

**NEGOTIATING**

**PILOT**

**PAYMENTS**

Prepared By The Massachusetts Government Finance Officers Association.

Funding Provided By The Executive Office Of Communities And Development And M.G.F.O.A.

## Acknowledgements

Presented by the Massachusetts Government Finance Officers Association through the City of Newton, Massachusetts.

Funding provided by the Executive Office of Communities and Development and the Massachusetts Government Finance Officers Association.

Special thanks for making this publication possible:

Harry Grossman, Department of Revenue  
Dr. Donald Levitan, Suffolk University  
Heidi Heltzel, Suffolk University  
Robert Palmer, Newton City Assessor  
Boyer, Bennett and Shaw, Consultants  
City of Boston, T.E.P.S. Committee

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## Overview

Payment In-Lieu-of Taxes (PILOTs) are a revenue source that has been left relatively unexplored. This paper reviews pertinent information relating to PILOTs and provides a series of suggestions which communities may adopt to increase their revenue base.

The task of reviewing PILOT information is difficult because there are no existing laws in the Commonwealth of Massachusetts which legitimize the concept. Existing agreements between tax exempt entities and their host community are based upon good faith and public relations rather than any legal requirement. Although national and regional precedences have been established, many tax exempt entities continue to reject the concept, preferring to embrace a full tax exemption status rather than become a full partner in the development of the quality of life of the host community.

"The State Constitution, written in 1780, empowered the legislature to promote the arts, sciences, and national history of our country by granting "reasonable exemptions" to institutions that embrace these pursuits. As the governmental, educational, medical and cultural activities within the state continue to expand, the impact of these property tax exemptions is highlighted by the large amount of tax exempt property which results in a substantial erosion of a community's tax base." (1)

"Communities must be meticulous in managing their tax base due to the following fiscal realities:

- The over-reliance on the property tax as the only major source of tax revenue;
- The implementation of Proposition 2 1/2;
- Increasing demands for costly municipal services which require additional revenues;
- The rapid decline of federal fiscal assistance;
- A precarious state financial condition which weakens its ability to provide fiscal relief to local governments.

The increase in the amount of tax exempt property and the corresponding decrease in community tax capacities necessitate policy guidelines to manage the tax base effectively through a PILOT payment." (2)

