



PAYMENT IN LIEU OF TAXES (PILOT) TASK FORCE

FINAL REPORT

June 25, 2013



Table of Contents

Overview..... 1

City Property Tax Base 5

Legal Basis for Property Tax Exemptions 6

City Budget – Revenues And Expenditures 7

State Support and Local Revenue Options 9

Current Pilot Agreements..... 12

Overview of Pilot Studies in Other Communities 13

Hypothetical Voluntary Pilot Program (Boston Model)..... 17

Other Approaches for Voluntary Contributions Toward City Services..... 19

Conclusions and Recommendations..... 19

7/10/2013-PilotTaskForceRpt.docx

Overview

The City of Madison is fortunate to be the seat of state government, the home of the University of Wisconsin, and the beneficiary of the important work of non-profit community service institutions, including hospitals, social service providers, religious groups, and institutions of higher education. City government services, including public safety, fire protection, street maintenance and construction, snow removal, transit and public health, support all individuals who live, work and do business within the city limits. Those services are paid for primarily by property owners that can be assessed a tax.

The property tax has many positive attributes. It is generally a stable and transparent revenue source – property values are established through a clear and appealable process; and the tax rate is set annually through legislative action which includes opportunity for public hearings. But it is also a revenue source that is limited in its connection to personal income and broader economic activity. In addition, because of Wisconsin’s constitutional requirement that property tax rates be uniform, only one tax rate can be imposed on property. To some extent, this limits the progressivity of the property tax compared to the graduated income tax levied by the state.

In response to some of the limitations of the property tax, larger cities in many other states utilize a much broader array of revenue sources than the property tax. Fees for services, local option fuel, sales and income taxes, and other measures help to diversify the revenue stream in support of local government services. This diversity ensures that no single group is forced to bear the burden for these costs. Madison has generally avoided implementing broad-based user fees (e.g., garbage collection, snow and ice removal, etc.) given the potential regressive effects of such fees on lower-income families and residents.

Wisconsin has also chosen not to take the path of authorizing broad-based local option revenue sources. Instead, property taxes have been the primary source of support for local government services. The state has historically provided the diversity in local government revenue through state aid – the shared revenue formula, general transportation aid and local transit assistance. Rather than each local government levying its own bundle of taxes (e.g., property, income, sales, fuel), tax bases are “equalized” throughout the state. In other words, through the combination of local property taxes and state taxes on income, sales and fuel shared through state aid programs, local governments that have the same cost per person for essential services will have the same property tax rate. Any variation in rates is the result of local decisions to spend more or less on those services rather than due to differences in local economic capacity.

This approach was generally followed from the 1970’s through the 1990’s. However, continuing concern about rising school property taxes and higher crime rates, along with large investments in expanding the state highway network in support of mobility and economic development, led state policy makers to allocate a much greater proportion of state revenues from income, sales and fuel taxes toward school aid, prisons, and state highway construction. Concerns about rising property taxes also led to controls on local government spending, including a property tax rate limit for counties and incorporation of expenditure restraint incentives for municipalities into the shared revenue formula in the early 1990’s, school district revenue limits and controls on the rate of growth in teacher compensation in the mid-1990’s, levy limits on municipalities and counties in the mid-2000’s, and local government employee compensation and collective bargaining limits along with stricter revenue and levy controls in 2012.

The reliance on property taxes for municipal services is borne out in comparisons with other cities around the country. Madison is ranked in the top ten among “fiscally standardized cities” for its reliance

on property taxes. [“Standardized” by including costs from multiple governmental units within a geographic boundary in order to be able to compare revenues between cities that run schools and those that do not.] Compared to communities in other states, municipalities in Wisconsin are among a handful of states that can generally only use property taxes to support a majority of its spending.

Reliance on the Property Tax, FY 2010 (Rank among 109 Fiscally Standardized Cities)					
Property Tax as a % of Own-Source Revenues			Property Tax as a % of General Revenue		
Rank			Rank		
1	Springfield, MA	84.4%	1	Austin, TX	48.2%
2	Worcester, MA	75.4%	2	Boston, MA	47.2%
3	Boston, MA	74.7%	3	Madison, WI	45.8%
4	Madison, WI	70.4%	4	Houston, TX	41.0%
5	Providence, RI	68.8%	5	Ft. Worth, TX	41.0%
6	Gary, IN	67.7%	6	Providence, RI	40.0%
7	Anchorage, AK	65.3%	7	Dallas, TX	39.4%
8	Jackson, MS	64.1%	8	Ft. Lauderdale, FL	39.0%
9	Warren, MI	63.4%	9	St. Petersburg, FL	38.7%
10	Virginia Beach, VA	59.7%	10	Atlanta, GA	38.5%
13	Austin, TX	57.9%	18	Raleigh, VA	35.1%
27	Milwaukee, WI	52.3%	38	Orlando, FL	30.6%
46	Minneapolis, MN	45.4%	47	Minneapolis, MN	28.6%
49	Indianapolis, IN	45.1%	62	Milwaukee, WI	24.7%
85	Chicago, IL	33.6%	105	Syracuse, NY	13.2%

This policy decision to limit support for municipal services to the property tax has also increased the focus on the payers of the property tax. Other policy goals of the Legislature, such as property tax relief for certain economic sectors or in support of community services, have reduced the number of property tax payers. This tax relief has two primary outcomes. One outcome is a greater capacity for reinvestment in the state’s economy by for-profit businesses and recognition and reinforcement of the community services programs provided by eligible non-profit service organizations. The other outcome is a higher property tax rate, all other things being equal, than would otherwise be the case if a greater proportion of property were taxable.

This property tax relief has been directed at farmers and other agricultural interests through property valuation based on agricultural use rather than on highest and best use, at manufacturers and other for-profit entities through complete exemption of certain production property from taxation with the goal of spurring economic development and competitiveness, and at certain non-profit entities that provide benevolent services and community-wide support programs or offer specific cultural services (such as community theaters) based on a total exemption of land and improvements.

Generally, the policy and legal rationale for these exemptions is to avoid duplicate taxation (government-owned facilities are paid for by the same taxpayers that pay property taxes), recognize the non-profit and service orientation of certain organizations (education, hospitals, low-income housing), or seek to avoid constitutional entanglements (religious houses of worship).

Another critical element in the focus on property taxes and the changing property tax base is the rapid increase in residential property values in the 1990’s and early 2000’s relative to other taxable property. The exemptions and changes in assessment requirements listed above, combined with above average

growth in residential property value, have increased the share of property taxes paid by residences from approximately 55% to over 70% in the last 30 years.

All owners of property in the city, regardless of tax status, receive many city services, including law enforcement, fire protection, snow and ice removal, street reconstruction, repair and maintenance, and transit. The total city general and library funds budget for 2013 is \$267 million, with property owners paying a tax rate of approximately 0.9% of property value (e.g., \$2,161 in city property taxes on the average home value of \$232,024). The cost of public schools, county government services, technical colleges, or state forestry activities is also supported by owners of taxable property. The total rate of 2.4% for taxable property is, in effect, higher than it would otherwise be, all other things being equal, than it would be if all property in the city were taxable. The tax rate would also be lower if there were additional sharing of state income, sales and fuel tax revenue with local governments or a greater array of local option revenue sources were available to the city to support its current level of spending.

For example, if shared revenue had grown at the rate of inflation over the past 30 years, Madison would have received an additional \$43 million in state aid in 2013. This additional revenue would have reduced the tax rate by 22% and city taxes on the average value home would have been \$480 lower. A 0.5% sales tax levied within the city would have generated approximately \$25 million in revenue. If this revenue were used to reduce property taxes, the mill rate would have been 13% lower and taxes on the average value home would be reduced by \$279. Taken together, additional shared revenue and a local option sales tax would have reduced property taxes on the average value home by over \$750.

