

BOSTON'S PILOT PROGRAM at YEAR 7

Program brings revenue generation & equity to the City

Is Boston's Payment-in-Lieu-of-Taxes (PILOT) program successful in both revenue generation and equity? How important are tax-exempt institutions to the City's economy? Should tax-exempt institutions pay more in Boston? In fiscal 2018, Boston completed its seventh year of implementing a new PILOT program involving Boston's 47 largest private medical, educational and cultural tax-exempt institutions. In fiscal 2018, this [program](#) has generated \$33.6 million, an increase of \$18.5 million or 122% over actual receipts in fiscal 2011, the last year of the former program. Additionally, the current program is more standardized than its predecessor in that it applies equally to the largest 47 private tax-exempt institutions.

Report Objectives

Our report provides information and insights on:

- The effectiveness of the current PILOT program over the prior system
- The importance of the PILOT program to Boston
- The economic and social benefits of tax-exempt institutions to Boston
- Extent and ownership of tax-exempt property in Boston
- How Boston's PILOT program compares with those in other cities

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Background

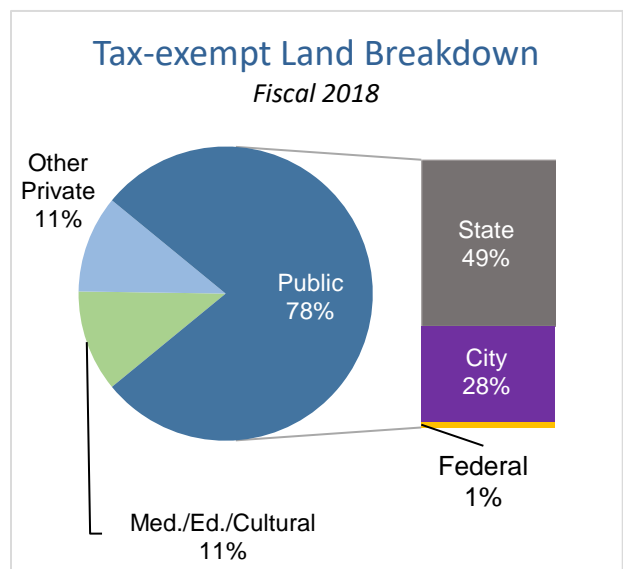
Revenue generation and more standardized system

In 2012 the City of Boston revamped its PILOT program to improve revenue generation and equity among non-profits. In addition to increasing revenue, the new program was designed to provide a more systemic and consistent approach to the PILOT's based on property values and community services for the largest exempt institutions. The program was not considered static and continues to be viewed as a collaborative program in the context of a partnership that will take time to evolve regarding cash payments and community services. These exempt institutions are significant drivers of the city and region's economy and of job creation, which makes Boston the envy of most other major cities in the country. With updated property values, the City sought a significant increase in PILOTs phased-in over five years based on 25% of what property taxes would be if the institutions were taxable, with 50% or more of the total made up of agreed upon community services that address city needs.

The payments-in-lieu-of-tax agreements are voluntary and determined through negotiations between the institutions and the City. The real estate value for the tax-exempt institutions used in fiscal 2012 was \$13.7 billion or 15.4% of Boston's total taxable value. Based on these values, the City established an aggressive PILOT schedule that increased each year so that in five years the PILOT payments would reach 25% of what they would pay if taxable in fiscal 2016. Acceptable community services could equal half of the annual request. The community services were required to follow city guidelines consistent with goals of the Administration. Under the former PILOT program, a PILOT request generally was triggered when an institution's development project required a building permit or zoning variance. The result of that process was that substantial inconsistencies existed among the institutions in their annual PILOT payments.

PILOTs are important to Boston's budget

The City's interest in PILOTs from the private tax-exempt institutions stems from its heavy reliance on the property tax and the fact that more than half of its land area is tax-exempt. Boston's fiscal 2019 General Fund budget relies on the property tax for 70% of its total operating revenue and 85% of the total revenue increase. Growth in state aid, the City's second largest revenue source, has been relatively flat, and the City has only a limited number of other own-source tax revenues that sets it apart from most other peer cities in the country.



Tax-Exempt Snapshot

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 private tax-exempt 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 medical, educational and cultural institutions represented 21.9%. Medical, educational and cultural institutions made up about 5.7% of the City's total land area.

