

WILL PILOTS FLY IN WORCESTER? TAXING NONPROFITS AND OTHER OPTIONS

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Executive Summary

The Worcester City Council is considering establishing a Payment in Lieu of Taxes (PILOT) program which would formally request tax-like payments from tax-exempt institutions. Boston, Providence, Cambridge, New Haven, and Watertown have PILOT programs. Based on the findings below, the Research Bureau believes that the City would be better served by making the colleges part of its economic development strategy than by requesting payments in lieu of taxes.

- Based on the PILOT formulas and revenue trends in Boston, Cambridge, Providence, and New Haven, Worcester could expect to generate somewhere between \$90,000 and \$1.2 million in revenues for the City through a PILOT program.
- Institutional endowments are an indicator of how much nonprofit organizations can contribute to a PILOT program. Boston's college endowments total \$21.7 billion, Cambridge's, \$24 billion; Providence's, \$2.0 billion. Worcester's colleges have less than \$1 billion in institutional endowments.
- Each year, Worcester colleges contribute over \$1.5 million in taxes and fees to the City, and add \$10.5 million annually in property taxes paid by employees and businesses that serve the colleges. The colleges also provide scholarships in excess of \$5 million to students and teachers from the City of Worcester.
- During the last ten years, Worcester colleges have supported development projects worth over \$44 million, including the WPI Gateway Park project which will provide space for taxpaying businesses that could generate 3,000 jobs when completed.
- In light of the colleges' annual contributions to the vitality and well-being of the City, Worcester Public Schools, and Worcester neighborhoods as well as the colleges' contribution to economic development projects in the City, it is difficult to support the argument that the colleges do not "pay their fair share."
- Contributions to PILOT programs may lead colleges (as is the case with Brown University in Providence) to reduce their commitments to existing neighborhood and business development projects.
- Alternatives to PILOT programs presented in this report include state reimbursement to communities for a defined percentage of the value of tax-exempt property and a modest regional tax on communities that benefit from the tax-exempt institutions (pp. 14-16).

I. Introduction

The Worcester City Council is considering establishing a PILOT program in order to request payments from nonprofit institutions which are exempt from property taxes by state statute.¹ A similar proposal was considered and rejected by the City Council in 1997. At that time, the Research Bureau released a report titled *Payments in Lieu of Taxes: Arguments For and Against* (#97-4). We will update that report by examining both the current revenue potential of PILOTs in Worcester and the potential

¹ Massachusetts General Laws. Section 5.

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consequences of such a program. In the final section, we examine some alternatives that communities outside of Massachusetts have implemented to ease the burden that large nonprofit institutions can place on their host cities.²

What is a PILOT?

PILOT is a formalized way for cities to request tax-like payments from tax-exempt institutions. Since nonprofit institutions are exempt from local property taxes, cities that want to acquire payments from them must do so through voluntary agreements with the institutions. When nonprofit organizations expand, they take land off the city's property tax rolls, diminishing the city's property tax base. Under a PILOT program, they are asked to pay some percentage of the taxes they would pay as fully taxed commercial entities (often the percentage is based on the percentage of the city budget dedicated to core city services, Police, Fire, and Public Works—roughly 30% in Worcester). Cambridge, Massachusetts, established a PILOT program in 1928 when MIT sought to purchase a hotel on the Charles River. The city and the University agreed that the city needed compensation for the loss of that taxed property. Today, 32% of property in Cambridge is tax-exempt. Harvard and MIT make payments in lieu of taxes of more than \$2.8 million per year. Boston also collects PILOT payments from large nonprofit institutions, including Boston University, Harvard, and Massachusetts General Hospital. Providence, Rhode Island, has recently contracted with four downtown colleges and universities in order to receive compensation for existing and newly-developed tax-exempt land. Providence estimates that it will receive close to \$4 million in PILOT payments in FY04 from Brown, Providence College, Rhode Island School of Design, and Johnson and Wales University.

Would similar programs make sense for Worcester? Could it generate similar revenues? Are Worcester colleges contributing their “fair share” to the City? This report attempts to answer these questions. First, we present some facts and figures from existing PILOT programs and make comparisons to Worcester to ascertain the revenue potential of PILOTs in Worcester. In the second section, we examine the current level of contribution from the colleges in Worcester to the City of Worcester and assess the colleges' use of City services. Finally, we examine some regional and statewide approaches that are utilized in other parts of the country.

II. Cities with PILOTS: Facts and Figures

Cambridge

Cambridge is the model for PILOT programs nationwide in terms of its longevity, success, and founding rationale. As mentioned above, in 1928, MIT sought to purchase valuable land on the Charles River including a hotel; MIT agreed to make PILOT payments to the City for its loss of tax revenue. Today, MIT and Harvard together pay approximately \$2.8 million annually. Cambridge also receives another \$500,000 annually from other colleges and hospitals. Cambridge is a unique example not only because it is home to two of the world's most prestigious institutions of higher education, but because it has the highest percentage of tax-exempt land of any municipality in the state (32.5%). Cambridge has \$17.7 billion of assessed value in taxable property and \$8.5 billion in tax exempt. If all of the \$8.5 billion were taxed at the current tax rate (\$19.08 per thousand in FY04 in Cambridge), then the city would receive \$163 million in tax revenue. Through the PILOT program, Cambridge generates \$3.3 million in revenue.

Largest contributors: Harvard, \$1.7 Million; MIT, \$1.1 Million .