Given the historic focus on property taxes for financing local government services, the lack of authority to levy other broad based revenue sources and reduce the property tax burden locally, the declining share of state funding for municipal services, limits on the growth of property tax revenues to support city services, continuing requests for tax exemptions by for-profit and not-for-profit entities (e.g., restaurant owners, commercial broadcasters and community theater boards), the important and long-term partnership between the city and tax-exempt non-profit service organizations in helping Madison residents in need, concerns about the economic impact on small businesses due to the singular focus on property taxes, and the rising share of the property tax base borne by owners of residential property, Mayor Soglin and the Common Council formed a task force to review and understand these issues and payment in lieu of taxes (PILOT) programs in other communities. The PILOT task force includes representatives from the University of Wisconsin, the UW Hospitals and Clinics, medical-related property, owners of tax-exempt housing, owners of tax-exempt property making voluntary PILOT payments, the non-profit community, common council members, and owners of taxable property.

The key goals of the task force include:

- Understand the City's service levels, revenue options, and mandates established under State law.
- Identify and quantify the value of services provided by owners of tax-exempt property to the community.
- Reach an understanding on service levels provided to owners of tax-exempt property and the means of equitably financing those service levels.
- Report findings, conclusions and recommendations to Mayor and Common Council.

The resolution adopted by the Common Council is as follows:

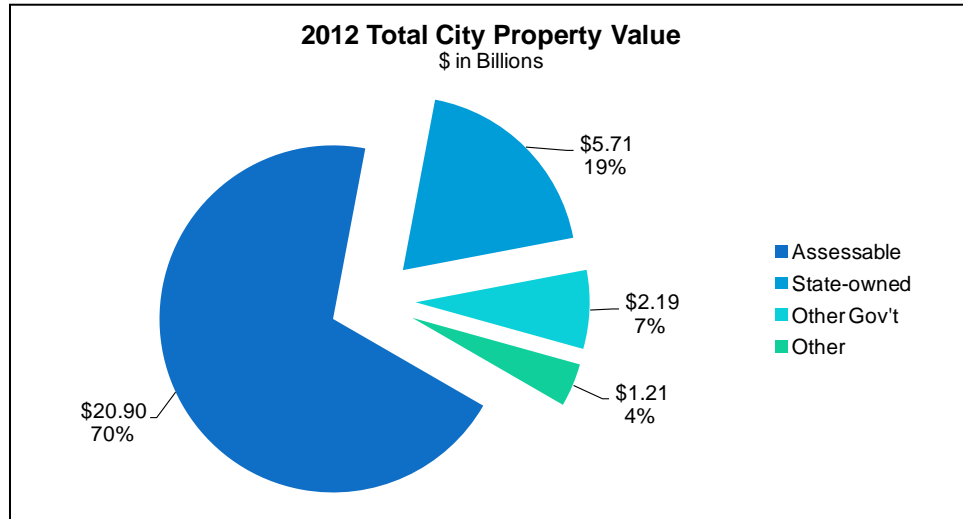
- WHEREAS, the City of Madison has almost \$6 billion in estimated value of real property that is property tax-exempt; and
- WHEREAS, the City of Madison is committed to provide basic services to all property owners, regardless of whether their property is taxable; and
- WHEREAS, in other cities with high amounts of tax-exempt property, such as Boston, MA, Pittsburgh, PA, Providence, RI, and Minneapolis, MN, have found it beneficial to promote a community discussion of the budget impact of providing basic services to tax-exempt property; and
- WHEREAS, the Mayor of the City of Boston convened a task force to study the issue of voluntary payments in lieu of taxes (PILOT) for their city, the work of said task force resulting in several positive outcomes for the citizens.
- NOW, THEREFORE, BE IT RESOLVED the Madison Common Council hereby directs the Mayor to appoint 15 members of the community to a PILOT Task Force, charged with reviewing the different aspects of basic services provided to tax-exempt property owners; and
- BE IT FURTHER RESOLVED that the PILOT Task Force shall report to the Mayor and the Common Council as soon as practicable, but not later than twelve months from its first meeting; and
- BE IT FURTHER RESOLVED that the PILOT Task Force will be an Ad Hoc Committee of the City, to be dissolved upon completion and acceptance of its report; and
- BE IT FINALLY RESOLVED that membership of the Task Force include representatives of the following: University of Wisconsin, owners of exempt educational property, owners of exempt medical-related property, owners who are currently making a voluntary PILOT, owners of exempt property providing housing, the nonprofit community, at least one member of the common council, owners of taxable commercial property, and other at-large members. The Task Force will be staffed by the City Assessor, Finance Director, and City Treasurer or their designees.

The PILOT task force held its first meeting in August 2012 with retired city department manager Roger Goodwin serving as chair. Other members of the task force are:

Joe Clausius, Common Council	Michael Heifetz, St. Mary's Hospital
Jill Johnson, Common Council (left April 2013)	Robert Keller, Keller Real Estate
Jean Bachhuber, Oak Park Place	Rachel Krinsky, YWCA
Darrell Bazzell, University of Wisconsin	Andrew Reshovsky, University of Wisconsin
Tim Conroy, Capitol Lakes	Jay Robaidek, UW Health
Mark Elsdon, Pres House	Denise DeMarb, Common Council (added April 2013)

City Property Tax Base

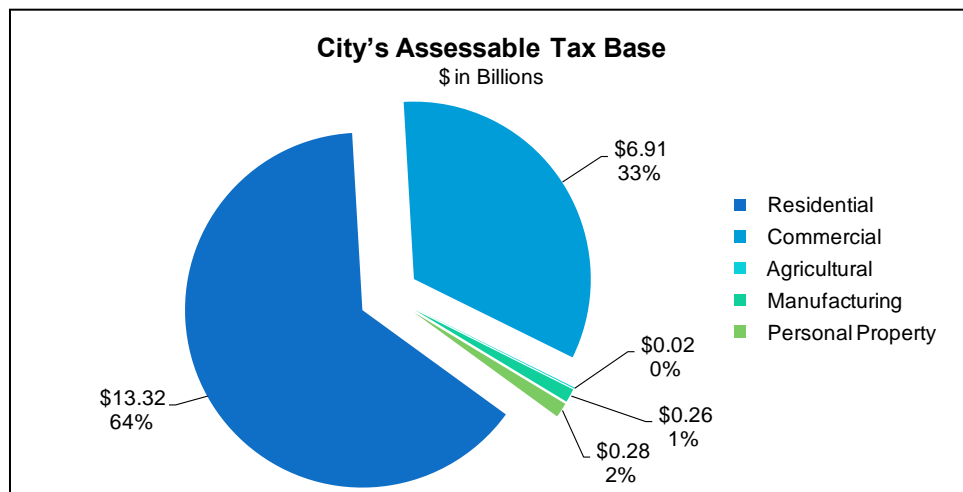
Under Wisconsin law, all property is taxable unless specifically exempt. Out of a total estimated property value of \$30 billion in the City of Madison, about \$9 billion in property value is exempt, leaving a tax base of approximately \$21 billion.



The City Assessor is responsible for estimating the value of all locally assessable property in the City of Madison and for producing an annual assessment roll listing all taxable property. The assessment roll describes the property, states the assessed value as of January 1, and lists the owner's name and address. These values are used to compute property tax statements at the end of the year.

