

# **PILOT TASK FORCE REPORT**

**Table of Contents**

PILOT Advisory Task Force Overview ..... 3

Background: PILOT Agreements..... 4

Recommendations..... 6

Next Steps..... 9

### **PILOT Advisory Task Force Overview**

The PILOT (Payment in Lieu of Taxes) Advisory Task Force was formed pursuant to Ch. 2, Art. V., Div. 19, Sec. 2-309.15 of the Code of Ordinances of the City of Somerville, an ordinance which was passed unanimously by the Somerville City Council on May 21, 2021 (hereinafter: 'the ordinance').

The goal of the task force is to make recommendations for a more equitable and consistent PILOT program compensating the city for lost revenue resulting from the portion of the city's land area that is tax exempt and reducing the subsidy of service provision to tax exempt properties by owners of taxable properties. To achieve this goal, the task force shall make formal recommendations in connection with the following topics.

1. Standard level of contributions in programs and payments to be met by tax exempt institutions
2. Methodology for valuing community benefits by tax exempt Institutions
3. The valuation and revaluation of property owned by tax exempt institutions
4. Guidelines for the provisions to be included in PILOT agreements
5. Legislative changes needed at the state and local levels
6. Other recommendations

The task force is composed of 6 members as outlined in the ordinance.

The first meeting of the PILOT Advisory Task Force was on January 30, 2024.

## **Background: PILOT Agreements**

Under the current state law, tax-exempt institutions are ***not required*** to make tax contributions, either financially or through community benefits, for property held within a municipality. However, several municipalities enter PILOT (Payment in Lieu of Taxes) agreements with large tax-exempt institutions within their community in acknowledgement that municipalities provide these tax-exempt institutions with public services which the municipalities can offer because of tax dollars, and thus the taxpayers are effectively subsidizing the tax-exempt institutions which make use of city services despite not paying property taxes. While there are benefits associated with these tax-exempt institutions in our community, there are also impacts that tax-exempt institutions have on resources in the City, such as housing supply.

~~Prior to the ordinance there was~~ The City of Somerville currently has no formalized process for setting up PILOT agreements with large tax-exempt institutions. Several PILOT agreements have been negotiated between the City of Somerville and large tax-exempt institutions within the city. Historically negotiations for an agreement were held between the mayor and the large tax-exempt institution nonprofit. Typically, no community members were involved in these negotiations.

~~Note that there is a draft bill (HD.3727 / SD.2153) A bill (S.2016/H.3264) has been introduced at the state level to enable municipalities to require tax-exempt institutions owning total property valued at or above \$15 million to make payments in lieu of taxes (PILOT) equal to 25% what the organization would have owed without the exemption. relative to payments in lieu of taxation by organizations exempt from the property tax (This bill does not include religious organizations. Unless this or similar legislation is passed, PILOT agreements will remain negotiated on a voluntary basis.~~

Below is a table of the tax-exempt institutions in the City of Somerville with property valued at or above \$15 million, and any past yearly contributions or current PILOT agreements.

~~Some large nonprofits operating within the City of Somerville include:~~

Organization	Property Value	Previous contributions	PILOT agreement
Tufts University	\$458 million	\$475,000	No
Partners Healthcare	\$233 million	\$1,107,068	Yes
Cambridge Health Alliance	\$86 million	\$0	No

**Commented [KH1]:** Reorganized this paragraph and highlighted this sentence for discussion during the 5/12 meeting with language from Marianne.

Catholic Charities	\$81 million	\$0	No
Visiting Nurses Association Communities	\$17 million	\$0	No
Visiting Nurses Association at Highland Ave	\$16 million	\$0	No

## **Recommendations**

The recommendations of the PILOT Advisory Task Force are as follows:

1. A standard level of contributions in programs and payments to be met
  - A. Tax exempt institutions, including religious organizations, with properties valued at or above \$15 million (“large tax-exempt institutions”), should be asked to make payments equivalent to 25% of the property tax they would owe if they were not exempt.
  - B. Up to 12.5%, or half of the requested contributions, can be satisfied by community benefits, as defined further below.
  - C. The contributions should be based on the tax rates of the fiscal year when the agreement is made; the residential tax rate for residential properties (e.g. dorms), and commercial rate for other uses (e.g. commercial, classroom buildings, offices). The payment amount for mixed-use properties should be based on the residential rate for the residential part of the value of that property, and on the commercial rate for the commercial part of the value of that property.
2. A methodology for valuing community benefits
  - A. To maintain the **City of Somerville’s Core Values**, the Task Force has adopted four guidelines for the community benefits that these large tax-exempt institutions provide the City in lieu of taxes:
    1. The service must directly benefit the residents of the City of Somerville by being open to the public and accessible to all residents, and cannot exploit any workers/students of the institution
    2. The service must support the City’s mission and priorities
    3. The service should be quantifiable, valued at market value, and based on third party objective standards.
    4. The service should emphasize ways in which the City and the contributor can collaborate to address shared goals. Examples of services are summarized below.
  - B. Examples of potential community benefits include: free use of meeting rooms and wellness facilities ~~to~~by residents, community groups, and programs; commitment to local hire percentages, and contracts with small businesses; free MBTA passes and/or bike storage for all residents; donation of earned energy credits to subsidize resident utility costs ~~earned for donation, etc. Some other considerations for determining community benefits are~~ Further examples by broken down into type of ~~nonprofit~~ institution are listed below:
    - a. Educational institutions:

- i. Use of facilities/office space free of rent for City/School services
  - ii. College prep for first generation college students
  - iii. Universal Pre-K and/or Out of School Time partnership
  - iv. Paying for student T-passes and other transportation (Field trips, Winter Hill School displacement, etc.)
  - v. Free dual-enrollment options
- b. Medical/ Health Institutions
  - i. Medical/ mental health services to residents including eye and dental
  - ii. Home-based services to our elderly
  - iii. Drop-off clinic at our senior/disability housing (with priority given to those with limited access to healthcare or with medical debt)
  - iv. CPR trainings/certifications
- c. Religious Organizations
  - i. Shelters/warming centers
  - ii. Hot food distribution to the unhoused, seniors, disabled, or those who are food insecure
  - iii. Use of facilities for schools or organizations
  - iv. Tuition for students

3. The valuation and revaluation of property owned by large tax-exempt institutions

The valuation of the property will be reassessed by the Board of Assessors of the City on an annual basis.

4. Guidelines for the provisions to be included in PILOT agreements

- A. That the City of Somerville advocates for the use of Project Labor Agreements for construction work (this was included in a prior Partners PILOT agreement).
- B. That the PILOT agreements should not extend more than 5 years

5. Legislative changes needed at the state and local levels.

~~The task force is hopeful~~ that the above referenced State Bill (HD.3727 / SD.2153) will be passed, and which will give cities and towns the local option to obligate tax exempt institutions owning total property valued at or above \$15 Million to make payments in lieu of taxation on all real and personal property equal to 25 percent of the amount that would be paid if the property were not exempt from taxation. Note that this Bill does not include religious organizations in these tax-exempt institutions.

6. Additional Recommendations

- A. **Negotiating Team** - That all benefits are negotiated and agreed upon by the large tax-exempt institutions and the City's designated negotiating team. That the City of Somerville's negotiating team be comprised of the following: the Mayor or their designee, a member of the city council, the assessor, and two community members: one appointed by the Mayor, the other appointed by the City Council.
- B. **Website** - To increase transparency and encourage compliance, the task force recommends the City of Somerville post the following on the city website as prominently as possible:
  - a. the payments in lieu of taxes requested of the large tax-exempt institutions
  - b. the cash amount and community benefits given by the large tax-exempt institutions.
- C. **Fund Creation** - That funds from PILOT agreements enter a separate funds to be used by the City for direct services such as housing assistance (rent, fuel); childcare/after-school vouchers; small business assistance; donations to teen programing, etc.



### **Next Steps**

1. The Mayor provides feedback before the PILOT Task Force's next meeting on Jan 21, 2025.
2. Formal recommendations are submitted to the city council
3. February 2025 - That the City of Somerville post on the City's website, the payment in lieu of taxes requested of the large tax-exempt institutions, as well as the cash amount and community benefits given by the large tax-exempt institutions.
4. March 2025 - Negotiating Team is formed.
5. July 1, 2025 - Letters, written by the negotiating team, be sent to large tax-exempt institutions inviting them to bargain PILOT agreements.
6. The City provide testimony on BILL NUMBER when its hearing at the state legislature is scheduled.