PILOT Total: \$3.3 Million

² Disclosure: The Worcester Regional Research Bureau is a nonprofit organization. The presidents of all of Worcester's colleges serve on the Research Bureau's board of directors.

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Boston

Boston's percentage of tax-exempt land (24.2%) is much closer to Worcester's, 21.69%. Like Cambridge, however, Boston also draws most of its PILOT payments from a few large institutions with large endowments like Harvard, Boston University and Massachusetts General Hospital. Boston initiates PILOT requests based on a formula that includes the cost of a proposed development project, the assessed value of the property, and a comparison with comparable buildings. In most cases, though, the formula is used only to begin discussions, and PILOT payments are arrived at through negotiations with individual nonprofits. Boston has \$18 billion in tax-exempt property which—if taxed at the FY03 tax rate (31.39 per thousand)—would generate over \$500 million in tax revenue. Through the PILOT, Boston receives \$12 million.³

Largest contributors: Boston University, \$3 million; Massachusetts General Hospital, \$1.9 million
PILOT total: \$12 million

Providence

Providence has recently finalized an arrangement with four local universities for PILOT payments that is expected to generate \$3.8 million in FY04.⁴ The Rhode Island School of Design (RISD) is about to move its library to a downtown facility that was previously a tax-paying bank. As Cambridge did in 1928, Providence has been moved to protect its tax base by the prospect of college expansion. Providence already faces the difficulty of having more than 39% of its property tax-exempt. Like Cambridge and Boston, Providence also has well-endowed institutions, with Brown holding an endowment of over \$1 billion. Providence applied pressure on its nonprofits by lobbying at the state level for a change in the statutes that govern tax-exemption. In order to finance the PILOT, Brown University eliminated more than \$600,000 in support for HELP, an urban health and education program.

Largest contributors: Brown University, \$2 Million; RISD, \$798,000.
Pilot Total: \$3.8 Million

New Haven

New Haven receives revenue from the state of Connecticut to compensate the city for a portion of its tax-exempt property. This state-funded PILOT will be discussed in more detail in the final section of this report (see page 14). In addition to state funding, New Haven receives direct financial support from Yale. Besides hiring its own police force, Yale pays over \$2 million per year to New Haven's Fire Department. Yale is second only to Harvard in endowment size, with \$11 billion in 2003.⁵ Since New Haven also benefits from a substantial state PILOT program, it is not included in some of the comparisons that follow.

Contributor: Yale University
University PILOT Amount: \$2 million

Watertown

In 2002, Watertown established a PILOT arrangement with Harvard University allowing Harvard to purchase a large amount of property that had been a shopping center as well as surrounding property that was available for development. Watertown sought compensation for the loss of a specific property

³ Excludes payments to Boston from Massport which were \$10 million in FY03.

⁴ Rhode Island Public Expenditure Council, "Closing Providence's FY 2004 Deficit," October 2003.

⁵ Endowment data is collected from the 2003 National Association of College and University Business Officers Endowment Study.

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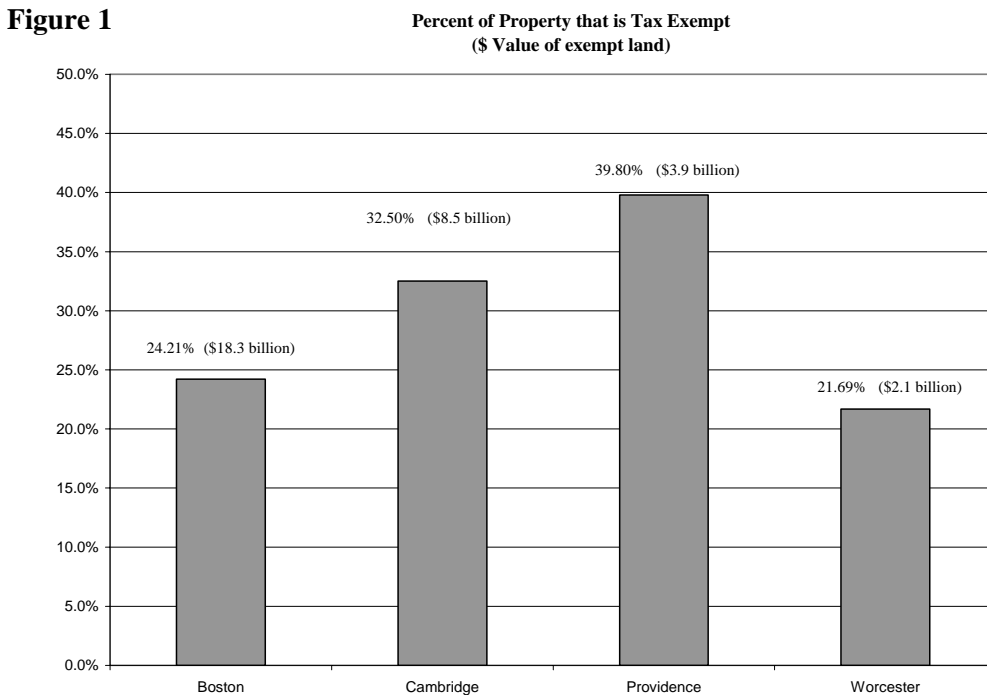
that was generating tax revenue and the lost potential revenue of the surrounding land. The President of Harvard University claimed that the Watertown arrangement was the beginning of a “new principle governing University acquisitions and community relations in which Harvard will make voluntary payments for a period of time to compensate towns for the loss of tax-revenue generating property.”⁶ In return, Harvard may develop the property “as of right” without any zoning interference from the town. In Watertown, Harvard’s payments began at \$3.8 million annually and will increase at a rate of 3% per year for 50 years. Watertown lost approximately one quarter of its tax-revenue potential in the loss of the site (\$163 million of \$644 million in commercial property). With only 4 square miles of territory, Watertown lost a substantial portion of its developable land.⁷ Due to the unique situation in Watertown, its data are not included in some of the following comparisons.