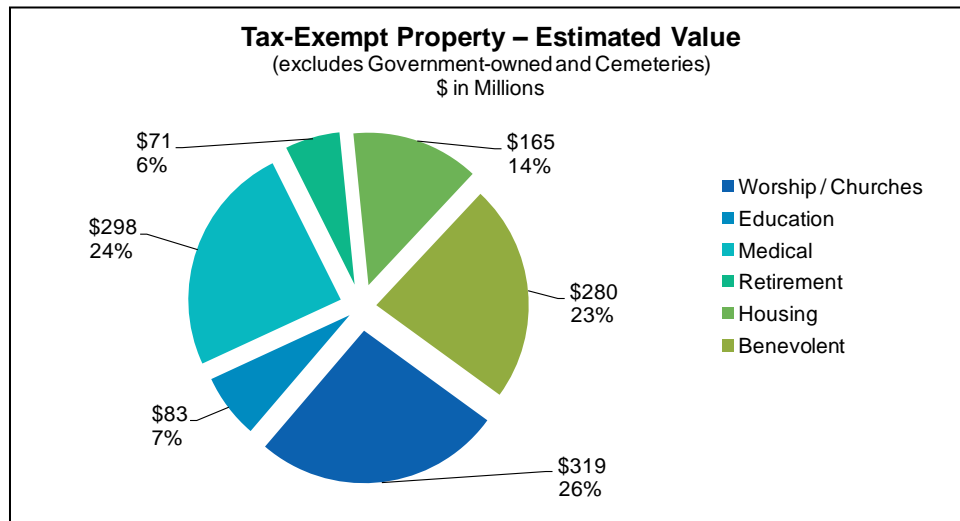
Property, for tax purposes, falls into two broad categories: real estate and personal property. Within these categories are several subsections. Locally assessed real estate is broken into residential, commercial and agricultural properties. Personal property consists of machinery, furniture, fixtures and other types of property used in the course of business or commerce. These two categories are assessed by the City Assessor and represent approximately 98% of the property tax base.

The remaining 2% of the tax base is valued by the Wisconsin Department of Revenue and consists of manufacturing properties, both real and personal.



About 2,400 parcels in the City of Madison are exempt from property tax. Exemptions are governed by section 70.11, Wisconsin Statutes. Exemptions range from federal, state and municipally owned property to over 40 other exemption types such as educational institutions, religious associations, benevolent associations, nonprofit hospitals, and nonprofit low-income housing.

Exempt properties are not assessed annually by the local assessor nor are specific values required to be determined by the assessor in any manner. Some exempt properties though, are required to file a biennial report with the assessor indicating an estimated value range of their property along with additional data verifying their exempt status. The chart below roughly estimates the value of these exempt properties from this filed report based on general exemption types excluding government owned properties and cemeteries.



Legal Basis for Property Tax Exemptions

Under the Wisconsin Constitution, taxation of property must be uniform. A class of property must either be taxed in its entirety or not taxed at all. In other words, different types of property (e.g., residential vs. commercial) cannot be taxed at different rates. This approach is different than in many other states, including Minnesota, where differential property tax rates are allowed and often employed to reduce the residential property tax burden.

The Wisconsin Constitution does allow the Legislature to grant specific exemptions from taxation and has been amended to allow non-uniform taxation of certain types of property. Some of the most notable examples include use-value assessment of agricultural property (i.e., agricultural property is assessed based on the value of corn rather than the highest and best use of the land), and the machinery and equipment exemption for certain manufacturing property. There are numerous other exemptions, with most focused on benevolent organizations, religious houses of worship, colleges and universities not exceeding 80 acres, low-income housing, and hospitals. All of these exemptions and differing taxation bases have been adopted to address specific policy goals and also have the cumulative effect of narrowing the property tax base and placing a greater proportional share of actual property tax levies on residential and commercial property.

The Wisconsin Court system has analyzed the public policy behind property tax exemptions and some of those decisions are summarized below. Specifically, the courts have stated that property tax

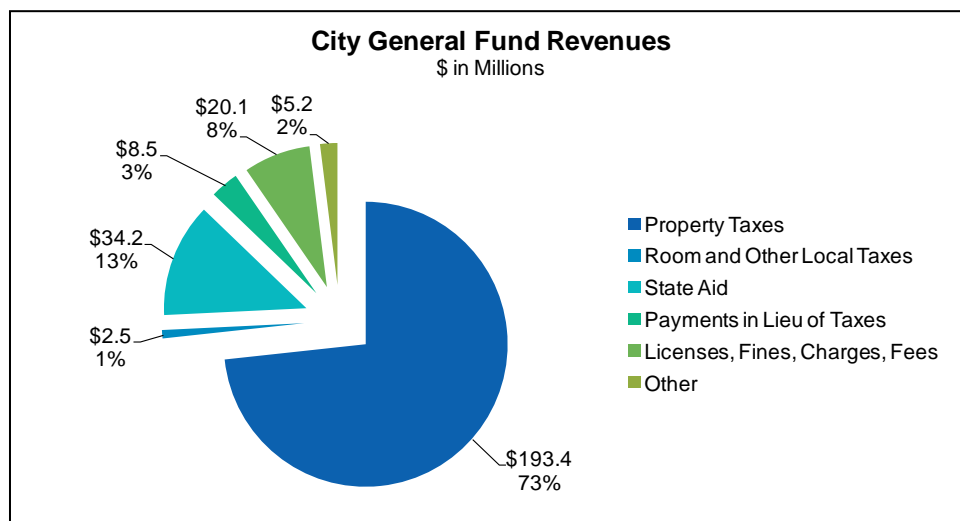
exemption statutes are to be strictly construed in every instance with the presumption that the subject property in question is taxable, and the burden of proof is on the person who claims the exemption. A ‘strict but reasonable construction’ is applied and any doubt under this standard is resolved in favor of taxation of the subject property. The presumption in favor of taxability is motivated by the public interest to stem the erosion of municipal tax bases, with the more exemptions that are allowed the more disproportional the tax burden becomes on the taxpayer. The continuous removal of real property from taxation thus imposes a particular hardship upon local government and the citizen taxpayer. Property tax exemptions are based on the theory of mutual consideration -- the public relieves an organization of its property tax burden when it conveys a benefit to the tax-paying community. The Legislature has recognized that certain organizations that actually serve a public rather than a private interest are relieved of their property tax burden.

This last point is important and recognizes the policy goal of the Legislature to establish a partnership between the work of community organizations and the overall quality of life of the community. Tax exemptions for certain non-profit entities recognize that these organizations exist to provide a service to those in need in the community. These organizations are often completely reliant on contributions from the public, government and foundation grants, and corporate support. The tax-exempt status afforded these organizations reflects the general inability of these groups to create surplus revenues beyond those needed to support community services. In effect, there is nothing to tax – for many community service organizations, all revenues are devoted to services. On the other hand, non-profit organizations must address many costs of doing business. Providing support for essential city services is one such cost category.

