



# City of Madison

City of Madison  
Madison, WI 53703  
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## Meeting Minutes - Approved PAYMENTS IN LIEU OF TAXES (PILOT) TASK FORCE

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Friday, April 26, 2013

9:00 AM

210 Martin Luther King, Jr. Blvd.  
GR-22 (City-County Building) Police Conference Room

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### CALL TO ORDER / ROLL CALL

**Present:** 7 -

Denise DeMarb; Joseph R. Clausius; Mark Elsdon; Rachel E. Krinsky;  
Robert H. Keller; Andrew M. Reschovsky and Roger Goodwin

**Absent:** 5 -

Darrell L. Bazzell; Michael G. Heifetz; Jay Robaidek; Timothy J. Conroy  
and Jean A. Bachhuber

**Members Conroy (9:04 am) and Heifetz (9:07 am) arrived before Item No. 1.**

### APPROVAL OF MINUTES

**A motion was made by Clausius, seconded by Krinsky, to Approve the Minutes. The motion passed by voice vote/other.**

**Members Conroy and Heifetz arrived.**

**Present:** 9 -

Denise DeMarb; Joseph R. Clausius; Michael G. Heifetz; Mark Elsdon;  
Timothy J. Conroy; Rachel E. Krinsky; Robert H. Keller; Andrew M.  
Reschovsky and Roger Goodwin

**Absent:** 3 -

Darrell L. Bazzell; Jay Robaidek and Jean A. Bachhuber

### PUBLIC COMMENT

### DISCLOSURES AND RECUSALS

### AGENDA

1. **29876** Payment in Lieu of Taxes (PILOT) Task Force 4-26-13 Agenda.

1. Comments from the Task Force Chair

**Chairman Goodwin reminded the committee that at the last meeting staff was asked to put together a draft report summarizing what we had talked about to date.**

**Member Krinsky asked if procedurally the report comes from the committee and what if it contains conclusions that she or others on the committee don't agree with.**

**Chairman Goodwin explained that the report will be recommended by majority vote. If there are significant differences of opinion among the members, that information would be included.**

2. Task Force Member Comments related to the mission of the task force and current and previous agenda items

3. Discussion of draft task force report

Member Reshovsky commented on the discussion in the February meeting minutes about comparing Madison to Boston. He cited a report on 109 "Fiscally Standardized Cities" that used 2010 data discussing Madison's reliance on property taxes. Madison ranked 9th highest for property tax as a share of revenue at 92.1%. Madison ranked 4th highest at 70.4% for property tax as an own service revenue (no state or federal governmental funds). Madison ranked 3rd highest for overall importance of property tax relative to general revenue. Member Reshovsky suggested that this study strengthens the argument that Madison is heavily reliant on property taxes for revenue. Member Reshovsky added that these aren't decisions that the city has control over. They are long standing issues that arise as a result of state laws. There are a number of states that have the authority to collect revenues such as income tax.

Member Heifetz responded that he shares Member Krinsky's concerns. He understands the issues Madison has with property taxes, but doubts this is the way to solve them. Based on the staff report and previous discussions, a PILOT program might collect \$1.2 million. That is simply an estimate that may or may not occur. Clearly that will not resolve the city's budget problems. It will likely create other dilemmas for the city. We are taking something and making it adversarial and essentially saying that the non-profits are responsible for the city's budget challenges. That is not accurate nor is it fair. We can have a hand in addressing these issues, but he is not comfortable with the current premise that exemptions shrink the tax base and raise property taxes for others. There are other issues that raise property taxes, not the non-profits. He also doesn't accept the premise in the Policy Focus Report by the Lincoln Institute; their argument is that non-profits should pay for the services they consume. Does that mean that non-profits should not provide community services? There is a zero sum game occurring here. Given the magnitude of the city's problem and the uncertainty of how much this would resolve the problem, he is not supporting it.

Member Reshovsky countered that he thinks it is important to think of this exercise not as "We are in a fiscal crisis now so we have to look for money." The problems that are set out in this report aren't fiscal crisis statistics for 2013. These are long-standing structural problems of how we operate as a city and how we finance the city. He thinks it is a little incorrect to say "Let's turn to non-profits to fix our fiscal crisis". That is not what was implied in the report. PILOTs aren't going to solve the city's fiscal problems. No one thinks PILOTs will raise a lot of money. No one thing is going to fix it. Incrementally small things often on the spending side and coming up with economic options to lower costs or allow us to provide more services that look for small sources of revenue is more likely to work. Given the political constraints, all cities will need to start a wide array of solutions. The city provides services. Non-profits benefit from those services. There are real costs to be considered such as police service and paving roads that benefit non-profits as well as Madison residents. How are these costs met? For every dollar that is not being paid by a non-profit one of two things has to happen. Either the residents have to pay it or fewer services can be provided. There are two worries that he has. The burden of fewer services falls on the needy, the people that non-profits serve, or the quality of services declines. We can't respond as quickly to fires, police don't patrol an area as often, or streets don't get cleaned. Who are the people

