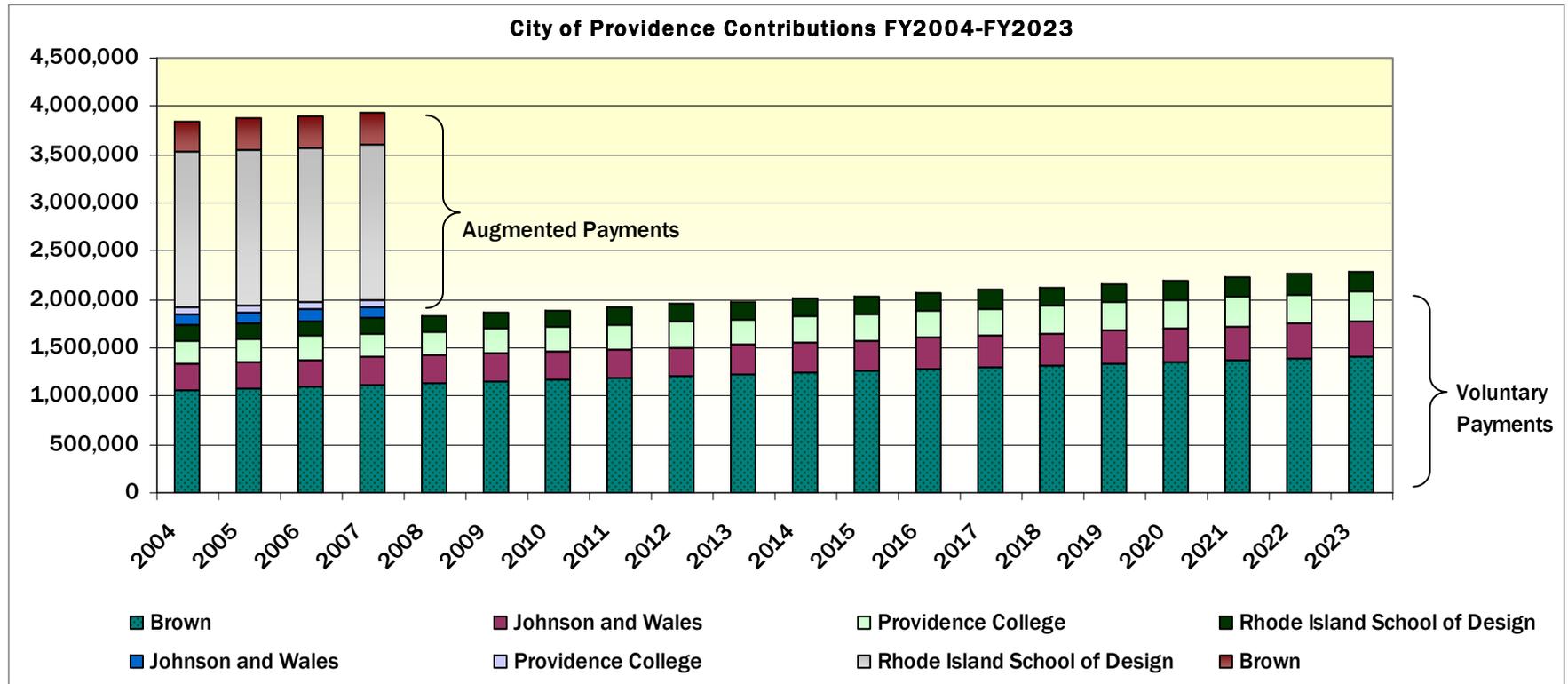
- In 2003, Brown University, Providence College, Johnson & Wales University, and the Rhode Island School of Design agreed to make nearly \$50 million in contributions to the City of Providence over 20 years;
- There were three components to those agreements. Each of these were paid by all four universities:
 - 1) Voluntary Payments: base annual amounts extending for 20 years at a rate growing by 1.5 percent annually;
 - 2) Augmented Voluntary Payments: fixed payments in lieu of transition payments (see below) for properties that the universities purchased around the time the agreement was reached;
 - 3) Transition Plan Payments: for properties purchased and taken off the tax rolls during the lifetime of the agreement (and not covered under Augmented Voluntary Payments); these properties carry a tax rate of 100 percent of purchase price in Years 1-6, 66.7 percent in Years 7-11, and 33.3 percent in Years 12-16. After Year 16 they are tax-exempt.



