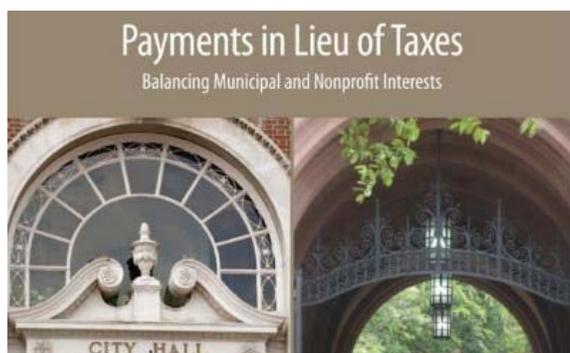


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PILOT Payments in Perspective

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The co-author of a study on PILOT – an acronym for payments made voluntarily by tax-exempt nonprofits as a substitute for property taxes – recommended at a Township Committee meeting Monday that a

collaborative approach would be better than “public shaming”, a process she called “highly contentious.”

Daphne Kenyon, an economist from the Lincoln Institute for Public Policy and co-author of the whitepaper “ [PILOT – Balancing Municipal and Non-profit Interests](#)” presented her research on the differing uses of PILOT in various municipalities around the country.

PILOTs have been a pressing topic in Princeton in recent years, with some residents and government officials questioning the adequacy of Princeton University’s PILOT payments. Under agreements that expire this year, the University paid the Borough \$1.2 million, and the Township a one-time payment of \$500,000.

Some of the reasons for a rise of interest in PILOTs, Kenyon said, are increased local government revenue pressure, increased scrutiny of the nonprofit sector, and the current anti-tax climate. Her survey was conducted on the top 500 jurisdictions with the largest nonprofit sectors. Nonprofits make up one-tenth of the United States economy.

Kenyon said that 154 jurisdictions in 27 states have received PILOTs over the

past decade. Massachusetts alone had 30 jurisdictions receiving PILOTs. Universities and hospitals account for most PILOT revenue, and most PILOT revenue comes from a small number of large nonprofits.

PILOT proponents see it as a source of significant revenue, justified by the argument that nonprofits should pay for the public services they consume. The payments address two problems with the charitable tax exemption:

- *A spatial mismatch*, in which costs born in terms of foregone tax revenue are concentrated in a few municipalities but the benefits extend to many (Kenyon used the example of the Museum of Fine Arts in Boston, which receives visitors from all over but results in the residents of Boston paying higher taxes).
- The property tax exemption is considered an imprecise tax policy, because it rewards nonprofits with the most valuable landholding and not necessarily those nonprofits providing the greatest benefits.

Problems with PILOTs are as follows:

- With the resulting expense, some nonprofits may be compelled to raise fees or cut services.
- It is usually a limited revenue source.
- The process is often secretive, ad hoc and contentious.
- It can lead to *horizontal* and *vertical inequities*. Here Kenyon used Boston University and Northeastern University as examples: Boston University pays a PILOT of 8.53 % of revenue if taxable, while Northeastern University pays a much lower 0.08%.

She said that a municipality should consider a systematic PILOT program if a large percentage of the total property is owned by a nonprofit. For systematic PILOT programs, she had several recommendations, including having a target as a starting point for negotiations. The municipality can determine the target based on the percentage of spending on government services benefiting nonprofits and use that as a basis to calculate payments, saying that the PILOT proportional to tax savings is the fairest approach.

She argued against legal challenges against nonprofits, using the example of Peterborough New Hampshire's attempt to revoke the MacDowell colony's tax-exempt status because only one member was a New Hampshire resident. The New Hampshire Supreme Court upheld the McDowell colony's tax-exempt status, leaving Peterborough with legal bills and nothing gained.

(A group of Princeton residents have filed a lawsuit against Princeton University, challenging the validity of some buildings claimed as tax-exempt.)

Kenyon also said that nonprofits can use community benefits to offset the cash PILOT. For example, Boston University offers community benefits such as a free clinic and tutoring. Kenyon felt that that Yale University, which she described as an “engine of economic development for New Haven,” and Boston University are good models of a systematic approach to the PILOT program.

She showed the audience a quote from Robert Brown, President of Boston University, who said “My primary goal in life is to make Boston University a better institution, but it can only be a better institution if the city thrives.”

Township Committee members had questions and comments for Kenyon at the conclusion of her presentation. Committee member Bernie Miller asked her to explain the ways in which the Connecticut system differs from that of New Jersey and Massachusetts. Kenyon explained that in Connecticut and Rhode Island, the state compensates local government for loss of tax base. In Connecticut, they are supposed to contribute 77% of what the municipality loses by having a nonprofit. The downside of that, according to Kenyon, is when the state has budget problems, they tend to cut this payment, which is what is happening now in Connecticut.

Township Mayor Chad Goerner said that while one-time PILOTs are welcome, they are unpredictable, and that Princeton would be looking at a generalized assistance payment in lieu of taxes with a portion dedicated to specific needs. He asked if Kenyon has seen this sort of arrangement “wrapped up” in one agreement.

Kenyon responded that if a municipality enters into a multi-year agreement, it’s important not to come back the following year and say, “Oh yeah, now we need to up that.” She said that Baltimore had an interesting multi-year agreement, saying that their financial stress was immediate but that they believed in five years, it would be less. The result was a multi-year agreement, with the bulk of the dollars front-loaded and then phased down.

A multi-year agreement can go from one year to thirty years, Kenyon said, but it is difficult to forecast that far into the future. The longer agreements

have so far been linked to the Consumer Price Index.

During the public session, resident Chip Kreider inquired about Catholic nonprofits, whether payment was based on the size of the congregation or the size of the denomination. Kenyon responded that churches do not pay a lot of the PILOTs.

Zvi Eiref of the Township Citizens Finance Advisory Committee commented on the high percentage of tax-exempt property in the Township - about 17% of assessed values, compared to around 11% in Philadelphia.

He added that the percentage of revenue from municipal taxes is also very high, at around 60%, compared to the national average of 30%. “The Township is collecting municipal taxes at double the rate of the rest of the country”, Eiref said, “and receives very little from the state”. He said the combination of very high tax-exempt properties and very high municipal taxes puts the Township in a very difficult situation in the long term.

Other business of the evening involved resolution of the Memorandum of Understanding, or agreement created between the Borough, Township and Princeton University regarding the Arts, Education and Transit Zoning district and Dinky Line. While Liz Lempert recused herself, Deputy Mayor Sue Nemeth, Committee members Lance Liverman and Bernard Miller, and Mayor Chad Goerner voted “Yes” on the agreement.

Said Liverman, “The MOU has a lot of give and take from all sides, and the University is going to move the Dinky anyway.” Comments from residents included those of Virginia Kern, who called the MOU a “troublesome document. I wish the Township would take a long pause before agreeing to it... There is no commitment in this document to preserving rail service.”

The ordinance of the Arts, Education and Transit zone was also discussed. Resident Kip Cherry objected to the height of the “fly tower” at 100 feet, saying that it would change the character of the surrounding neighborhood and create a precedent for many 100-foot tall buildings. Princeton University Vice President and Secretary Bob Durkee said that he would provide visuals of the fly tower at the next Township meeting.

The Planning Board public hearing regarding the Arts, Education and Transit zoning is on November 14.

About the Author »



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Bonnie Schultz has worked as a technology and marketing writer in the Boston area. She moved here in 1997 and is the mother of two boys. Since 2007, Bonnie has been blogging about food and community happenings in the Princeton area.

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