

Payments in Lieu of Taxes (“PILOTs”) for Tax Exempt Properties

Payments in Lieu of Taxes (“PILOTs”): Certain jurisdictions have worked with local universities, hospitals, and cultural institutions to come to terms regarding voluntary payments in lieu of property taxes that those institutions would otherwise pay, but for their tax exempt status.

Background

Charitable nonprofit organizations are exempt from federal income taxation. While federal tax exempt status does not automatically extend to state and local taxes, state and local governments often extend tax exempt status for these organizations to include state and local income, property, and sales taxes.

Many types of nonprofit organizations, such as hospitals, universities, and cultural institutions, occupy valuable real estate that, because of their nonprofit status, is exempt from property taxes. As outlined below, a number of municipalities have asked nonprofit organizations to make payments in lieu of taxes to supplement local revenue and to cover the cost of essential services.

Under the Illinois Constitution, the only property tax exemptions allowed are government, religious, educational and charitable. The Illinois State legislature sets the terms and criteria for allowed exemptions by statute, in the Illinois Property Tax Code. Property owners submit applications and annual affidavits to the State to determine whether property qualifies for such an exemption.

Revenue Impact

Revenue from a PILOT program would depend on the City’s approach to such a program, the institutions targeted through such a program, and the result of negotiations with each of those institutions. Other cities report realizing anywhere from \$2 to \$20 million in revenue from PILOTs.

Other Cities

In 2012, 218 localities in 28 states had PILOTs, and 82.6% of PILOT revenue came from the Northeast U.S. The 10 localities reporting the most PILOT revenue in 2012 were as follows:

City	State	Year	Total	% of General Revenue	% of Property Taxes	# of NFPs in PILOT
Boston	MA	2012	\$19,402,506	0.58%	1.45%	33
New Haven	CT	2012	\$9,108,766	1.16%	4.57%	2
Providence	RI	2012	\$8,948,046	1.08%	2.88%	7
Palo Alto	CA	2009	\$7,100,000	3.44%	25.43%	1
Baltimore	MD	2011	\$5,400,000	0.16%	0.83%	15
Watertown	MA	2012	\$5,260,089	4.85%	7.34%	1
Cambridge	MA	2012	\$4,978,954	0.40%	1.81%	15
Erie	PA	2011	\$2,804,842	0.48%	2.10%	13
Pittsburgh	PA	2011	\$2,600,000	0.39%	1.84%	46
Princeton	NJ	2012	\$2,492,922	4.09%	7.44%	6

Legal Issues

Any change in the terms or criteria for property tax exemptions would require action by the State legislature to change the Illinois Property Tax Code.

State law does allow taxing districts to enter into mutually acceptable agreements with owners of any exempt property whereby the owner agrees to make payments to the taxing district for the direct and indirect cost of services provided by the district. These agreements (or renewals thereof) must be no longer than 5 years in duration.