FY2006-07 contributions to Providence totaled \$3,927,024, or 1.31 percent of the City's adjusted operating budget*. Contributions made by four major City universities (shown above).

*Removes \$311 million for school district

Providence, Rhode Island 2007 (cont'd)



The table above shows 2004-2023 payment schedules for the four participating universities. Augmented voluntary payments were scheduled until 2007. Voluntary payments continue through 2023 with a 1.5 percent annual growth rate. Total payments over the 20 years are \$48,475,914. Transition payments are not shown.

Providence, Rhode Island 2012

- Collectively, Providence's large hospitals, colleges and universities own almost \$3bn in property that would generate over \$100m in annual property tax revenue.
- Facing a 2012 budget crisis 2012, Providence Mayor Angel Taveras urged the City's 7 largest non-profits to contribute more (higher education) or initiate PILOTs (health care) in addition to the existing PILOTs and the employment and uncompensated care benefits they were already providing.
- By June 2012 he had secured new or revised agreements with 5 of the 7, adding approximately \$5.7m in additional annual revenue.
- Three health care institutions concluded new agreements generating \$1.15 million each year for three years, with an optional fourth year
- Two of the four academic institutions that signed agreements in 2003 increased their contributions significantly, effectively tripling the prior amounts.
- Providence has a population of about 175,000, and a general fund budget of around \$300m with an additional \$325m for schools.

Brown's Updated Payment Total

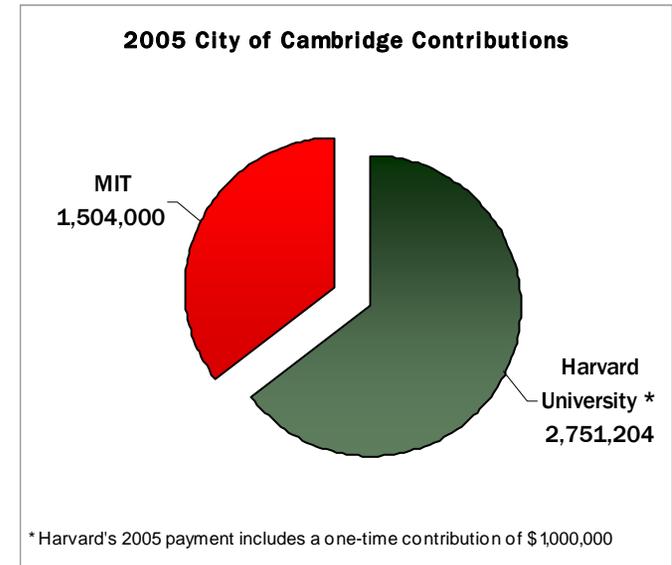
Brown University Voluntary Payments and Taxes to City of Providence (FY 12)	
Payment Type	Amount (rounded to nearest 000)
Voluntary Payment (2003 MOU)	\$1,200,000*
Payment (2012 MOA)**	\$3,900,000
Voluntary Payment (on properties used for educational purposes purchased since 2003)	\$1,274,000
Total Payment	\$6,374,000
Taxes paid on taxable property (not used for educational purposes)	\$1,128,000
Taxes paid on leased property	\$466,000
Total Taxes Paid	\$1,594,000
Total Voluntary Payment and Taxes	\$7,968,000

Source: www.brown.edu

NB: Brown received certain long-term parking space leases and permanent street abandonments as part of the agreement

Non-Profit Contributions – Cambridge, Massachusetts, 2007

- The Massachusetts Institute of Technology's contributions to the City of Cambridge were set at \$1.5 million for FY2005; this amount was to grow at 2.5 percent each year for 10 years. This agreement is to be renewed every ten years for four year periods. It was anticipated that MIT would pay the City a minimum of \$101.4 million over the forty year agreement;
- Harvard University's agreement with Cambridge included an annual payment of \$1.7 million, an amount to be increased 3 percent annually for 50 years. In addition, the base is to be increased by \$100,000 every ten years. An additional one-time payment of \$1.0 million was made at the inception of the agreement. In total, Harvard's payments would total \$209 million over the fifty year period.