that are mobile? It is the middle class. If they don't find that Madison is well run, they are more likely to move to where the services are better. This is similar to findings that Madison college students move out of Madison to suburbs and other area and every year that number goes up. The key here is to continue to provide excellent core services. Non-profits are benefitting from the services and money is being spent. If a business's health insurance cost for their employees or electric prices goes up, that is just the cost of doing business. Those who are running non-profits are figuring out how to deal with it. There are also costs of providing city services. A PILOT should be voluntary and there are a whole set of issues that we may get to if we move to the next step. He surmises that non-profits would look at it this way. They are doing really good things. They receive services from the city and they want to do their part to help keep the city viable for growth and prosperity.

Member Keller agreed with Member Reshovsky and added that he considers it a question of fairness and thinks that this is one way to go about it.

Alder Clausius agrees that paragraph 3 on the first page of the draft report sounds adversarial. It sounds like it is the non-profits that have caused the financial problems. He referred everyone to the 5 recommendations. He doesn't see anything that is binding. It uses words such as urge and work with. He prefers to work with these organizations and believes that is what the Mayor and City Council intended when they formed this committee.

Member Elsdon mentioned that they already pay a voluntary PILOT and support a voluntary PILOT program to some extent. His concern is with the tone. The tone of the opening of the report is resentful of exemptions of non-profits. He thinks if the city approaches non-profits with that approach it is going to be an adversarial conversation. The second paragraph he reads as very begrudging of those exemptions. On page 2 the first sentence [and the State Legislature considering further exemption requests from interest groups] he reads as these special interest groups getting these unfair exemptions. That may not be the intent, but that is how it reads to him.

He also clarified that Pres House had been exempt property for decades. Then it built housing on its property to carry out its mission. Similar housing in every other state is exempt from property tax. The city's determination was that it didn't fit any state statute so therefore it was taxed when it was originally built. They researched ways to address that, but in the end, with very strong Common Council support, sought legislative clarification on the determination. That is not how it reads in this report. The property was exempt, on the tax rolls for two years under protest, and back to exempt. It has always been exempt. It isn't property that suddenly Madison lost off of the tax rolls. In fact, the PILOT that they pay is money that wasn't being paid before. His perspective on the history of the property and the City's perspective differ. It feels like there is an assumption that the exemptions are unfair or unreasonable and that is not the case. One of the reasons that Madison is such a great place to be is because we have so many non-profits. To flip it around and say that we are in trouble because we have so many non-profits and it is eroding our tax base is one way to look at it. The other way to look at it is that Madison is blessed and benefits by how many non-profits we have such as employers, quality of life and all sorts of issues that non-profits provide. However, he does support the idea of non-profits making voluntary PILOT payments if it is voluntary. He would support it along the lines of

shared responsibility and supporting city services, but not along the lines that the exemptions are questionable, shouldn't be there or every property should pay tax. If that is the drift of the tone for this, he would have to object to that.

Member Krinsky mentioned that everyone knows that non-profits do a lot for the community. However, there needs to be more in depth conversation about what the non-profits provide. The YWCA is an example of how difficult it can be to determine property value. It is currently on the tax rolls because it is owned by an LLC. A fair evaluation of the property may be about \$15 million, but it could be \$12 million or \$20 million. There is no way to determine what it is worth because there isn't anything comparable. The agreement with the city was to look at the value of the property by revenue. The valuation of the building isn't realistic because of the way they use the building. Right now, they are paying about \$11,000 in taxes a year. They also pay their own maintenance and an encroachment fee so they are contributing to the city. They consider that \$11,000 as a hardship and are looking forward to getting their exemption back and not having to pay it. Using the scenario in this report, their taxes would be \$30,000. It's also strange with all the time and effort that the non-profits have put into applying for grants from the city that they would then have to turn around and give a large portion of it back?

Non-profits have difficulty making ends meet. It's hard to understand that making the non-profits' situation more challenging will somehow help the city's finances. She is not convinced that if the city raises another \$1 million dollars it's going to help poor people. But she guarantees that if the YWCA loses \$30,000, it will directly take away from assistance to poor people.

