nerej CELEBRATING 55 YEARS

Boston PILOT Tax initiative: Non-profit institutes shoulder more of the burden of municipal services

January 27, 2011 - Spotlights

In the early years of the Commonwealth's formation, our forefathers declared non-profit institutions exempt from property taxes because they provided critical support to the noble goals of sustained educational and cultural growth, improved public health and growth in the economy. While their missions remain at least as important, these institutions have grown in reputation, capability and strength. Today, their aggregate size and global reach have caused many municipalities in Mass. to rethink whether their direct and indirect public benefits are commensurate with the cost, at a time when margins are being squeezed, operating costs escalating, and the recessionary economy is creating relentless pressure.

In 2009, mayor Menino recognized the need for non-profit institutions in Boston to shoulder more of the burden of basic municipal services in a fair and balanced manner and called for a study by a PILOT Task Force with broad representation from the private, non-profit and government sectors of the city. State Aid funding from the Commonwealth to Boston had been reduced by $156 million (-36%) from 2002 and 2010, and in FY 2011 is expected to decrease by another $251 million (-8%). At the same time, the forces of Proposition 2Â½ limiting the amount the city can collect in taxes since 1982 had taken their toll on municipal budgets relying so heavily on the cost of labor.

From the revenue side, the city had been relying on tax revenues from about 48% of land in the city. Approximately 52% of land in the city is owned by tax exempt entities, of which about 40% is owned by city, state, and, federal governments. The remainder of about 12% is owned by educational, medical, and cultural institutions. In the past, some non-profits had negotiated their own PILOT agreements that generated about $34 million in revenue in 2010, or 1% of the city operating budget, of which roughly half was contributed by Massport. The custom had been that institutions would be called upon to contribute to the municipal coffers when regulatory approvals for institutional expansion were required, regardless of whether a PILOT agreement was in place. As a result, existing payments by many of the city's major tax-exempt hospitals, colleges, and cultural institutions had become organically disproportionate, and did not cover the cost of the basic municipal services they needed, estimated to be about 25% of property taxes that would have been paid.

The mayor's PILOT Task Force was charged with making recommendations for a citywide policy that would strengthen the partnership between Boston and its nonprofit institutions, and develop a standard and methodology to be applied to all non-profits that was transparent, consistent, and fair. Deemed voluntary and phased in over a five year period, the new policy proposed by the PILOT Task Force on December of 2010 applies to all non-profit institutions and is based on a formula of 25% of the assessed value of exempt real estate in the city. However, small institutions are protected by an exemption of the first $15 million of otherwise exempt land value. In recognition of how the non-profits support the public good, the new universal guideline allows for a deduction of up to 50% for quantifiable, direct community benefits that each institution provides. Further credits would be made for taxes otherwise paid on exempt property but not for existing institutional commitments such as zoning mitigation for Institutional Master Plans and conditions created under Article 80 project approvals.

The city plans to implement this new PILOT Initiative in FY 2012, but the real question remains, is this the right time to create additional financial pressure on the non-profit institutions that are so important to our quality of life? Time will tell whether the wisdom of our forefathers is relevant to the conditions of today.

Peter Nichols, CCIM, CRE, is principal of NorthStar Ally LLC, Boston.