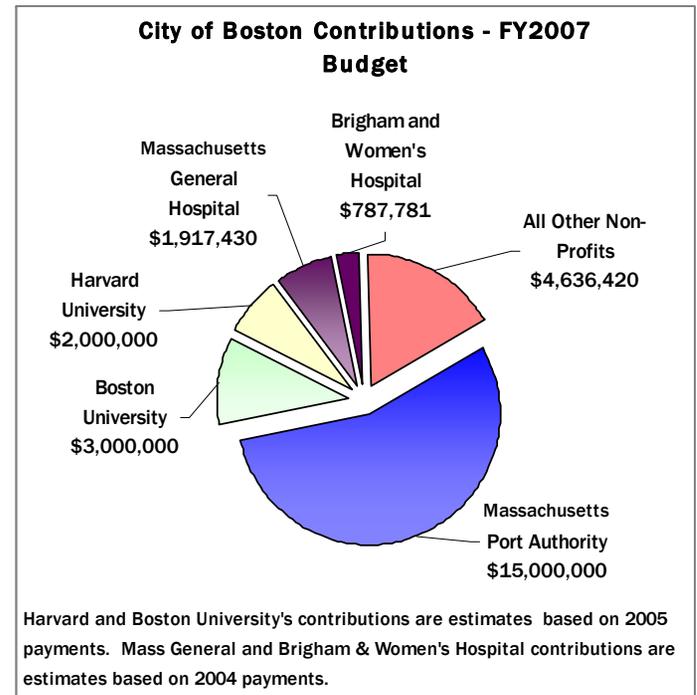


FY2006-07 contributions to the City of Cambridge totaled \$4,384,780, or 1.62 percent of the City's adjusted operating budget*. Contributions are made by two City universities (2005 contribution levels shown above).

* Removes \$125 million for school district

Non-Profit Contributions – Boston, Massachusetts 2007

- Boston's program focused on tax-exempt institutions that were expanding, either through new construction, rehabilitation or acquisition. The program covered what Boston would lose if a property were purchased by a tax exempt not-for-profit and/or the added value of the expanded or newly constructed building;
- The City attempted to obtain about one-quarter of what the owner would have paid in regular property taxes on the property to reflect the assumed cost of basic services. This formula was used as the basis for beginning discussion; actual contributions were arrived at through negotiations with the individual not-for-profit institution;
- Boston's agreement with Harvard was for \$40 million over 20 years. As with Boston's other non-profit contribution agreements, Harvard's payment was tied to an annual inflation index.



FY2006-07 non-profit contributions for Boston will total \$27,341,631, or 1.94 percent of the City's adjusted operating budget*. Contributions are made by multiple sources (shown above).

* Removes \$734 million for school district

Non-Profit Contributions – Boston, 2010

By 2010, Boston's voluntary program had reached \$34.0 million in annual payments:

Educational Institutions	\$ 8,783,631
Medical Institutions	\$ 7,844,141
Cultural/Other Institutions	\$ 804,584
<u>Subtotal</u>	<u>\$17,432,356</u>
<u>Massport</u>	<u>\$16,616,072</u>
Total	\$34,048,428

Source: 2010 Mayor's PILOT Task Force, City of Boston, Final Report & Recommendations, page 7

Non-Profit Contributions – Boston, 2012

In 2009, Boston Mayor Thomas Menino appointed a task force to look into the existing PILOT program with the following goals:

- Set a standard level of contributions to be met by all major tax-exempt land owners in Boston.
- Develop a methodology for valuing community partnerships made by tax-exempt institutions.
- Propose a structure for a consolidated program and payment negotiation system which would allow the City and its tax-exempt institutions to structure longer-term, sustainable partnerships focused on improving services for Boston's residents.
- Clarify the costs associated with providing City services to tax-exempt institutions.
- If necessary, provide recommendations on legislative changes needed at the City or State level.