Member Reshovsky addressed Members Elsdon and Krinsky's remarks. First he addressed the tone and how it wasn't intentional, but that it should be softened in the final draft. He suggested that we consider what services are being provided by the non-profits. Not every service reduces the cost of services for the city. Giving free service to a patient doesn't financially help the city, although it might help Medicaid or County government. If he as a retired citizen donates his time and does volunteer work, he wouldn't go to the city assessor and ask for a portion of his property taxes to be waived. The committee should consider the services that the non-profits receive from the city and the associated costs as well as services non-profits provide that directly affects the costs of those services.

Chairman Goodwin commented that in the report we haven't adequately addressed the services provided by non-profits.

Member Elsdon commented that the report is coming from the wrong direction. Non-profits do not exist to take any burden off of the city or city services. Non-profits provide services to the community that are needed and valued and therefore in recognition of that, non-profits are afforded certain tax benefits by the state. This is where Member Heifetz's comment that in the report the problems of the city are now being laid at the feet of the non-profits. These are two different things. In our case, we are happy to provide some funding towards the services we receive but it's flipping it around in another direction. The recognition of the high level of services that the non-profits provide is what is at stake. Without that recognition, he is uncomfortable with the PILOT concept because it feels like a backdoor tax.

Member Heifetz agreed with Member Elsdon's comments. He addressed Member Reshovsky stating that he agrees with about 99% of his comments, but he thinks that he is missing the major point about the exemptions. Non-profits have exemptions because they provide things that others don't. The services are deemed as a significant value to the community. St. Mary's mission is to provide exceptional medical services and reveal the healing presence of God. There is no comma, "that only if you can pay for it". Providing those services to someone who can't afford it is a mission that society has deemed worthy of a tax exemption. If you feel differently about that, it is not in this room or the City Council chambers that can fix that. There is an inherent value to the city. When St. Mary's provides the services, perhaps it is saving the city some money such as the cost of the ambulance fee. He doesn't buy into the "voluntary" plan. There is an implied coercion of an adversarial nature. In the early 2000's, St. Mary's was considering its growth. The city encouraged them to go bigger and get out there towards Park Street to help grow a part of the city that really needed it and bring some life back to the area. They listened and partnered with the city. Now the voluntary PILOT payment would be higher because of their partnership with the city. The city would be deteriorating that collaboration. The next time the city contacts them, it will be a bigger challenge to get them to partner again, even if they want to. Any healthcare organization can give the city a report just like this that shows the challenges they face today and those that are coming. It is literally tens of millions of dollars year to year in reimbursement over the next ten years due to various public policies of various administrations. He's not casting blame on any party as none of them are too friendly to Medicare these days. He also sits on the Plan Commission and watches private developers have to go through seemingly unnecessary steps to approve a project, even when there is consensus. That has an impact far larger than anything we are going to discuss in this taskforce. The incongruence is baffling. In Kansas City, they had a local election and they extended a 9 year old property tax that helps to pay property taxes in the city for those who can't afford it and gives the money to healthcare providers. He's not saying that Madison should do that, but wanted to point out that other cities are taking the completely opposite approach. Non-profits contribute, but probably haven't done a good job of making that known to the public. That is not their first goal. It is going to make it much harder down the line to provide the kind of services that they are providing now. He agrees with Member Elsdon that the non-profits are part of what makes Madison such a great place to be. If you need something in Madison, there is probably a non-profit that can help you. He doesn't think a lot of places can say that.

Member Krinsky asked what would happen with this kind of tone in the community. It is not going to benefit Madison. She pointed out that non-profits are not the same thing as an individual going out and donating their time. Part of having the tax exemption is that the charitable work is what they do all day, not what they do for fun when they aren't busy making money. She doesn't want Madison to become a place where we look at non-profits as shirkers and advantage takers. Then are we going to have a conversation where "They pay PILOTs but that's not enough"? She agrees that this is really not voluntary. How are people going to look at the non-profits who aren't paying a PILOT?

Member Reshovsky agreed that non-profits do a lot of great things and are essential to our community. He would never question the value of the good

things non-profits do. However, they are receiving services from the city and those services need to be paid by someone. He thinks it would be to the advantage of the non-profit community to say "We are a central part of this community and we contribute voluntarily." He looks at this totally opposite of Member Krinsky where people are going to look at non-profits in a better light. We collect too much from property tax and not enough from other sources of revenue. We could collect fees, such as snow or fire protection fees. Those would be fees for services that would be mandatory, not voluntary. At the end of the day, non-profits would probably pay more. Non-profits could look at this as a real opportunity to step in and keep the city from taking drastic measures.

Chairman Goodwin asked what it would take for staff to establish values of the non-profits along the lines that Boston did.