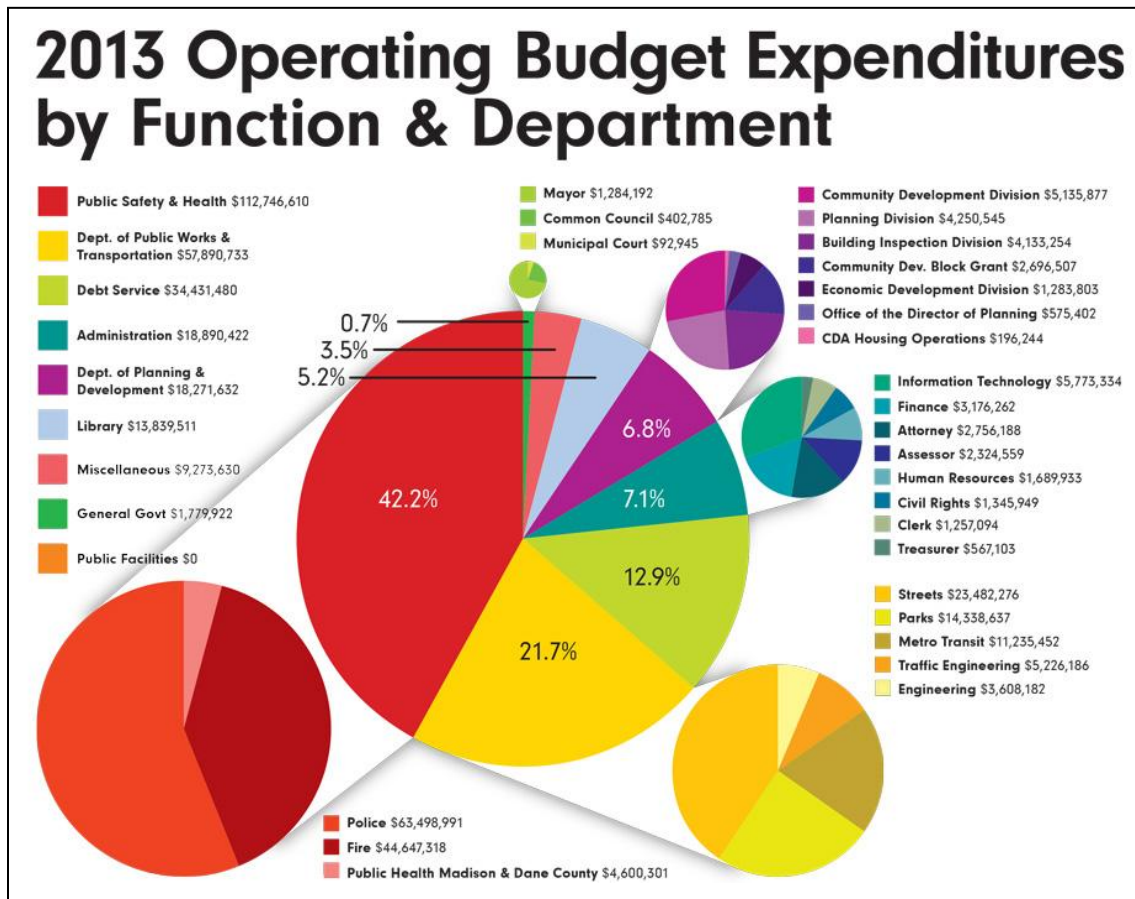
City Budget – Revenues and Expenditures

The City of Madison budget for 2013 is \$498.8 million. This amount includes expenditures for city utilities (e.g., Water Utility, Parking Utility) that are funded in whole or in part from user fees and charges. The city’s general and library funds, which are supported by property taxes, total \$267 million for the 2013 fiscal year.

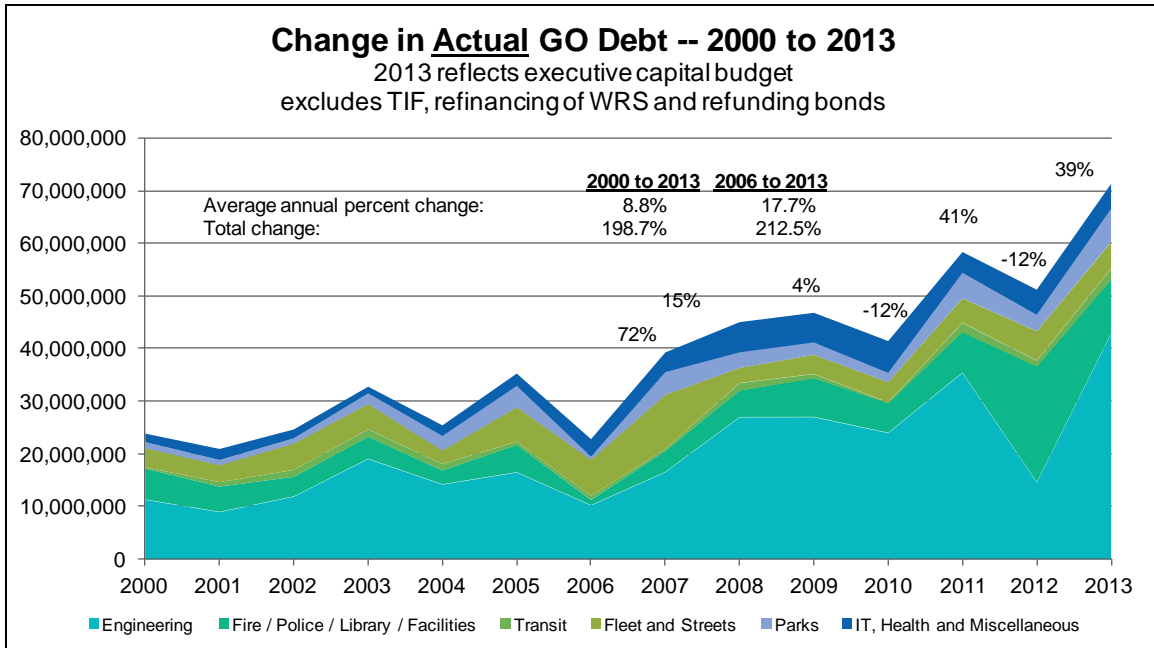
Over 70% of revenues to the city’s general and library funds come from property taxes. State aid is the next largest category (at 13%), with the largest single source provided from state general transportation aid. Payments in lieu of taxes are primarily provided from the city’s utilities based on asset values.



Over 40% of the city general fund budget is devoted to public safety, health and fire protection services. Another 23% is focused on public works – engineering services related to traffic control and movement, street reconstruction, rehabilitation and maintenance; streets services related to snow and ice removal; waste collection and recycling; public transit; and parks services. City planning, community and economic development services, along with city administrative services, each total approximately 7% of the budget. The library represents about 5% of the budget. Debt service consumes approximately 13% of city expenditures.



The city's capital budget for 2013 is approximately \$192 million, with \$91 million funded from general obligation (GO) debt. Approximately \$60 million of the GO debt is general fund supported. The capital budget has increased dramatically over the past decade as aging infrastructure is replaced and road and street capacity expanded to meet population growth. Some examples of critical infrastructure projects include rehabilitation of the Central Library (built in 1965), reconstruction of East Washington and University Avenues, expansion of County Highway M, and construction of Fire Station 13 on the city's far-east side.



State Support and Local Revenue Options

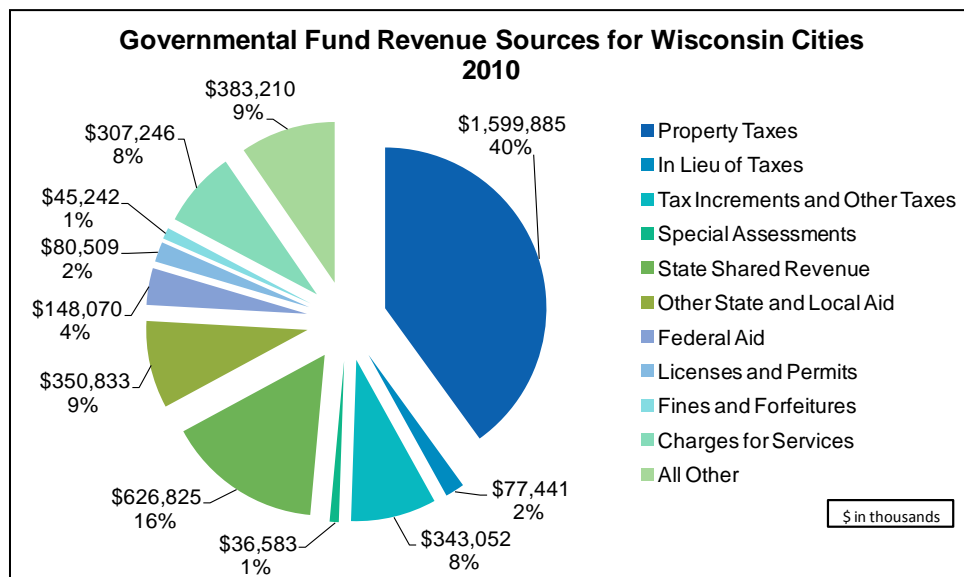
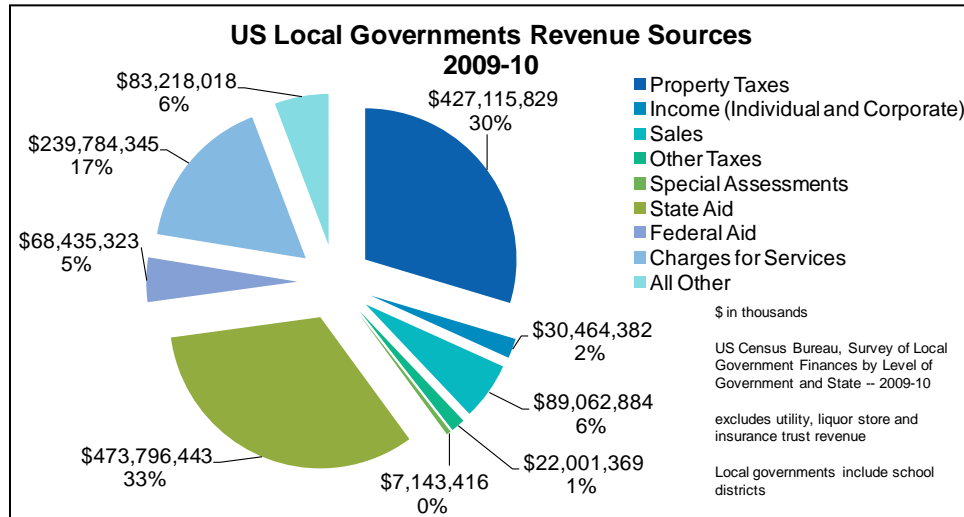
Wisconsin cities have historically had very few local tax options other than the property tax. The state has sought to provide revenue diversity through the state shared revenue program. In that way, the tax base is more uniform statewide with little diversity of local tax rates. Prior to the modern shared revenue formula, income tax revenues were shared with local governments based on a “return to source” principle – taxes paid by a community were returned to that community. That approach created considerable inequity between communities with differing levels of economic activity and related tax capacity to support essential local services (e.g., public safety, fire protection, snow and ice removal).