Non-Profit Contributions – Boston, 2012

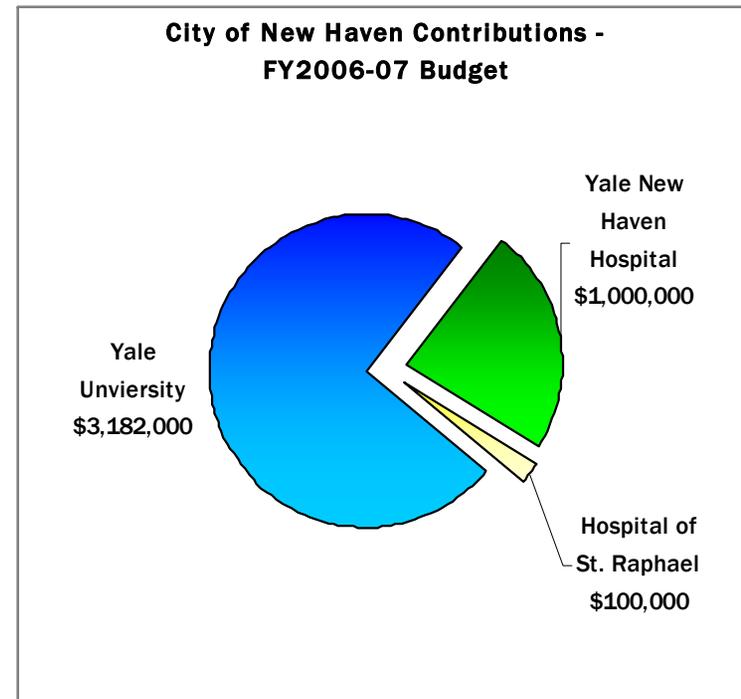
Mayor Menino's task force reported in December 2010, recommending that:

- The City's PILOT program should remain voluntary.
- PILOTs should be applied to all non-profit groups, including museums and cultural facilities – with exemption for small non-profits with less than \$15m in assessed value.
- PILOT contributions should be based on a percentage of the value of real estate occupied by tax-exempts. The existing formula, which estimated that the 25 percent of the City's budget dedicated to police, fire, snow removal and other essential services was an appropriate PILOT payment, was concluded to be appropriate.
- Community benefits should be recognized and qualify for PILOT credit of up to 50 percent, with a specific definition of benefits encompassing services the City would provide if not offered by the non-profits. A credit for property taxes paid was also recommended.
- The program should be phased in over five years.

After phase-in, it was projected that contributions from educational and medical tax-exempt entities would grow from \$16.6m in 2010 to \$48.3m.

Non-Profit Contributions – New Haven, Connecticut, 2007

- In 2005, Yale University agreed to pay the City of New Haven \$250 per resident student and full-time employee, increasing its annual payment to \$4.182 million per year. Within this payment, \$1.0 million is estimated to be related to the University hospital.
- The payment is to be adjusted annually for inflation over the fifty-year duration of the agreement.

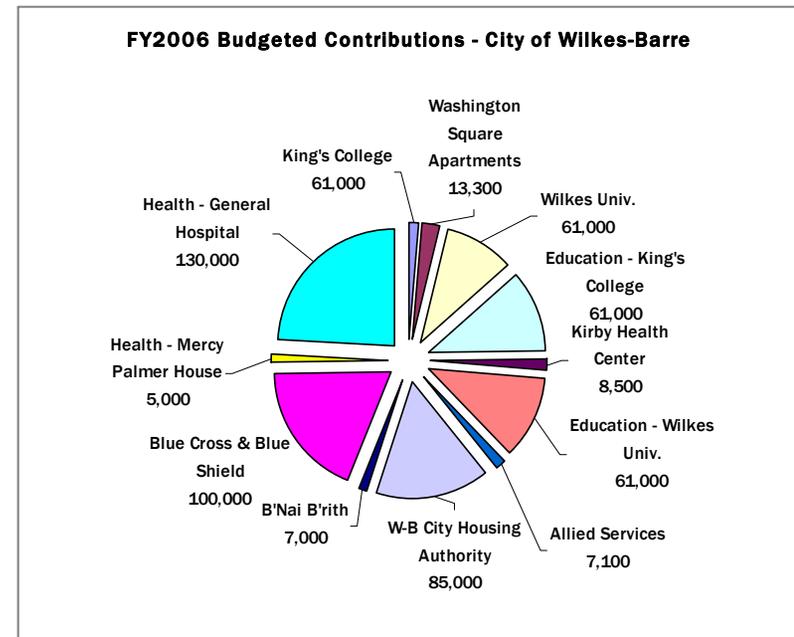


FY2006-07 contributions for New Haven totaled \$4,282,000 or 1.7 percent of the City's adjusted operating budget*. Contributions are made by multiple sources (shown above).

