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## Testimony of the Boston Municipal Research Bureau

Before the

City Council's Committee on Ways and Means

August 2, 2018

Mr. Chairman, I am Samuel Tyler, President of the Boston Municipal Research Bureau, and I am here to speak on Docket #0721, *Order for a hearing regarding Payment in Lieu of Tax Agreements with the City of Boston*. The fiscal health of the City of Boston is a high priority of the Research Bureau to which we bring a citywide perspective as we address specific issues. We have written about the City's heavy reliance on the property tax, which in fiscal 2019 represents 70% of total operating revenue and 85% of the total revenue increase. We have advocated for more diversified revenue sources and greater state aid for Boston. It is with this background that I present our testimony on PILOT payments.

In fiscal 2018, Boston completed its seventh year of implementing a new Payment-in-Lieu of Taxes (PILOT) program involving Boston's 47 largest private tax-exempt institutions. This program, which started in fiscal 2012, has been very successful with payments in fiscal 2018 totaling \$33.6 million, an increase of \$18.5 million or 122% over the actual receipts in fiscal 2011, the last year of the former program. Separate from this program is the Massport PILOT payment, which totaled \$18.2 million in fiscal 2018.

As was expected, the total PILOT payments received have been below the City's annual requests for each of the seven years. In a 2013 [Special Report](#) on the PILOT program, the Research Bureau noted that because the program is voluntary, requiring negotiations between the City and the exempt institutions to determine annual payments and services, initial payments to show good faith could be tempered in future years, reflecting further negotiations and changing economic conditions. That is what happened. The City started with an aggressive five-year plan, but after negotiations, receipts as a percent of requests have fallen from 90.7% in fiscal 2012 to 56.4% in fiscal 2018.

Even so, Boston's PILOT program is a success. The City of Boston leads the country in revenue generated by its PILOT program. The Lincoln Institute of Land Policy, in its 2010 report on municipal PILOT programs around the country, touted the City of Boston as the most successful program in the country in terms of revenue generation.

The City's new standardized PILOT program produced an additional \$18.5 million in PILOT payments in fiscal 2018 over the total received in fiscal 2011, further solidifying its standing as the City with the most successful PILOT program.

## **Tax-Exempt Status**

With a population over 672,000, Boston is the capital city of Massachusetts and the largest city in New England. These factors contribute to Boston being home to several tax-exempt private institutions as well as city, federal and state offices and Massachusetts public authorities. In fiscal 2018, 51.6% of Boston's total land area was tax-exempt. Of that total, city, state and federal government property represented 78.1% and private institutions such as medical, educational, and religious institutions represented 21.9%. Medical, educational and cultural institutions made up about 5.7% of the City's land area.

The City Council order for this hearing included a statement that educational, medical and cultural institutions have sought to expand their property through land acquisition. A review of the change in tax-exempt-owned land over the past 30 years from 1988 to 2018 shows relatively little growth of exempt property in relation to the City's total land area, and most of the growth is on the government side. Over the last 30 years, state land increased from 23.8% of the City's total land area to 25.2% or by 0.94 square miles. Land owned by educational institutions increased from 3.1% of total land area to 3.7% or by 0.32 square miles and land of medical and cultural institutions increased from 1.9% to 2.0% of total land area or by 0.10 square miles.

## **PILOT Program**

The current PILOT program is a more standardized approach than its predecessor in that it applies equally to the largest 47 private tax-exempt institutions with property values of \$15 million or more. As a voluntary program, the City requested the institutions to annually increase their PILOT payments to reach 25% of what they would pay if taxable by fiscal 2016, with community services that met city standards able to represent 50% of the goal. In fiscal 2017 and fiscal 2018, the City increased its request for most institutions by 2.5% each year. Under the former PILOT program, a PILOT request was triggered generally when an institution's development project required a building permit or zoning variance that created substantial inconsistencies among institutions regarding PILOT payments.

## **Participation**

Over the first seven years, payments as a percentage of requests have declined as annual requests have increased each year. The medical institutions, in aggregate, increased their annual payments in fiscal 2018 by \$13.3 million over the payment in fiscal 2011 and paid 87.4% of the City's goal in FY18, down slightly from 96.3% in fiscal 2012. The PILOT increase from these medical institutions represented 71.8% of the total PILOT increase in fiscal 2018 over fiscal 2011. Educational institutions increased their aggregate payment in fiscal 2018 by \$5.1 million or 57.4% over the payment in fiscal 2011. Each year since fiscal 2012, the aggregate

payments from educational institutions have decreased as a percentage of the City's annual request, from 88.3% in fiscal 2012 to 39.3% in fiscal 2018. The City's list includes four private high schools that have declined to pay.

## **Tax-Exempts and the Economy**

Any evaluation of the City's PILOT program should fully consider the significant contributions the medical, educational and cultural institutions make to the City and regional economy and their importance to the quality of life in the metropolitan area. By employing a large workforce, attracting billions in research grants, fostering start-up companies, providing in-kind services directly to residents and adding to Boston's popularity as a destination city, these institutions are an integral component of the economic strength of Boston. Businesses are attracted to locate in Boston because of the resources provided by the institutions and the talented workforce in the area. The benefit to Boston of the private tax-exempt institutions is noted by the rating agencies in their bond rating reports. In May 2018, Moody's Investors Service stated that the concentration of tax-exempt higher education and hospital institutions "provide economic stimulus" and the City "benefits from the sector's employment base."

In recent years, tax-exempt institutions have continually added jobs to the Boston economy. Of the top ten employers in the City, eight are tax-exempt institutions supporting 74,495 jobs or 85.5% of the top ten total. Boston's economy is growing in the life sciences and biotechnology industries supported, in good part, through receipt of National Institute of Health (NIH) grant awards by institutions located in the City. For 23 consecutive years, Boston has been awarded the largest amount of NIH funding of all cities in the country according to a 2018 report by the Boston Planning and Development Agency (BPDA). Of the \$1.97 billion received in 2017, 96.9% was awarded to the tax-exempt medical and educational institutions in Boston, indicating their critical role in expanding the economy and creating jobs.

## **Conclusion**

The City of Boston's Payment-In-Lieu-of-Tax program is a success, resulting in both a significant increase in PILOT payments and community services. This is a voluntary program that requires negotiations between the City and the exempt institutions to determine annual payments and services. Expecting full payment to an aggressive schedule set by the City is not productive. The PILOT program is not a viable source for substantial new revenue for Boston. It is already the most successful PILOT program in the country. The educational, medical and cultural institutions play a critical role in the vibrancy and growth of the Boston economy and job creation, and the City should continue to be sensitive to this fact as it manages the PILOT program going forward.