PILOT Amount: \$3.8 Million +3% per year

Contributor: Harvard University

III. How Much Revenue Could Worcester Generate with a PILOT Program?

Worcester has the sixth-highest percentage of tax-exempt property in Massachusetts—21.69%, valued at \$2.1 billion. Below is a chart comparing Worcester’s tax-exempt property with that Boston, Cambridge, and Providence based on FY03 valuations.⁸



Worcester has the smallest percentage of tax-exempt property of these four cities, and the assessed value of Worcester’s property is well below that of the other cities (\$2.1 billion compared to \$3.9, \$8.5, and \$18.3 billion).⁹

⁶ *Harvard University Gazette*. “Watertown, University Announce Agreement,” September 26, 2002.

⁷ Bill Archembeault. “Harvard Land Deal,” *Boston Business Journal*, July 27, 2001.

⁸ FY03 data were the most recent available for all cities and are used when comparing cities.

⁹ Comparisons based on FY03 data from Massachusetts Department of Revenue

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In FY04, Worcester’s tax-exempt property was valued at \$2.45 billion¹⁰ over 45%—\$ 1.1 billion—of which is owned by the City and the State. The single largest owner of tax-exempt property in Worcester is the City of Worcester itself, which owns \$646 million. Another 19%—\$341 million—is owned by religious institutions (the Catholic Church owns \$168 million—50% of the property held by religious organizations) that would likely remain untaxed under a PILOT program. Colleges, universities and hospitals—the likely targets of a PILOT program—make up 31% (\$764 million) of the total tax-exempt property in Worcester and 7.8% of the total property valuation.¹¹ Figure 2 details the amounts and kinds of tax-exempt property in Worcester.¹²

Figure 2 Tax-Exempt Property in Worcester FY04

Class	Description	# Parcels	\$ Valuation	% by Valuation
903	City of Worcester	560	\$646,243,200	26.38%
901	Commonwealth of Massachusetts*	164	\$477,648,300	19.50%
904	Private Colleges and Private Schools	154	\$423,540,100	17.29%
906	Religious Institutions	319	\$341,088,600	13.92%
905	Charitable Organizations (including Private Hospitals)	302	\$340,476,500	13.90%
908	Worcester Housing Authority	65	\$143,315,700	5.85%
907	121A Corporations (Urban redevelopment)	31	\$43,083,400	1.76%
900	Federal Government	6	\$20,909,900	0.85%
952	Upper Blackstone Sewerage Treatment Facility	2	\$6,122,300	0.25%
909	W.R.T.A.	2	\$3,475,100	0.14%
950	WBDC/Bio-Tech	1	\$2,681,500	0.11%
953	Town of Auburn	1	\$785,800	0.03%
943	Railroad Right of Way	4	\$228,400	0.01%
902	Worcester County	2	\$80,800	0.00%
955	G.I.S. Parcels**	4	\$18,100	0.00%
TOTAL TAX EXEMPT		1617	\$2,449,697,700	100.00%
*Includes Worcester State College and Umass **Anomaly of defining parcels with Geographic Information System (GIS)				
Source: City of Worcester Assessing Department				
Prepared by: Worcester Regional Research Bureau				

If all tax-exempt property were taxed at the full FY04 commercial tax rate, it would generate \$22.6 million in revenue. Since PILOT programs normally require voluntary payments of only a small fraction of the full commercial tax rate from a fraction of all tax-exempt property holders, a PILOT program would capture a small percentage of this “lost” tax revenue.

How much PILOT revenue do cities get from their nonprofit institutions? The most consistent estimate among Boston, Cambridge, and Providence is that these cities generate just over 2% of the tax revenue lost from all tax-exempt properties (not just the revenue lost due to colleges and hospitals). If Worcester were able to generate 2% of its lost tax revenue through PILOT payments by colleges and hospitals, it would generate \$1.4 million. Figure 3 shows the amount of tax-exempt land in the city, the lost tax revenue (the amount of tax revenue that would be generated if all tax-exempt property in the city were taxable at the commercial rate), and each city’s PILOT revenues. Worcester is listed with

¹⁰ FY04 data for the City of Worcester provided by the City of Worcester Assessor’s Office. For comparisons with other cities, FY03 data are used.

¹¹ Includes property owned by K-12 private schools.

¹² Commonwealth of Massachusetts includes Worcester State Hospital, which accounts for \$14,236,000 of the tax-exempt land in Worcester. If the state legislature adopted the Romney administration’s proposal to close Worcester State Hospital, the land would become available for private development which would generate \$430,000 if taxed at the current commercial rate and— if developed for commercial or industrial use—could generate substantially more tax revenue and additional jobs.

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its actual tax-exempt and lost tax revenue figures from FY03, and the PILOT revenue is estimated at 2.2% of the total lost tax value.