Mr. Hanson replied that it would depend on how many properties the committee wants to gather the information on. He hopes that if they are assigned that task, the committee would first decide what value range they are going to work with and who would and wouldn't be included. The city's commercial appraisers are very busy so it would be tough to do it with current staff. The assessor's office would probably have to bring in some help.

Chairman Goodwin asked if anyone is ready to make a motion.

Member Reshovsky suggested that the conversation has been about how we value the non-profit property and that maybe we should come at it from a different approach. Instead of looking at the non-profits and how they are exempt from property taxes, what we really want is a transparent system that looks at the services that a non-profit receives.

Member Keller asked what happens under the current system if a non-profit is renting part of a property.

Mr. Kurth explained that the non-profit wouldn't have to worry about a PILOT because the property owner would be paying property tax. The Assessor's Office doesn't have that level of data available on non-profits who rent vs. own a property nor how much of the building they rent.

Member Elsdon commented that he is interested in another approach for contributions to the city. He is also interested in a way that non-profits would come forward with their own PILOTs without having to have their arms twisted because they value the services they are receiving from the city. He believes that in Madison there is growing resentment about non-profit property exemptions. He hopes that there is a way that non-profits can proactively engage in this instead of always being defensive.

Member Conroy responded that there is a list of a few places that currently pay PILOT's. His organization is on that list. The PILOT was not voluntary but a condition of zoning approvals.

Member Krinsky asked if it is correct that if a non-profit is occupying a property they don't own, that property is paying property tax. Mr. Hanson answered that is correct.

Member Krinsky asked if the committee is just looking at properties that

non-profits own and occupy.  
Mr. Hanson answered that is correct.

Chairman Goodwin explained that we have a list of property owners that do not pay property tax. What we don't have is the property values.

Mr. Kurth added that saying non-profit across the board is not correct. It is non-profits that have been exempted from paying property taxes by the state. There are a lot of non-profits that aren't exempt from property taxes.

Alder DeMarb asked Member Reshovsky for more information about user fees.

Member Reshovsky explained that for services such as waste pick up, the city charges the property owner a fee, rather than collecting through property tax. Many cities like using fees but they tend to be across the board so low income property owners are also assessed the fees.

Mr. Schmiedicke reviewed comments for revisions to the draft report.

1. More information on the work and positive orientation of tax exempt property owners.
2. Focus on tax exempt property owners wanting to be one part of a broader recognition of city services and funding those.
3. Remove any indication that a voluntary PILOT program might be imposed.
4. Incorporate more information on the challenges facing non-profit organizations.
5. Emphasize that any voluntary PILOT program will be a small share of the city's overall revenues.
6. Identify other options for calculating a voluntary PILOT payment.

Krinsky suggested notifying non-profits of the value of the services provided by the city and request a donation to help defray those costs. That would be a way to make it voluntary and less heavy-handed and more directly related to the issue.

Member Keller asked if there is another city similar to Madison that is using a PILOT program.

Mr. Schmiedicke reminded him of the presentations that we have had and explained that there are other models that can be used such as number of dorm rooms or hospital beds.

Chairman Goodwin explained that the city is in this predicament because of state funding priorities. The state is putting their money in prisons, education, Medicaid and highways. What's left is that the city has depended heavily on state shared revenue payments for municipal services which we aren't currently receiving. On top of that we have limited options to raise revenues. More cities are being forced to do something like PILOTs to make up for some of the revenue they aren't receiving from the state.

Ms. Miley added that someone mentioned during the tone discussion about special interests asking for more exemptions. It doesn't say on page 2 that they are non-profits. The latest one is the Wisconsin Broadcasters Association (WBA). It's not non-profits that are asking for the exemptions, it's groups out



there that ask "Why should we have to pay taxes?" The Legislature is probably going to give the WBA the exemption.

Member Heifetz added that we should mention that legislation specifically in the report.

Member Heifetz mentioned that most of the committee can probably agree to the report except for recommendation number five. We could delete it or alter it to something like "The City will continue its research on this topic." It gets the report finalized and gets this topic out there for discussion. There is value in everything in the report. Especially if we make the changes to the tone and other additions and changes we discussed.

Chairman Goodwin agreed that we are getting close. The committee still has time. The council gave us 12 months from our first meeting to produce a report.

4. Discussion of public input on task force report and recommendations
5. Development of timeline for completing task force report
6. Scheduling Next Meeting

**Staff will poll the members for the next meeting.**

#### **ADJOURNMENT**

**A motion was made by Reschovsky, seconded by Krinsky, to Adjourn. The motion passed by voice vote/other.**