* Removes \$163 million for school district

Non-Profit Contributions – Pennsylvania

- Pennsylvania municipalities have also developed contribution programs;
- Wilkes-Barre budgeted \$536,000 for FY2006 (1.46 percent of operating budget);
- Philadelphia’s collections for FY2005 totaled \$989,000. (<0.5 percent of operating budget);
- Harrisburg budgeted \$368,000 for FY2006 (<0.5 percent of operating budget), and received \$1.0 million annually from the Commonwealth for Capitol complex fire protection;
- Johnstown budgeted \$160,000 for FY2006 (0.55 percent of operating budget);
- Altoona budgeted \$115,000 (0.51 percent of operating budget);
- Scranton budgeted \$110,000 for FY2005 (0.17 percent of operating budget).



FY2006 budgeted non-profit contributions for Wilkes-Barre totaled \$536,400, or 1.46 percent of the City's total operating budget. Contributions are made by multiple sources (shown above).

Summary of Regional Municipal Benchmarks 2007

City	State	Population	Recent Contribution Level	Percent Tax Exempt Land (1)	Square mileage	Adjusted budget (2)	Percent of Adjusted Operating Budget	Contributions per 1,000 population	Contributions per Tax Exempt Square Mile (est.) (3)
Boston	MA	559,034	27,341,631	24%	48.40	1,407,630,000	1.94%	48,909	2,353,791
New Haven	CT	124,791	4,282,000	46%	18.90	250,388,505	1.71%	34,313	492,524
Cambridge	MA	100,135	4384780	33%	7.10	270,106,895	1.62%	43,789	1,871,438
Wilkes-Barre	PA	41,337	536,400	22%	6.80	36,749,211	1.46%	12,976	358,556
Pittsburgh	PA	316,718	5,699,979	35%	55.60	422,854,759	1.35%	17,997	292,907
Providence	RI	176,862	3,927,024	39%	20.50	299,099,159	1.31%	22,204	491,185
Johnstown	PA	22,539	160,000	42%	6.10	28,964,000	0.55%	7,099	62,451
Altoona	PA	47,176	115,000	8%	9.80	22,734,000	0.51%	2,438	146,684
Harrisburg	PA	47,472	368,000	42%	3.30	130,412,889	0.28%	7,752	265,512
Scranton	PA	73,120	100,000	19%	25.40	65,825,588	0.17%	1,504	22,793
Philadelphia	PA	1,463,281	989,000	41%	135.10	3,386,338,000	0.03%	676	17,855

(1) Source: Pennsylvania League of Cities and Municipalities survey

(2) General Fund operating expenditures minus school district expenditures

(3) Based on (non-profit contributions)/ (percent tax exempt land x square mileage)

Summary Information for Universities 2007

University	State	Annual Contributions	Endowment (4)	Tuition (4)	Room and Board (4)	Undergraduate Student Body (4)	Contributions as percent of endowment	Contributions per undergraduate
Boston University	MA	\$3,000,000	\$799,082,338	\$33,792	\$10,480	18,694	0.3754%	\$160.48
Providence College (1)	RI	\$245,304	\$117,057,000	\$27,345	\$9,765	4,587	0.2096%	\$53.48
Wilkes Univ.	PA	\$61,000	\$32,396,281	\$22,990	\$9,860	2,188	0.1883%	\$27.88
Johnson and Wales (1)	RI	\$286,730	\$168,262,000	\$20,826	\$7,300	9,337	0.1704%	\$30.71
King's College	PA	\$61,000	\$47,274,717	\$22,280	\$8,590	2,110	0.1290%	\$28.91
RISD (1)	RI	\$163,174	\$262,104,319	\$31,430	\$9,360	1,878	0.0623%	\$86.89
Yale University (3)	CT	\$4,182,000	\$15,091,021,000	\$33,030	\$10,020	5,409	0.0277%	\$773.16
MIT	MA	\$1,504,000	\$6,712,400,000	\$33,600	\$9,950	4,066	0.0224%	\$369.90
Harvard University (2)	MA	\$4,751,204	\$25,853,048,000	\$33,709	\$9,946	6,649	0.0184%	\$714.57
Brown (1)	RI	\$1,113,816	N/A	\$34,620	\$9,134	6,176	N/A	\$180.35

(1) Includes voluntary payments only (not augmented or transition)

(2) Includes payments made to Boston and Cambridge

(3) Includes University and University Hospital

(4) US News and World 2007 America's Best Colleges Report

Higher Education: Pennsylvania Examples 2011-12

- Franklin & Marshall has a longstanding agreement with the City of Lancaster to contribute 0.35% of its assessed value annually
- Albright College (Reading), Alvernia University (Reading), Kings College (Wilkes-Barre), and Wilkes University (Wilkes-Barre) make annual contributions on a voluntary basis, ranging from 0.05% to 0.28% of assessed value