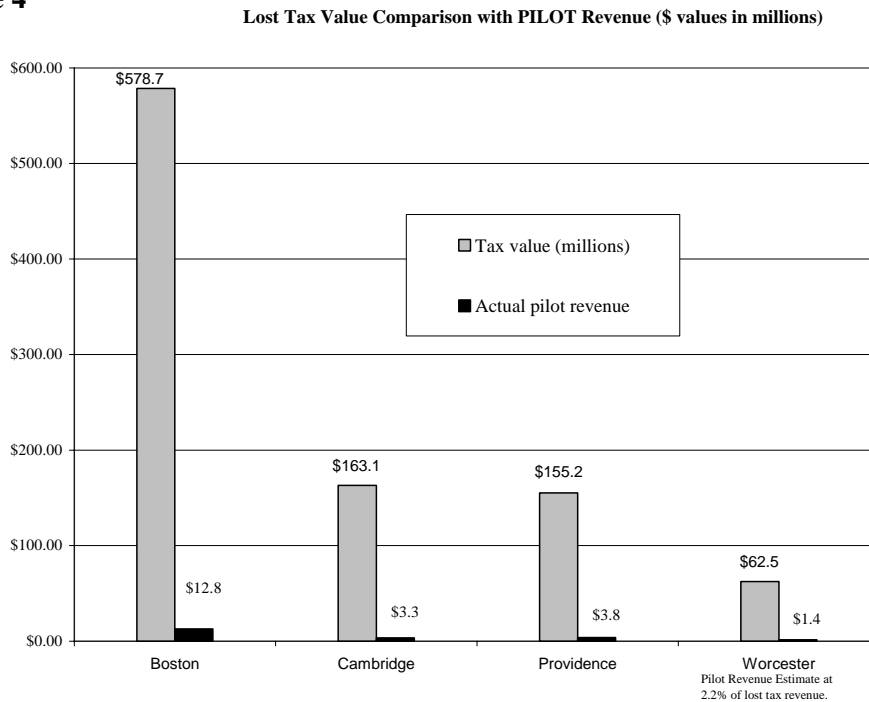
Figure 3

PILOT Revenues as a Percentage of Lost Tax Value (\$ in Millions)

City	Tax Exempt	Tax Rate	Lost Tax Value	Actual Pilot Revenue	% of Tax Value
Boston	\$18,376	0.03149	\$578.66	\$12.8	2.2%
Cambridge	\$8,548	0.01908	\$163.10	\$3.3	2.0%
Providence	\$3,999	0.03882	\$155.24	\$3.8	2.4%
Worcester estimate if Worcester generated 2.2% of the tax-value lost through PILOT*					
Worcester	\$2,110	0.0296	\$62.46	\$1.4	2.2%
*Worcester numbers assume that Worcester is able to generate 2.2% of lost tax revenue through a PILOT.					

Figure 4 shows the difference in magnitude between the lost tax value in Worcester and the other PILOT cities.

Figure 4



Could Worcester generate \$1.4 million in PILOT revenues? Important differences exist between Worcester and the other PILOT cities, notably differences in the size of institutional endowments. The Cambridge assessor’s office explained that endowment size may be the most important factor in establishing a successful PILOT program. In Cambridge, 80% of PILOT revenues come from Harvard and MIT (each of which has endowments among the top ten university endowments in the country). Figure 5 shows the endowments of Worcester’s institutions of higher learning compared to those in Boston, Cambridge and Providence.¹³

¹³ Boston endowment data include the following institutions which make PILOT payments to Boston: Berklee College of Music, Boston College, Boston University, Harvard University, Massachusetts College of Pharmacy, Northeastern University, Suffolk University, Tufts, Wentworth Institute of Technology. Cambridge includes