Why Tax-Exemptions

Tax-exempt institutions gain their exempt status from laws dating back to the early 1800s. Tax-exemptions for private nonprofit institutions are provided in all 50 states and the District of Columbia. The motivation for granting these exemptions is that many nonprofit institutions offer services that otherwise would need to be provided by government entities. Since the exempt status was granted, the nature of exempt services has evolved as educational and educational institutions over the years have expanded and their scope of activities and relationships.

Tax Exempt Property At A Glance: Fiscal 2018

Category	Exempt Valuation in 000's	% of Exempt Value	% of Total Value	Area/Acres	% of Exempt Area	% of City Area
Public						
US Government	\$2,343,656	4.3%	1.5%	241.21	1.6%	0.8%
MA State	\$9,351,232	17.3%	6.0%	7,212.78	48.7%	25.2%
Boston City	\$11,766,294	21.8%	7.5%	4,117.20	27.8%	14.4%
Other Public	\$12,814	0.0%	0.0%	0.32	0.0%	0.0%
Total Public	\$23,473,996	43.5%	15.0%	11,571.51	78.1%	40.4%
				18.08	sq. mi.	
Private						
Literary	\$13,841,121	25.7%	8.8%	1,067.33	7.2%	3.7%
Char./Benevolent	\$12,764,862	23.7%	8.2%	586.80	4.0%	2.0%
Religious	\$1,995,818	3.7%	1.3%	1,212.01	8.2%	4.2%
121-A	\$1,457,001	2.7%	0.9%	165.74	1.1%	0.6%
Other Private	\$374,249	0.7%	0.2%	206.40	1.4%	0.7%
Total Private	\$30,433,050	56.5%	19.5%	3,238.28	21.9%	11.3%
				5.06	sq. mi.	
Total Tax Exempt	\$53,907,046	100.0%	34.5%	14,809.79	100.0%	51.6%
				23.14	sq. mi.	
Taxable Real Property	\$102,491,692		65.5%	13,864.36		48.4%
				21.66	sq. mi.	
Taxable & Exempt Real Property	\$156,398,739		100.0%	28,674.15		100.0%
				44.80	sq. mi.	

Tax-Exempts and the Economy

Any evaluation of the Boston'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.

Tax-exempts as Large Employers

- 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, according to the City's 2018 Official Bond Statement.

Top 10 Private Employers:

1	Massachusetts General Hospital
2	Brigham and Women's
3	Boston University
4	Boston Children's Hospital
5	Beth Israel Deaconess Medical Center
6	State Street Bank & Trust Co.
7	Harvard University Graduate Schools
8	Northeastern University
9	Fidelity
10	Boston Medical Center

*Not tax-exempt

Tax-exempts and a Growing Economy

- Boston's economic growth in the life sciences and biotechnology industries supported, in good part, through receipt of National Institute of Health (NIH) grant awards to institutions located in Boston. For 23 consecutive years, Boston tax-exempt institutions have been awarded the largest amount of NIH funding of all cities in the country. ^[1]
- Of the \$1.97 billion received by Boston institutions in 2017, 97% was awarded to tax-exempt hospitals and universities in Boston, indicating their critical role in expanding the economy and creating jobs. Research institutes in Boston account for an additional 1.7% and private and other companies 1.3% of the NIH total for Boston.

What the Rating Agencies Say

- In February 2019, 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 stable employment base."

^[1] According to a 2018 report by the Boston Planning and Development Agency (BPDA).

Findings

Revenue increase of \$18.5M, 122% since 2011

In fiscal 2018, Boston completed its seventh year of implementing the new PILOT program. This program has been successful, increasing payments in fiscal 2018 by \$18.5 million or 122% since its inception for a total of \$33.6 million. Additionally, the program has been successful in bringing a systemic and consistent approach to how exempt institutions participate financially in Boston. The current 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. Separate from this program is the Massport PILOT payment that totaled \$18.7 million in fiscal 2018.

Initially most institutions increased their PILOT payments to show good faith effort and 90.7% of the City’s request was paid. After seven years, total payments have increased by 122%, which is significant, and as expected, below the City’s goal. In fiscal 2018, PILOT payments represented 56.4% of the City’s request. It should be noted that real property owned by tax-exempt institutions and used for commercial purposes are subject to taxation by the City. In each of the last three fiscal years (FY17-FY19), the sixth, seventh and eighth year of the program, the City increased the PILOT request for most institutions by 2.5%.