City	Name	Assessed Value (\$)	2011 PILOT	2011 PILOT as % of Assessed Value	2012 Expected PILOT	2012 PILOT as % of Assessed Value	Giving Formula	Agreement Duration
Lancaster	Franklin & Marshall	\$51,700,000	\$183,000	0.35%	\$183,000	0.35%	% Assessed Value	Longstanding
Reading	Albright	\$21,441,300	--	--	\$10,000	0.05%	Voluntary	Annual
	Alvernia	\$9,901,100	\$20,000	0.20%	\$20,000	0.20%	Voluntary	Annual
Wilkes-Barre	Kings	\$46,785,200	\$61,050	0.13%	\$61,050	0.13%	Voluntary	Annual
	Wilkes	\$22,466,700	\$63,916	0.28%	\$63,916	0.28%	Voluntary	Annual
	Average	\$30,458,860	\$65,593	0.19%	\$67,593	0.20%		
	Median	\$22,466,700	\$61,050	0.20%	\$61,050	0.20%		

Pennsylvania Benchmarks 2011

- The cities surveyed received the majority of PILOT revenues from hospitals and housing authorities.
- Aside from longstanding agreements with Lancaster General Hospital and Franklin & Marshall, the City of Lancaster developed a volunteer contribution program which generates approximately \$100,000 annually. All tax-exempt organizations are asked to make a contribution equal to 33% of what they would pay if taxable.
- The City of Chester has an agreement with Widener University to pay the costs associated with two police officers.

PILOT Payments by Type (2011 Contributions)					
City	Academic	Hospitals	Housing Authority	Other Tax-Exempt	Total
Altoona	--	\$215,150	\$92,964	--	\$308,114
Chester	--	--	--	\$347,199	\$347,199
Easton*	--	--	\$55,000	--	55,000
Lancaster**	\$183,000	\$1,380,000	\$72,400	\$39,600	\$1,675,000
Reading	\$20,000	-	\$204,617	\$33,428	\$258,045
Wilkes-Barre	\$124,966	\$65,000	\$115,000	\$184,500	\$489,466
Average	\$109,322	\$553,383	\$107,996	\$151,182	\$522,137
Median	\$124,966	\$215,150	\$92,964	\$112,050	\$327,657

PILOT Payments by Type (2011 Contributions)					
City	Academic	Hospitals	Housing Authority	Other Tax-Exempt	Total
Altoona	--	69.8%	30.2%	--	100.0%
Easton *	--	--	100.0%	--	100.0%
Chester	--	--	--	100.0%	100.0%
Lancaster**	10.9%	82.4%	4.3%	2.4%	100.0%
Reading	7.8%	--	79.3%	13.0%	100.0%
Wilkes-Barre	25.5%	13.3%	23.5%	37.7%	100.0%
Average	14.7%	55.2%	34.3%	38.3%	100.0%
Median	10.9%	69.8%	26.8%	25.3%	100.0%

*Easton PILOT revenues reflect 2012 budgeted contributions. The City did not receive any PILOT revenues in 2011

**Franklin & Marshall provides maintenance services to the City for Buchanan Park (22 acre). The City's payment listed above does not include the value of this in-kind contribution (estimated at \$49,000 in 2011).

Summary

- There are diverse approaches to PILOT contributions throughout the mid-Atlantic and northeastern states; Act 55 governs in Pennsylvania.
- Substantial payments are made by larger, wealthy institutions in some cases, but medium-sized entities participate as well.
- In these examples, aid most frequently originates from health care providers and higher education institutions to benefit municipal government; these jurisdictions do not appear to have substantial college scholarship programs like the Pittsburgh Promise that will compete for non-profit resources.
- Many of the institutions are already providing significant SILOTs through uncompensated health care and in other forms. However, due to differing municipal, county, state and federal roles, these public benefits don't always match the public services the City would provide directly if the nonprofits did not do so.
- Boston's new PILOT program has attracted much attention regionally and nationally, with its broad base, specific terms and conditions, and continuation of the goal that nonprofits contribute 25 percent of assessed property value, with potential offsets for smaller nonprofits and community benefits.
- Contributions are generally transparent in other jurisdictions.