Figure 5

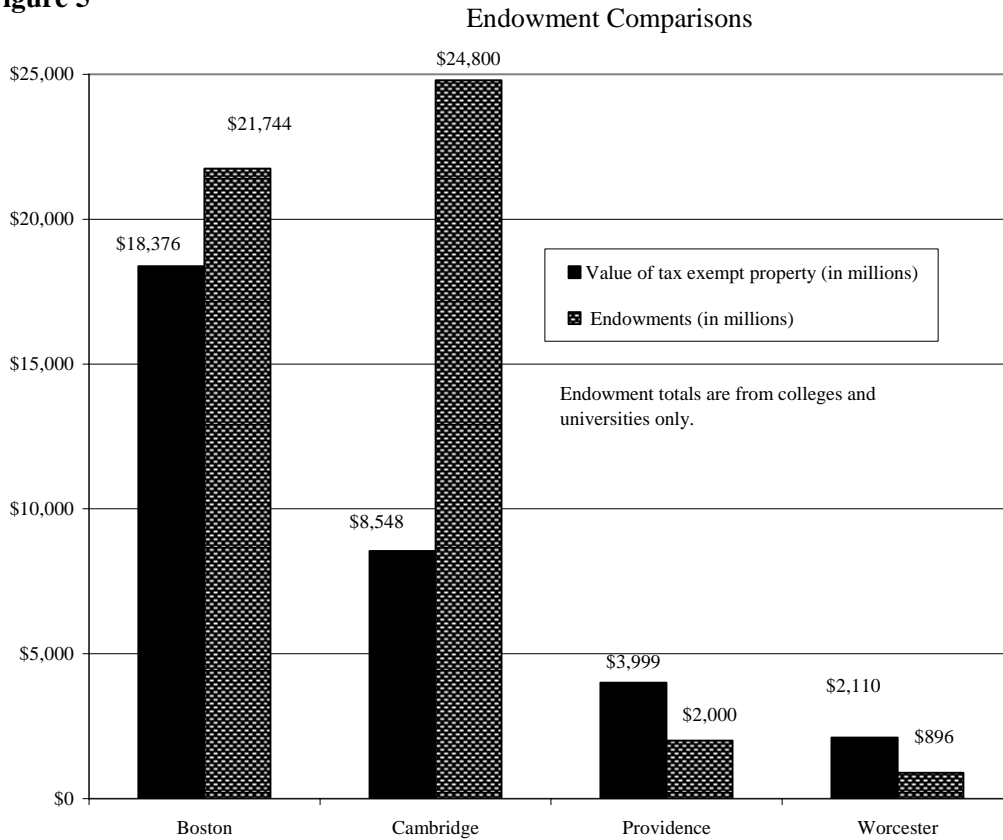


Figure 6 shows what Worcester institutions would pay in PILOT payments if they paid the equivalent of Harvard, Yale, Brown, or MIT. Estimated as a proportion of institutional endowments, Worcester’s PILOT revenues could be as high as \$1.2 million and as low as \$89,000. If Worcester received only the percentages paid by Harvard or MIT, the City would earn between \$89,000 and \$179,000 in PILOT payments annually. Using Brown University as a model, Worcester might collect as much as \$1.2 Million in PILOT payments.¹⁴

Harvard University and MIT. Providence Includes Brown, Johnson & Wales, Providence College, and Rhode Island School of Design.

¹⁴ This list of Worcester endowments includes the Massachusetts College of Pharmacy which has a branch in Worcester, but is headquartered in Boston. We have included its entire endowment amount in both Boston’s and Worcester’s calculations. Since the Worcester branch of MCPH is the source of a fraction of total revenues, this exaggerates what it could reasonably be asked for. Harvard is similarly included in both Boston and Cambridge calculations.

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Figure 6

Worcester Endowments*		Worcester PILOT equivalent to		
		Harvard/Yale .01%	Brown .14%	MIT .02%
Holy Cross	\$378,000,000	\$37,800	\$529,200	\$75,600
WPI	\$254,570,000	\$25,457	\$356,398	\$50,914
Clark	\$148,208,000	\$14,821	\$207,491	\$29,642
Assumption	\$37,777,000	\$3,778	\$52,888	\$7,555
Becker	\$3,800,000	\$380	\$5,320	\$760
Mass College of Pharmacy	\$27,000,000	\$2,700	\$37,800	\$5,400
Quinsigamond Community	\$1,200,000	\$120	\$1,680	\$240
Worcester State College	\$6,600,000	\$660	\$9,240	\$1,320
UMMED	\$30,000,000	\$3,000	\$42,000	\$6,000
Total Estimated Worcester PILOT Revenues		\$89,660	\$1,255,240	\$179,320
Qunsigamond Community College, Worcester State College, and Umass Medical School might be able to avoid PILOT payments as they are state-owned entities. The data for these schools is included along with the other private schools.				
* Source: National Association of College University Business Managers 2003 endowment study, Colleges of Worcester Consortium				
Prepared by: Worcester Regional Research Bureau				

IV. PILOTs: Arguments For and Against

If Worcester can generate significant revenue from a PILOT program, should it do so? Below we consider some of the arguments on both sides of the debate and present relevant data for the discussion. PILOT defenders contend that colleges and universities are big businesses that develop land; hence, they should be asked to pay some of the taxes that businesses pay. Some also claim that since the colleges and universities use city services, they should pay something for the services that they use. Opponents of PILOTs contend that, in fact, colleges use far less city services in proportion to their annual revenues than private businesses do, and they should be valued for the contributions they make to the City and remain untaxed.

The City Council has asked the City administration for an account of all public safety services provided to all tax-exempt organizations as well as an estimate of the value of services provided by the colleges to the City.¹⁵ Since the City's core services are public goods, meaning they benefit the City as a whole, it is difficult to develop a complete picture of the dollar-value benefit to particular citizens or organizations. The value to a college of a safe city or well-kept streets is difficult to measure; similarly, the value of college contributions to the City is not easy to quantify. What burden do the colleges place on City services? And what contribution do the colleges make to the City? Below, we examine the public safety burden placed on the City by colleges and their students and then present data on college contributions to the City.

¹⁵ City Council Orders. 20040106ods.

College burden on the Police Department

We present one indicator of the burden placed on the Police Department: student arrests. (Fire Department data are not available at this time.) This indicator covers only a fraction of the services that benefit the colleges. For instance, deterrence and punishment of crimes by non-college students may benefit colleges as much or more than arrests of college students.

Figure 7 tallies the arrests of Worcester residential college students during a 36-month period from 1999 through 2002. It shows that Worcester college students were arrested 340 times in that three-year span, with the majority of violations consisting of public disturbance and alcohol-related crimes. College-student arrests accounted for 1.3% of all City arrests in 2000 and 0.8% of all City arrests in 2001. When examined based on monthly averages, College student arrests represent approximately 1.4% of all arrests in the City (10% of alcohol violations and 2.4% of disturbance arrests) during the years included here.

