

## **LRB-FISCAL REVIEW SECTION ANALYSIS**

**FINANCE & PERSONNEL COMMITTEE**

**ITEM 30, FILE # 041042**

**DECEMBER 15, 2004**

**JEFF OSTERMAN**

File Number 041042 is an ordinance that creates a Fair Share Payment in Lieu of Taxes (“PILOT”) program in which the City will seek voluntary payments from owners of tax-exempt properties in recognition of the municipal services those properties receive from the City.

### **Background**

1. Approximately one-third of the City’s land area consists of tax-exempt properties.
2. Between 2000 and 2004, the value of non-governmental tax-exempt property in Milwaukee grew by 270%, from \$1.8 billion to \$4.9 billion. During the same period, the total value of the City’s taxable property grew only 32%. Non-governmental tax-exempt properties now comprise about 22% of the City’s total property valuation.
3. The growing proportion of tax-exempt property, coupled with other current fiscal trends affecting the City (e.g., declining state shared revenues and rising employee health care costs), makes it necessary for the City to be creative in finding or developing new sources of revenue.
4. One potential new source of revenues is payments in lieu of taxes (“PILOTS”) from tax-exempt properties. While state law prohibits the City from requiring tax-exempt property owners to pay property taxes, the City is not prohibited from seeking voluntary payments from such owners.
5. PILOT programs have been implemented, with varying degrees of success, in several other municipalities around the nation, most notably Boston, Pittsburgh, Cambridge, MA, Providence, RI, and Binghamton, NY. These cities have entered into agreements with major tax-exempt property owners (typically universities or hospitals) for payment of PILOTS on an annual basis.

### **Discussion**

1. While owners of tax-exempt properties pay no property taxes, their properties use City services, often at higher rates or levels than taxable properties. Tax-exempt properties currently receive an estimated \$43 million in City services each year. The provision of services to these tax-exempt properties is, in effect, being subsidized by owners of taxable properties.
2. If the City does not develop additional revenue sources in the near future, it will have to make significant cuts to essential municipal services, thereby reducing the quantity and quality of services provided to all property owners, taxable and tax-exempt alike.

3. The ordinance proposed in File Number 041042 would create a Fair Share PILOT program for the City of Milwaukee. The commissioner of assessments would be authorized and directed to negotiate a voluntary PILOT with any property owner that: 1) applies for property tax exemption; or 2) demonstrates, through applications made to the Department of City Development, its intent to expand, improve, replace or acquire a tax-exempt facility.
4. Under the proposed ordinance, the amount of the PILOT agreement -- or at least the amount suggested to the property owner by the commissioner of assessments -- would be equal to the amount of taxes the owner would pay to the City if the property were taxable. Other cities sometimes suggest only a percentage of the full tax payment (e.g., Binghamton, NY, 50%, and Boston, 25%).
5. Besides increasing City revenues, one of the goals of the proposed Fair Share PILOT program is to increase awareness among tax-exempt institutions of the value of the services they receive from the City and of their need to "give back to the community". The ordinance authorizes the commissioner of assessments to undertake an on-going awareness campaign for this purpose.

### **Fiscal Impact**

1. Because of the voluntary nature of PILOT payments, the City has very limited ability to predict the revenues it might receive under the proposed Fair Share PILOT program. As the fiscal note for this file indicates, the revenues from this initiative can be best described as "unknown" at this time.
2. The goal of the program is to raise \$8 million in 2005. This would be the equivalent of about 4% of the City's total tax levy.
3. If Fair Share PILOT agreements were successfully negotiated with all owners of non-governmental tax-exempt properties in Milwaukee, the City could realize an additional \$45 million in revenues each year -- the equivalent of 22% of the City's total tax levy.
4. The results of PILOT programs in other cities have been mixed, and depend to a considerable degree on the financial health and resources of tax-exempt entities in those communities. While Boston, home to major universities with large endowment funds, receives over \$12 million annually in PILOT payments, Binghamton, which has few major non-profit institutions, receives only \$20,000 to \$40,000 each year.

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