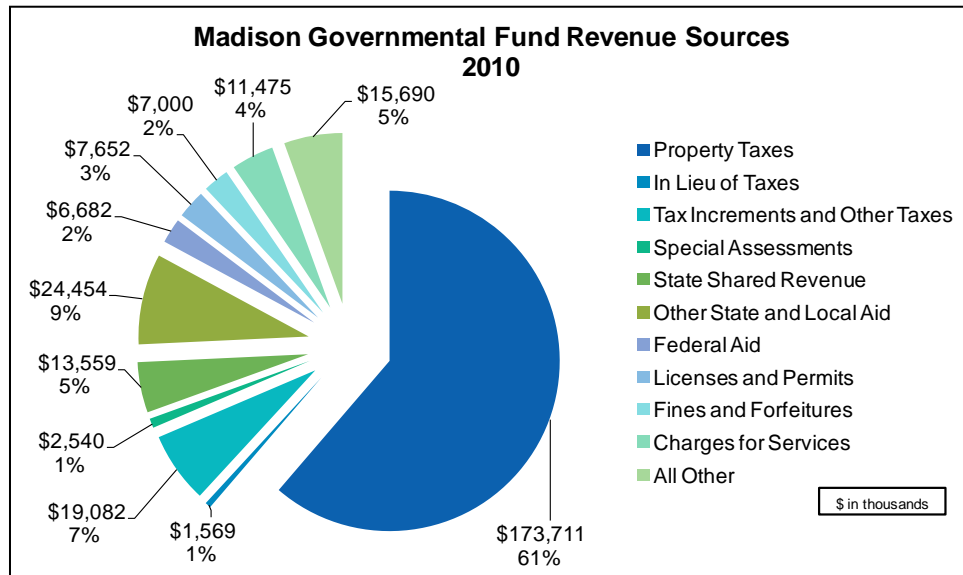
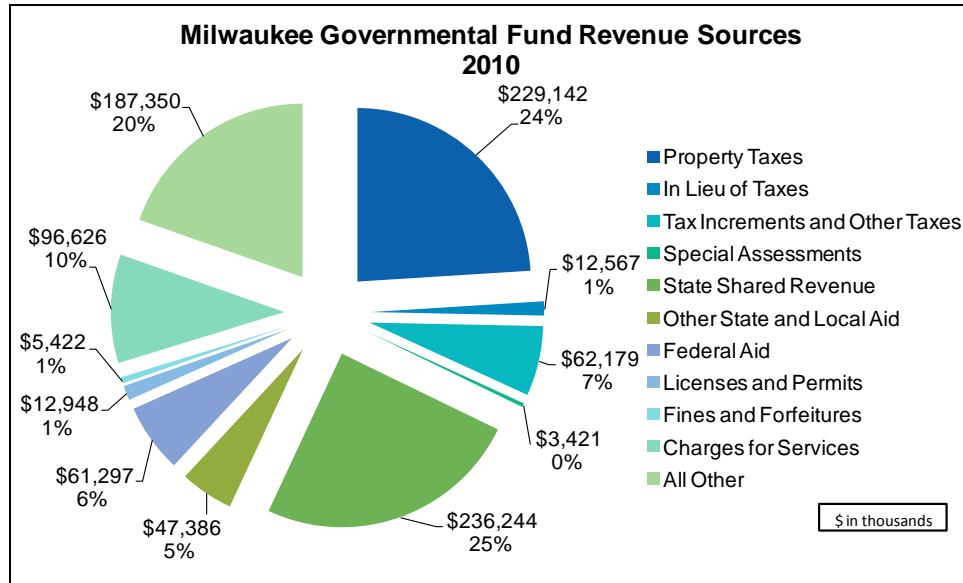
Over the past 20 years, State Legislature has not increased funding for shared revenue commensurate with the overall growth in state revenues. Instead, local tax rate stability has been achieved through large increases in funding distributed through the state school aid formula. As a result, municipal property tax levies have had to increase at a greater pace in order to make up for the lack of growth in state funding for shared revenue. Most recently, the State Legislature has addressed this growth in municipal property taxes through strict limits on the rate of growth in property tax levies rather than through sharing of income and sales tax revenues with cities. It also addressed the state’s budget deficit by cutting compensation for local government employees and reducing state aid commensurately, providing property tax payers with no additional relief.

In response to reductions in state aid and strict limits on growth of property taxes, many Wisconsin communities are considering additional user fees. The City of Milwaukee has instituted a snow and ice removal fee based on linear square feet of street frontage. As a fee for service, this revenue source is paid by all property owners regardless of tax status. In its 2013 budget, the City of Madison increased its ambulance conveyance fee by 50%. Much of the cost of this fee is paid by health insurance plans and Medicare.

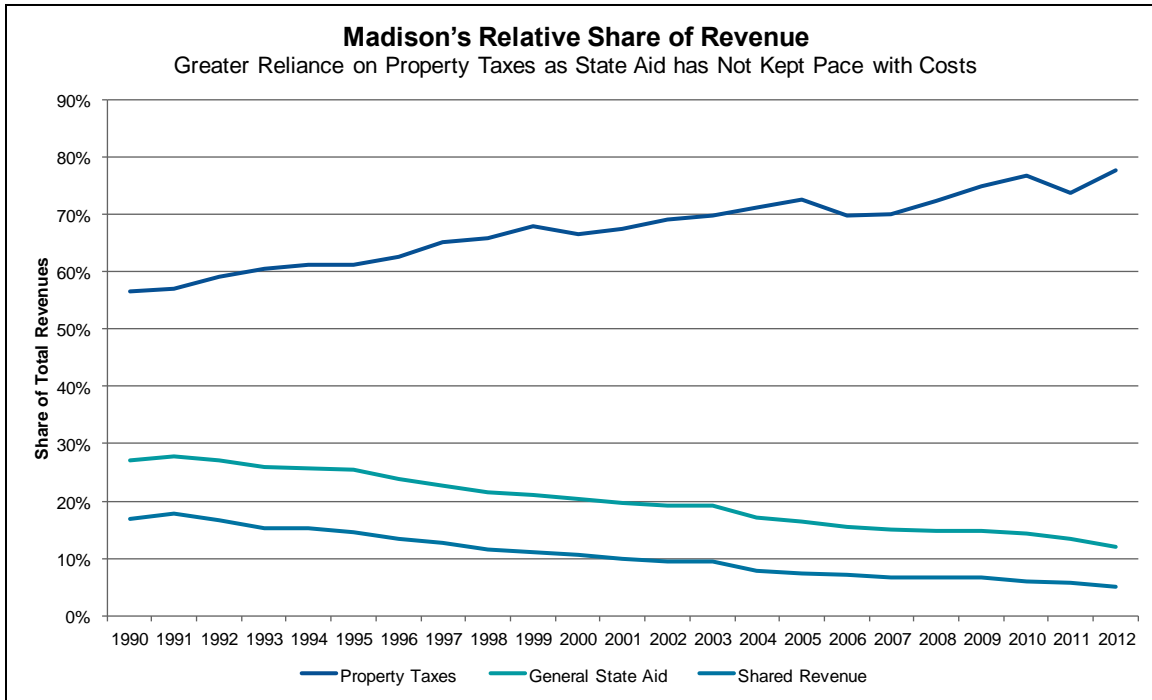
The next several graphs provide background on revenue sources for local governments nationally and in Wisconsin, along with information on the declining share of state aid in Madison’s budget.