These data reveal that college students are roughly 11% of the population of Worcester, but account for a much smaller percentage of Worcester arrests, 1.4%. These data also indicate that arrests were overwhelmingly for minor offenses (73% were for alcohol and disturbance). There were no murders, few assaults (10 in three years) or drug violations (8 in three years). A much higher percentage of crimes committed by non-students are for more serious offenses that cost the police, courts, and victims more per crime.

Figure 7

1999-2002 Arrest Data* for Worcester Residential Colleges**				
Student Arrests by Type		% of Student Arrests	Student Arrests by Year	
Disturbance	137	40.3%		
Alcohol	115	33.8%	1999	114
Trespassing	9	2.6%		
Assault	10	2.9%	2000	106
Domestics	15	4.4%		
Shoplifting	5	1.5%	2001	63
Drug Violation	8	2.4%		
Warrant Arrest	6	1.8%	2002	57
Motor Vehicle Violation	24	7.1%		
Other***	11	3.2%	12 Month Average	
Student arrests 36 month total			340	
All City arrests 36 month total****			24,710	
% of arrests that are of college students*****			1.4%	
Number of college students as % of Worcester population**			11.0%	
*Data includes 7 months in 1999 and 5 months in 2002 (36 months total)				
**Assumption, Becker, Clark, Holy Cross, Worcester State, W.P.I.				
*** "Other" includes breaking and entering, larceny, and vandalism				
****Based on monthly averages 1999-2002				
Source: Worcester Police Department.				
Prepared by: Worcester Regional Research Bureau				

Each college also maintains its own police force with arrest powers, and have a (limited) presence off campus. If the colleges did not have their own security forces, the City would have to increase the size and cost of the Worcester Police Department. Figure 8 shows the size and cost of these police forces.

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Figure 8

	Arrest Powers	No. of Officers	Annual Budget	Off Campus	How Far?
Assumption College	Yes	14	\$775,000	Yes	to Assumption properties
Becker College	Yes	11	\$500,000	No	NA
Clark University	Yes	12	\$927,000	Yes	.25 miles
College of the Holy Cross	Yes	16	\$1,200,000	No	NA
WPI*	Yes	13	-	-	-
Worcester State College	Yes	15	\$753,367	Yes	to Worcester State Housing
Total		81	\$4,155,367		

*Detailed information was not available for WPI

What do the colleges contribute?

While colleges and universities are tax-exempt, they pay for water and sewer services as well as taxes on properties that are not used as part of the school’s core mission. In addition, the colleges provide some services directly to City residents and City departments. Just as the City provides services to which it is difficult to assign a dollar value, the colleges contribute to the City in ways that are not easily measurable. Below we present a brief survey of six areas through which the colleges support the City of Worcester, including financial contributions to the City: 1) Taxes and fees paid and generated by the colleges; 2) Support for the Worcester Public Schools and teachers; 3) Scholarships and aid for area college students; 4) Support of neighborhood development and community service; 5) Economic development, and 6) Economic impact of salaries and business purchases.

1) Taxes and fees paid by the colleges

All of the colleges in Worcester pay for water and sewer service. Combined, the colleges pay over \$2 million annually in water and sewer payments, over 5% of the City’s annual water/sewer budget. Schools also make payments for permits, inspections, licenses, traffic signals, some police and fire assistance. They also pay property taxes on properties that are not used as a part of the institution’s primary mission. Worcester schools currently pay over \$300,000 in property taxes for this kind of property. The figure below details college payments to the City. In FY03 the area’s colleges paid over \$1.5 million directly to the City and City service providers.

Figure 9

	AC	BC	CHC	CU	MCP	WPI	WSC	TOTAL
Real Estate Taxes	\$4,798	\$5,050	\$16,000	\$97,080	\$22,620	\$182,500		\$328,048
Water/Sewer	\$131,615	\$31,000	\$273,000	\$185,716	\$14,300	\$173,000	\$99,493	\$908,124
Police Assistance	\$12,705		\$16,000	\$3,000	\$485	\$15,500	\$1,843	\$49,533
Fire Assistance			\$4,400		\$1,780	\$8,500	\$6,141	\$20,821
Building Certification						\$6,000		\$6,000
Permits	\$6,633	\$2,455	\$188,000	\$22,929			\$550	\$220,567
Inspections	\$5,089	\$3,205	\$7,800					\$16,094
Licenses		\$950	\$800			\$4,500	\$2,496	\$8,746
Traffic Signalization						\$17,000		\$17,000
Misc	\$1,189	\$2,735			\$900	\$4,000		\$8,824
Total	\$162,029	\$45,395	\$506,000	\$308,725	\$40,085	\$411,000	\$110,523	\$1,583,757

Assumption College (AC); Becker College (BC); College of the Holy Cross (CHC); Clark University (CU); Massachusetts College of Pharmacy (MCP); Worcester Polytechnic Institute (WPI); Worcester State College (WSC). Only schools in the City of Worcester were included.

Source: Colleges of Worcester Consortium
Prepared By: Worcester Regional Research Bureau

In addition, the Worcester colleges generate property tax revenue indirectly through their purchases and hiring in the City. Figure 10 shows results from an economic impact study commissioned by the Colleges of Worcester Consortium indicating that employees, supported businesses, and the employees of those businesses pay over \$10 million in property taxes.