Boston in US Context

Even with the lack of uniformity in the former PILOT program, it was still considered a successful program in terms of revenue generation relative to other PILOT programs in the country. The extent of exempt institution located in Boston and Massport's large long-term agreement contributed to this situation. According to a 2010 Lincoln Institute of Land Policy nation-wide report on PILOTs, Boston was considered to be the "most revenue productive program in the country." The report states there are PILOT programs in 117 municipalities across 18 states in the US. Pilot agreements vary as much as the cities themselves, but consistently the most successful PILOT initiatives arise out of partnerships between government and tax-exempt institutions.

PILOT Participation

The City’s request of the tax-exempt institutions to make payments equal to 25% of what each would pay if taxed based on newly established real estate values for fiscal 2012 ramped-up over five years produced an overall increase that made the City’s annual request aggressive for many institutions.

Examples:

	Fiscal 2011 Payment	Fiscal 2018 Request	Increase
Beth Israel Deaconess Medical Center	\$167,000	\$3,253,517	1848%
Dana-Faber Cancer Institute	\$99,972	\$950,368	851%
Children's Hospital	\$111,921	\$828,409	640%
Wentworth Institute	\$31,504	\$787,731	2400%



As a consequence of the significant requests for PILOT increases by the City and the fact that the payments are voluntary, based on negotiations between each institution and the City, total PILOT payments as a percentage of requests have declined from 90.7% in fiscal 2012 to 56.4% in fiscal 2018.

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% paid 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 educational list includes four private high schools that have declined to participate in the program.

Eight cultural institutions in the group of 47 are different enough in their revenue structure and community services to merit greater flexibility under this program. Four institutions participate in the PILOT program and their PILOT payment total has increased to \$278,199, an increase of \$127,003 or 84% since fiscal 2011. What also sets Boston PILOT program for cultural institutions apart from the programs in other major cities, is that it is more common for the cities to be financially supporting the cultural institutions than requesting funds from the institutions.

The standardized approach of basing the City’s PILOT request on property value resulted in nine institutions that were not making payments in fiscal 2011 contributing a total of \$1.7 million in fiscal 2018.

PILOT Payment History (\$ in thousands)

Category	No.	Fiscal 2011	Fiscal 2018	Variance	%
Medical	16	\$6,008	\$19,270	\$13,262	220.7%
Educational	21	8,836	13,907	5,071	57.4%
Cultural	8	151	278	127	84.0%
Other	2	152	166	014	9.2%
Total	47	\$15,147	\$33,620	\$18,473	122.0%

Further Considerations

Shared Taxes – The economic benefit the tax-exempt medical and educational institutions provided to Boston is even greater for the Commonwealth since unlike Boston the state is the beneficiary of the income tax paid by all employees of these institutions. Of the top ten employers in Boston, eight are tax-exempt institutions supporting 74,495 jobs. Legislation could be enacted that would stipulate that a percentage of the 5.1% state income tax generated by the employee of the institutions would be allocated to the City of Boston.

This proposal would somewhat follow the model established in the enabling legislation for Boston Convention Center and Exhibition Center (BCEC). A convention center finance district was established covering much of the South Boston/waterfront area proximate to the project site. All state sales, meals and liquor taxes collected in the district from any vendor opened after a certain date were earmarked



for the City of Boston to help support its debt service costs for the purchase and preparation of the land for the BCEC.

Community Services – As previously noted, acceptable community services could equal half of the annual PILOT request. The community services were required to follow city guidelines consistent with goals of the Administration with some variation based on negotiations with the institutions. The community in which a tax-exempt institution is located should have a formal opportunity to suggest services that would be viewed as a priority for the neighborhood. The Public Health Commission utilizes a community engagement framework that could serve as a model. The Research Bureau has recommended that in certain situations, community services should count for more than 50% of the total request for an institution, and in the case of cultural institutions should apply for up to 100% of the City’s request.

Conclusion

Boston’s Payment-in-Lieu-of-Tax program is a success in both a significant increase in PILOT payments and community services as well as standardizing the program.

Voluntary program

- This voluntary program 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 realistic.

New Revenue Source

- 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.

A Good Standardized Approach

- Boston’s plan to provide a more standardized approach to its PILOT program based on real property values to increase PILOTs while suggesting the direction of community services remains the most reasonable approach for expanding its revenue base. Public suggestions involving embarrassing or bullying the institutions or making full payment conditional for other approvals from the City the institutions may request would only be counter-productive.

Good Working Relationship a Must

- The City has no legal authority to compel the tax-exempt institutions to pay its annual request, leaving unchanged the voluntary nature of the program and the importance of the working relationship between the City and each institution in determining the annual cash PILOT payment to be made.