Generally, Wisconsin cities are more reliant on property taxes than the US average. Comparing revenues for the cities of Milwaukee and Madison demonstrates the historic impact of the shared revenue formula to equalize property tax bases, with a much larger share of Milwaukee's revenue base from state aid than Madison's. As a result, the tax rates of the two cities are very similar despite Milwaukee having a much lower property value per capita than Madison.





Madison’s revenue stream has become much more reliant on property taxes over the past 23 years. This reflects the State Legislature’s focus on school aid, prison capacity and health care services for low-income families, seniors and the disabled.



In addition to shared revenue (\$4.8 million in 2013), other state aid received by the city include general transportation aid (\$8.9 million), reimbursement for tax-exempt power-generating utilities (\$1.4 million), incentive payments for limiting growth in expenditures (\$6.4 million), recycling aid (\$800,000), reimbursement for tax-exempt computer property (\$2.6 million), and fire insurance dues (\$750,000).

The state also has a municipal services payment (MSP) program to help defray the cost of local services provided by cities to state-owned buildings. Madison currently receives \$8.1 million from this program. However, the state has not been fully funding the program for many years. If the program were fully funded, Madison should be receiving \$15.6 million based on the state's reimbursement formula. The unfunded amount is equivalent to an additional \$85 in property taxes on the average value home.

Current Pilot Agreements

The City currently has agreements with several tax-exempt organizations to make payments in lieu of taxes (PILOT). These payments total \$740,000 in 2013. Most of these agreements were adopted as part of zoning approvals required by the city in order for the organization to construct a facility. PILOT payments were included in the agreements in response to the lost tax base associated with shifting taxable property to tax exempt status. One PILOT payment, paid by Pres House, is voluntary. The student housing facility located on their property is exempt from property taxes. This exemption was granted by the State Legislature, effective in 2010, as part of 2009 Wisconsin Act 28. However, Pres House recognizes the importance of the services it receives and annually chooses to make a voluntary payment to the city.

The Ho-Chunk Nation also pays a PILOT for its De Jope gaming facility located on the southeast side of the city. As a sovereign nation, the land owned by the Ho-Chunk Nation and held in trust by the federal government is exempt from state and local taxes. However, in order to operate the De Jope facility, water, sewer and stormwater services were required from the city. In exchange for access to

these services, the Ho-Chunk Nation entered into an intergovernmental agreement with the city to make a payment in lieu of taxes.

Commonwealth	\$6,800
*Madison Dev. Corp (MDC)	3,600
Madison Comm. Coop. (MCC)	11,000
Ho Chunk	132,000
Fluno Center	110,000
WHEDA.....	68,354
University Ridge	18,000
Oakwood (West Tower 1).....	67,000
Oakwood (West Tower 2).....	93,000
Catholic Charities.....	104,000
Meriter Retirement (Capitol Lakes, Inc)	39,000
US Fish Wildlife - Refuge Rev	16,000
Nat'l Conf. Of Bar Examiners.....	44,000
Pres House (2012 thru 2017 Fixed).....	30,000

Overview of Pilot Studies in Other Communities

At the outset of the PILOT task force, members were given three documents to advise them of what was being done in the area of payments in lieu of taxes in other parts of the country.

Each member received the City of Boston’s “Mayor’s PILOT Task Force: Final Report & Recommendations”, (December, 2010). The lengthy report presented an overview, recommendations, and meeting summaries. The report included eleven appendices. The appendices covered such items as task force meeting minutes (meetings occurred from February 9, 2009 to April 12, 2010), data on tax-exempt and institutional properties, presentations on what specific community benefits are provided by the tax-exempt institutions, calculation models, and an executive summary.

The Boston report had five recommendations:

1. The PILOT program should remain voluntary.
2. The PILOT program should be applied to all nonprofit groups; however, smaller nonprofits are meant to be excluded through the use of a threshold of \$15 million in assessed value.
3. PILOT contributions should be based on the value of real estate owned by an institution, with the recommendation being 25% of what the real estate tax would be on the value in excess of \$15 million.
4. The community benefits provided by the nonprofit institutions should be recognized by using a credit against a potential PILOT payment. To obtain the credit, a nonprofit would need to quantify the value of services that directly benefit City of Boston residents. Furthermore, these services should be consistent with the city’s mission and priorities. Finally, the city had a responsibility to be consistent and transparent in how it approached the provision of the applicable services as a means of encouraging collaboration.
5. The PILOT payments should be phased in over a five year period to allow the various institutions to make adjustments in preparation of the payments.

In researching the topic of PILOT payments, the work of the Boston task force is widely cited. The project is recognized as one of the first efforts by a municipal government to explore a systematic program for soliciting voluntary payments from tax-exempt nonprofits. Even though the program is still quite new, the early signs have been very positive. Because of this, the fourth meeting of the City of Madison PILOT Task Force focused exclusively on the Boston experience. The highlight of that meeting was a video conference with Matt Englander, Director of Tax Policy, for City of Boston. This allowed for direct discussion between Mr. Englander and task force members.

Also distributed to task force members in their initial materials was a Policy Focus Report by the Lincoln Institute of Land Policy. This report, titled “Payments in Lieu of Taxes: Balancing Municipal and Nonprofit Interests”, was written by Daphne A. Kenyon and Adam H. Langley in 2010.

The 48-page report offers an comprehensive introduction to the subject of municipal PILOT payments. In addition to general explanations of the different facets of the subject, the paper includes case studies of Boston; The MacDowell Colony in Peterborough, New Hampshire; Providence, Rhode Island; and Yale University in New Haven, Connecticut.

Chapter 4 of the report lists arguments “for” and “against” PILOTs:

Arguments For:

- Nonprofits should pay for the public services they consume.
- PILOTs provide essential revenue for some municipalities and allow tax exporting.
- PILOTs can address inequities created by the charitable property tax exemption.
- PILOTs can reduce inefficient location decisions made by nonprofits.

Arguments Against:

- PILOTs are often ad hoc, secretive, and contentious.
- PILOTs provide limited and unreliable revenue.
- PILOTs could lead nonprofits to raise fees, cut services, or reduce employment.

Chapter 6 of the report is titled “Findings and Recommendations.” On page 44 Kenyon and Langley have the following table:

General Recommendations for Municipalities	
Recommendation	Explanation
PILOTs are not appropriate for all municipalities.	PILOTs can provide crucial revenue for municipalities highly reliant on property tax revenue or with a significant share of total property value owned by tax-exempt nonprofits. In some cases, legal and administrative costs may outweigh the revenue potential.