Figure 10

Indirect Property Tax Effect in Worcester of Colleges and Universities	
Source of Property Tax Revenue for the City	Amounts In Millions
Property tax generated by employees of college who live in the City of Worcester	\$3.10
Property tax generated by the employees of local businesses that are supported by the colleges	\$4.40
Property tax generated by businesses supported by the colleges	\$3.00
Total	\$10.50
Source: Colleges of Worcester Consortium	
Prepared by: Worcester Regional Research Bureau	

2) Support for Worcester Public Schools and teachers

Below is a summary of the largest partnerships between the Worcester Public Schools and Worcester’s institutions of higher learning. (For a full listing of all partnerships, see the Colleges of Worcester Consortium’s report, “Increasing Educational Capital in Central Massachusetts: Higher Education’s Partnerships with K-12 Schools”.)¹⁶

Clark University: The most expansive partnership between the Worcester Public Schools and a Worcester college is Clark University’s Jacob Hiatt Center for Urban Education, which worked with the WPS to win an \$8 million “schools for a new society” grant from the Carnegie Corporation. It is being used to establish the Worcester Educational Partnership, which is working with the WPS to transform Worcester’s high schools into smaller learning communities within each school. In addition, Clark is a partner with a unique Worcester school, the University Park Campus School, which serves one of Worcester’s most challenged neighborhoods and has produced stellar test scores.¹⁷ Since 1991, Clark has contributed \$4.0 million to operate the Jacob Hiatt Center, \$3.5 million in scholarships and reduced tuition for WPS teachers, and has won over \$12 million in grants for the WPS high school reforms and professional development. Also, Clark has established Professional Development School sites, offering teacher training and development at 5 schools in the South Quadrant.

WPI: WPI is the leading partner in EPiC, the Engineering Pipeline Collaborative which aims to develop K-12 pre-engineering curriculum in the Doherty Quadrant. (In 1999, Massachusetts became the first state in the nation to include Technology/Engineering in its state science curriculum.) WPI supports the Massachusetts Academy of Mathematics and Science which accepts 11th and 12th grade students from across the state and allows them access to WPI resources, teachers, and classes.

Holy Cross has Professional Development School sites in the City’s Burncoat Quadrant, as well as a secondary Teacher Education Program to train new teachers in collaboration with Burncoat High and Middle Schools. Over 150 Holy Cross students volunteered in the WPS through the college’s Student Programs for Urban Development (SPUD).

¹⁶ The full report is available at www.cowc.org/News/Reports/ or by calling the Consortium at (508) 754-7829.

¹⁷ The University Park Campus school requires an essay and parental commitment for admission; the school has had no failures on the 10th grade MCAS in the last two years. The school has been cited by MassINC’s Center for Education Research and Policy as one of only two high performing urban public schools in the state.

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UMass Medical School sustains the Worcester Pipeline Collaborative in the North Quadrant, a program intended to increase interest in health/science careers. In 2002, UMass placed 100 WPS students in internships in health and other fields. In 2001, the pipeline had generated over \$200,000 in grants and over \$50,000 in in-kind services for the program.¹⁸

Worcester State College has established the Latino Education Institute which provides Innovative Services for Latino Adolescents, an after school tutoring program aimed at developing academic skills needed to pass the MCAS, as well as Latino Youth Unlimited which attempts to place students who have dropped out of school in education or job training programs.

This is not an exhaustive list but provides an introduction to the kinds of collaboration that exists between the WPS and the Worcester colleges.

3) Support for students from the Worcester region.

All of the Worcester colleges also contribute scholarship funds for students from the region to attend their institutions. During the 2002-2003 academic year, Worcester colleges contributed \$18 million in institutional (not Federal) support for students from central Massachusetts, and \$5.2 million of that went to Worcester students. Clark University waives tuition for any student from the Main South neighborhood, a contribution of \$270,000 annually.

Figure 11 Institutional Financial Support of Central MA Students

No. of Students from Region in Consortium Institutions	\$ Amount of Support
Students from Central MA	17,013
Students from Worcester	6,223
Chart does not include government funds (Pell Grants etc). Chart includes data from state and community colleges. Only Institutional scholarships and aid are included.	
Source: Colleges of Worcester Consortium	
Prepared By: Worcester Regional Research Bureau	

4) Support for neighborhoods and community service

At the heart of good relationships between the City and the colleges is an acknowledgement that the health of the City is good for the schools and that the success of the colleges is good for the City. Hence, many of the Worcester schools have endeavored to get directly involved in improving the City and the neighborhoods in which they reside.

Clark University is at the forefront of university-led community development projects, with its University Park Partnership which has produced more than 200 affordable rental units, 22 home ownership opportunities for first time buyers and nine commercial storefronts. While supporting these development efforts, Clark has also provided financial incentives for faculty to live in the neighborhood, provided loan guarantees for the Main South CDC, and waived tuition for any neighborhood resident who attends Clark. **Holy Cross** recently formed the South Worcester Development Partnership in order to develop and implement strategies for housing, reuse of brownfields, expansions of college community relations and interactions. One of the largest student organizations on campus is the community service-centered Student Programs for Urban Development (SPUD) which places volunteers in a variety of service outlets throughout the City. Holy Cross contributed \$5,000 to keep the South Worcester playground pool open last summer and has provided funding for a Cookson Park (79 Kendig Street) master plan.

¹⁸ Worcester Pipeline Collaborative. 2001 Annual Report.