General Recommendations for Municipalities	
Recommendation	Explanation
PILOTs are not appropriate for all nonprofits.	Municipalities should focus on nonprofits owning large amounts of tax-exempt property and providing modest benefits to local residents relative to their tax savings.
Municipalities should work collaboratively with nonprofits when seeking PILOTs	This should make local officials more aware of the benefits that nonprofits provide to local residents and the financial constraints they face. Nonprofits may offer suggestions that reduce the burden of PILOTs for their organizations, while still making a financial contribution to the local government.
Negotiating individual PILOT agreements is best for municipalities with few nonprofits.	Case-by-case negotiation enables consideration of the unique financial constraints for each nonprofit, but can lead to large discrepancies in PILOT amounts among similar nonprofits.
Systematic PILOT programs are best for municipalities with a large number of nonprofits.	This approach promotes horizontal equity among tax-exempt nonprofits, fosters transparency, makes payments more predictable, and may raise more revenue than negotiating individual agreements.
Consider alternatives to PILOTs.	Because of the serious pitfalls of PILOTs, alternatives should be considered, ranging from increased user fees to grants from the state to municipalities that host tax-exempt nonprofits.

Kenyon and Langley, p. 44

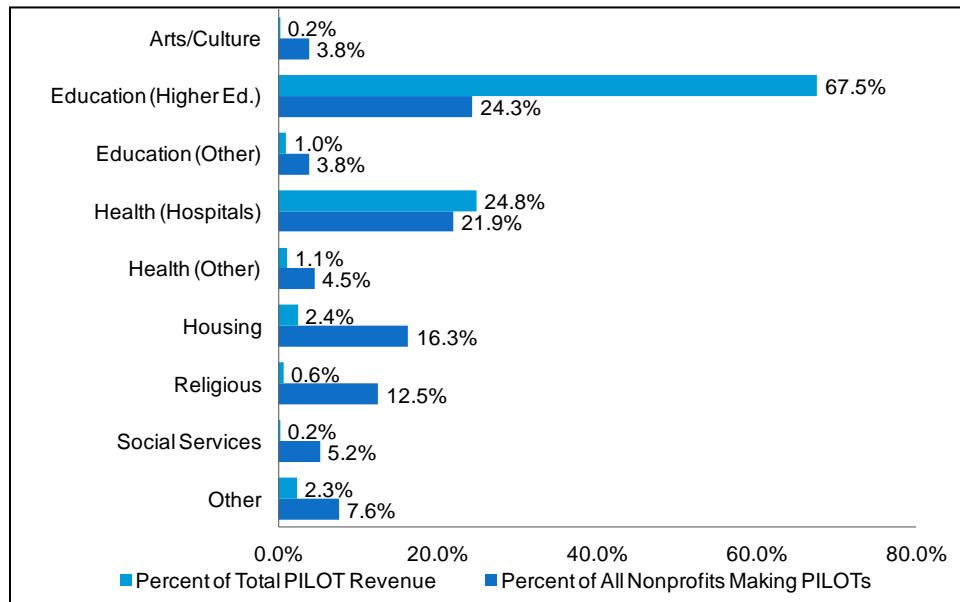
The final item of background research given to the task force at the beginning of their deliberations was another article authored by Kenyon and Langley, “The Municipal Fiscal Crisis and Payments in Lieu of Taxes by Nonprofits.” This article appeared in the April, 2011 issue of Land Lines, a publication of the Lincoln Institute of Land Policy. This brief article (6 pages) was both a synopsis of their longer paper from the previous year and a brief update of additional developments. Their conclusion pointed to the dilemma the Madison Task Force faced:

PILOTs have the potential to provide crucial revenue for municipalities that have a significant share of total property value owned by tax-exempt nonprofits, both as a stop-gap in the current municipal fiscal crisis and in the future. However, PILOTs rarely account for more than 1 or 2 percent of municipal revenues, so expecting these payments to eliminate local government deficits is unrealistic. Furthermore, singling out nonprofits to help address a municipal fiscal crisis is unfair since they face their own challenges due to the recent recession.

Subsequent to the commencement of the task force’s work, the Lincoln Institute of Land Policy published another working paper (Sept., 2012). This paper (“Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them” by Langley, Kenyon, and Bailin) represented the most comprehensive survey of existing PILOTs that has been published.

This paper identified PILOT agreements in a total of 218 municipalities. Although this was a national survey, the authors could find only 28 states wherein municipalities had existing agreements.

The breakdown as to the types of nonprofits entering into PILOT agreements is as follows:



Another table showed the wide range of revenues that were involved in the existing agreements:

Type of Nonprofit	Totals by Type of Nonprofit		Range of PILOTs for Different Types of Nonprofits			
	PILOT Revenue	# of Nonprofits	Average	Median	Minimum	Maximum
Arts/Culture	\$145,669	11	\$13,243	\$1,033	\$100	\$78,983
Education (Higher Ed.)	56,918,672	70	813,124	158,426	1,425	10,088,273
Education (Other)	843,558	11	76,687	13,798	1,889	440,190
Health (Hospitals)	20,886,307	63	331,529	161,952	3,000	3,508,707
Health (Other)	905,481	13	69,652	7,500	500	407,619
Housing	2,046,102	47	43,534	21,925	154	272,250
Religious	544,647	36	15,129	600	100	502,791
Social Services	129,924	15	8,662	2,408	180	80,000
Other	1,949,687	22	88,622	6,898	184	1,250,000
All Nonprofits	\$84,370,047	288	\$292,952	\$30,000	\$100	\$10,088,273

While the nature of the PILOT agreements was not known in all cases, a listing of different types of agreements covered those that could be identified:

Method Used for PILOT	Number of Localities	Percent of Localities
Long-Term Contracts	53	57.6%
Routine Annual Payments	31	33.7%
Voluntary Property Tax Payments	11	12.0%
Irregular One-Time Payments	10	10.9%
Localities Where Method Used for PILOTs is Known	92	

Hypothetical Voluntary Pilot Program (Boston Model)

Researchers Daphne Kenyon and Adam Langley have recommended that municipalities with large amounts of tax-exempt property within its borders take a systematic approach to the issue of PILOT payments from nonprofit, exempt property owners. The City of Boston, with 52% of its property tax-exempt, has taken such an approach. If the City of Madison were to take a similar systematic approach, some general policy decisions would need to be made. In addition, some guidelines regarding the subsequent negotiations between the city and a specific tax-exempt property owner would need to be established.

For Madison to follow the Boston model, the city would need to decide what percentage of its budget reflects essential city services. Boston identified primarily police, fire, and snow removal as essential services. It determined that these expenses represented approximately 25% of the city budget.

Concurrently, the city would need to value each of the exempt properties. In the case of Boston, a desire to recognize the limited resources of small nonprofits led to the creation of a threshold for valuations such that any nonprofit with property valued at less than \$15 million would not be asked to participate in a PILOT. The City of Madison would need to decide, first, what methodologies to use in determining valuations, and, second, where to place its threshold amount. Also, Boston shared its determination of value with the property owners, allowing them the opportunity to persuade the assessor that a different valuation was more appropriate.

Once the City of Madison had decided the appropriate portion of the budget reflected essential services and the values of exempt properties that exceeded the threshold, the city could determine what the level of taxes would be if the property were not exempt.

At this point in the process, Boston's approach was to deal with each qualifying nonprofit individually. Boston felt it important to recognize the community benefit provided by each nonprofit. Nonprofits that were able to quantify the value of the benefits provided to residents of the City of Boston were able to have as much as 50% of that value be used as a credit against the PILOT amount indicated by the valuation. (Credits based on the benefits applied specifically to city residents had the effect of filtering the amount of benefits provided to the region based on the rationale that the city was providing the municipal services, not the region.)

In addition, Boston recognized that making a PILOT payment as specified by this process may be difficult for the nonprofit in the immediate future. Therefore, part of the discussion between the city and a specific nonprofit concerned the potential for phasing in the payment over a five-year period.

To summarize, for Madison to incorporate the Boston model, the following steps would take place:

1. Determine what portion of the city budget would be represented by essential services.
2. Determine valuations for tax-exempt properties with feedback by the respective owners.
3. Set a threshold value for properties below which the nonprofits would not be asked to participate.
4. Begin negotiations with qualifying property owners.

5. Determine the value of benefits provided by a specific nonprofit to residents of the City of Madison.
6. Agree to the value of those services that can be used as a credit for the PILOT payment.
7. Agree to a phase-in period that concludes with the PILOT payment reaching the appropriate amount.

Based on the very limited data available on the value of tax-exempt properties located in the City of Madison, a very general estimate of a PILOT program based on the Boston experience can be made. Costs for police, fire and snow and ice control services are estimated to total \$114.7 million in 2013. This represents 43% of the \$267.1 million general and library funds budget for that year.

The municipal property tax rate for 2013 is 0.9312%. Forty-three percent of that amount would establish a preliminary PILOT tax rate of 0.4%. Using Boston’s 50% deduction for community services provided to tax-exempt entities subject to the PILOT, the hypothetical tax rate would be 0.2%. This tax rate is only related to certain essential services provided by the City of Madison, it does not address other city services funded by the property tax, nor services provided by the school district, county, technical college district and state.

Using the currently available data on types and values of tax exempt property, an estimated PILOT payment from properties with value above \$6 million, excluding religious properties, would be \$1.2 million. This estimate is probably understated because the current reporting methodology has a top category of \$25 million or greater in value. The \$1.2 million revenue estimate assumes all of those properties have an average value of \$37.5 million. Larger institutions in the city, such as hospitals, arguably have an assessed, replacement or insurance value that is greater than \$37.5 million.

Type of Exemption	Estimated Value Range			Total Number	Estimated Value Per Type (1)	Estimated PILOT Payment
	\$ 6,000,000 \$ 12,000,000	\$ 12,000,000 \$ 25,000,000	\$ 25,000,000 and Greater			
Worship	5	2		7	\$82,000,000	\$163,995
Church-Other	2			2	18,000,000	35,999
Education, K-12	1	1		2	27,500,000	54,998
College			1	1	37,500,000	74,998
Education-Other				-	-	-
Hospital	1	1	3	5	140,000,000	279,991
Medical Research		1		1	18,500,000	36,999
Medical-Other	1	1	1	3	65,000,000	129,996
Nursing	2	1		3	36,500,000	72,998
Retirement	2	2		4	55,000,000	109,997
Housing-Other	5	2		7	82,000,000	163,995
Benefit	4	1	2	7	129,500,000	258,992
Other				-	-	-
Total	23	12	7	42	\$691,500,000	\$1,382,956
Estimated Value Each Column (1)	\$207,000,000	\$222,000,000	\$262,500,000		691,500,000	
Estimated Pilot Payment	\$413,987	\$443,986	\$524,983			1,382,956
Estimated Value excluding Religious Properties					\$591,500,000	<u>\$1,182,962</u>

Other Approaches for Voluntary Contributions toward City Services

The Boston model is one approach among many for owners of tax-exempt property to contribute toward the cost of city services. Boston's approach utilizes property valuation information that was readily available due to requirements under Massachusetts state law. Wisconsin does not have such a requirement for detailed property valuation information in exchange for tax-exempt status.

Another approach for apportioning the cost of key city services would be a cost per square foot. All taxable property in the city with improvements total 283.4 million square feet. Using the \$114.7 million cost for essential services (police, fire protection and snow and ice removal services), the cost per square foot is approximately 40 cents. As such, a 10,000 square foot facility would have an apportioned voluntary fee of \$4,000 and a 65,000 square foot facility would have an apportioned voluntary fee of \$26,000. Compared to the valuation method described above, the 40 cents per square foot is equivalent to a uniform property value of \$200 per square foot. This is a relatively high value compared to the average value of \$83 per square foot of all property with assessable value, and, as such, the valuation approach may result in a smaller voluntary PILOT payment.

Finally, tax-exempt property owners could be simply asked to make a voluntary contribution, similar to the approach taken by Pres House. As was noted previously, other communities that have tried a broad-based request for contributions without a formal discussion or negotiation process have received little to no response from owners of tax-exempt properties.

Conclusions and Recommendations

A well functioning city that provides essential public services and invests in public infrastructure helps to foster a strong economy and a vibrant quality of life for its residents, workers, and visitors. Those public services and infrastructure investments that support a strong city are financed by tax revenues. In Wisconsin, the very limited range of broad-based revenue options available to cities has been further constricted by actions of the State Legislature to allocate proportionally fewer state revenues to the state's shared revenue program, prorate the municipal services program payments to local communities with state-owned buildings, and enact strict limits on growth in property taxes. The Legislature has also sought to achieve other policy goals by authorizing tax exemptions to certain classes of property owners; one of the outcomes of these policy goals is a narrowing of the local property tax base. Taken together, homeowners and small businesses pay a larger share of a revenue base focused almost exclusively on property taxes.

Many of these tax exemptions are focused on non-profit organizations that provide critical services to Madison and other communities throughout the state. These organizations often have limited funding sources and must devote all of their revenues toward programs. Tax exemptions recognize and reinforce the important efforts of these organizations. Any potential PILOT program must address the capacity of many tax-exempt property owners to provide a payment to the city in light of this broader community services mission.

Consideration of implementing a PILOT program should reference the following:

- A PILOT program will have a relatively limited impact on city revenues.
- Non-profit entities that are exempt from property taxes face other funding pressures due to federal law changes, changes in the allocation of philanthropic and foundation awards, growing service populations, and day-to-day operating costs.

- Non-profit entities that are exempt from property taxes provide significant services to City of Madison residents that city taxpayers might otherwise be required to subsidize.
- The state constitution and state laws exempt these organizations from local property taxes in recognition of the important role each plays in providing value to Wisconsin citizens.

Unfortunately, given the limited revenue options available to Wisconsin municipalities, there are very few alternatives to address continuing pressure on property tax payers due to inadequate state aid. The city continues to seek ways to reduce costs without compromising important programs, such as law enforcement, fire protection, snow and ice control, and grants to community service organizations, or the quality of life that makes Madison a city of distinction and an attractive place to live and work.

The PILOT task force was formed to review these issues and make recommendations to the Mayor and Common Council. Its recommendations are as follows:

1. Urge the State Legislature to meet its responsibilities to local property tax payers by fully funding the Municipal Services Program payments. Full funding, or a multi-year phase in toward full funding, would give over 300 cities, towns and villages around the state immediate property tax relief. Madison would receive up to \$8.1 million in property tax relief for homeowners, renters, commercial property and small businesses.
2. Educate the public on the long-term implications of the state's failure to adequately share income, sales and fuel tax revenues with local governments through the state shared revenue, local transportation and transit aid programs. In addition, strict limits on growth in property tax levies and limits on user fees and other revenue sources compromises the ability of local elected officials and their represented residents to make their own decisions regarding the level of essential local services.
3. Investigate broad-based, non-tax, revenue options. Some cities are introducing utility right-of-way fees to distribute street reconstruction and maintenance costs. The City of Milwaukee has adopted a snow and ice removal fee based on linear feet of street frontage paid by all property owners as a means of directly apportioning costs previously supported by the property tax. Urge the Legislature to maintain the authority of local elected officials to establish these alternative revenue options as a means of diversifying the revenue stream, reducing the property tax burden on residences and small businesses and addressing rising program costs, including the need to provide additional support to non-profit community services agencies.
4. Present more information to the public on the value and cost of essential city government services and on the value of benefits to the community provided by tax-exempt organizations.
5. Develop and evaluate a proposal for the establishment of a voluntary PILOT program that would provide non-profits with the opportunity to contribute to the cost of city services. Such evaluation shall include the financial and non-financial ramifications for all stakeholders of such a program.