5) Economic development

WPI and the Worcester Business Development Corporation are partners in the Gateway Park development initiative, a project that will turn brownfields into taxpaying research and commercial facilities that will expand the tax base in Worcester and provide employment opportunities. WPI has contributed over \$5 million to this project. The partnership plans to establish a \$17 million tech center which would further develop taxable properties that could provide up to 3,000 jobs. In addition, WPI has contributed \$700,000 to support the Goddard GigaPop (internet2) access node in Worcester’s Exchange Facility (a telecommunications building at 474 Main St), which is one of only two internet2 access nodes in New England, increasing Worcester’s appeal for future development of businesses that rely on fiber-optic infrastructure.¹⁹ **WPI, Holy Cross and Clark** have contributed millions to venture capital funds to support emerging Worcester businesses. **UMass Medical School** has worked with the city to develop life-science businesses in Worcester, including the biotech research park on Innovation Drive, in which UMass has invested over \$18 million since 1992. It also leases space on Innovation Drive in tax paying properties that generate over \$300,000 in property taxes annually.

6) Economic impact

In 2002, the Colleges of Worcester Consortium published a study detailing the economic impact of higher education in Worcester and the region and estimated that Worcester institutions of higher learning, their faculty, their students, and visitors spent \$1.134 billion in Worcester County in 2000-2001.²⁰ The colleges pay salaries, and the colleges, students, and visitors all purchase goods and services in the region, creating indirect economic effects. Once indirect spending (spending by persons and businesses that provide goods and services to the colleges) is included, the total economic impact on Massachusetts from the Worcester colleges is \$2.59 billion in a single year.²¹

Summary of college contributions to the City of Worcester

Figure 12 is a list of the major development projects supported wholly or in part by the area colleges. Figure 13 includes a summary of contributions by the colleges to the City of Worcester (both to City government agencies and the City’s economy). This chart is an estimate of the annual contribution that Consortium colleges make to the city through direct tax payments, support for the Worcester Public Schools, scholarships for area college students, and community development activities, as well as the indirect property tax payments by college employees and college supported businesses.

Figure 12

Worcester Economic Development Projects

School and Project	Total Investment
WPI Gateway Park: Biotech Research Park*	\$5,000,000
WPI Gateway Park: Tech Center*	\$17,000,000
WPI GigaPOP(Internet 2)	\$700,000
Clark University University Park Partnership	\$1,450,000
Umass Medical Biotech Park	\$18,450,000
WPI/Holy Cross/Clark Venture Capital Contributions	\$2,000,000
Total	\$44,600,000
*Gateway Park is a partnership between WPI and the Worcester Business Development Corporation.	
Source: Colleges of Worcester Consortium, UMass Medical School, Clark University, Holy Cross.	
Prepared by: Worcester Regional Research Bureau	

¹⁹ Internet2 is the high-speed research-oriented second generation of the internet and is operated by the University Corporation for Advanced Internet Development. Linked through a fiber optic network, it provides consistent high speed data transfer for computer-intensive research and links major research institutions in the United States.

²⁰ The full report is available at <http://www.cowc.org> or by calling the Consortium at (508) 754-6829.

²¹ The Consortium study used the U.S. Department of Commerce Bureau of Economic Analysis Regional Input-Output Modeling System (RIMS II).

Figure 13

Annual Contribution from the Consortium Colleges	
Taxes and fees paid by colleges	
Taxes and fees paid by colleges (from Figure 9)	\$1,583,000
Indirect Property Tax	
Indirect Property Tax Total (from Figure 10)	\$10,800,000
Worcester Public School Partnerships	
Jacob Hiatt Center and Worcester Education Partnership (Clark)*	\$2,200,000
Scholarships and Financial Awards for Regional students	
City of Worcester Scholarship Total (From Figure 11)	\$5,264,017
Community Development Support	
Clark University Park Partnership**	\$130,000
Holy Cross (includes SPUD budget)	\$68,000
Community Development Total	\$198,000
College Police Departments	
College Police Departments (Figure 8)	\$4,100,000
Annual Contribution Total	\$24,145,017
*Only Clark University's education initiatives are included here. \$2.2 million includes annual Carnegie grant contribution.	
**Includes awards for staff and faculty who live in the neighborhood, cost of high school students taking Clark courses.	
Prepared by: Worcester Regional Research Bureau	

V. Other Approaches: Supporting Cities that Support Nonprofits

State-funded solutions

Connecticut and Rhode Island both reimburse municipalities for certain kinds of tax-exempt property through their local-aid formulas. Under such an arrangement, municipalities submit a statement of assessed value for qualifying tax-exempt land and are paid some percentage of their lost tax revenue.²² The Massachusetts Legislature considered and rejected a similarly structured plan in 1997.

In Connecticut, municipalities receive a payment of 77% of the value of tax-exempt land owned by colleges and hospitals and 45% of the value of state-owned land.²³ This can generate substantial revenues in cities with large nonprofits. New Haven, for instance, receives over \$32 million annually from the state-funded PILOT program for land owned by colleges and universities and another \$3 million for state-owned land. If Connecticut’s state formula were applied to Worcester, the City would receive approximately \$18 million for college-owned land and over \$6 million for state-owned land.

Rhode Island has a similarly structured program that returns to cities 27% of the tax revenue that would be generated if nonprofits were taxable. Rhode Island also reimburses cities 27% for certain kinds of state-owned land (hospitals, correctional facilities, veteran’s residential facilities). Worcester would receive approximately \$6 million for college-owned property under Rhode Island’s arrangement.

²² Such programs normally limit the reimbursement to tax-exempt land owned by educational institutions, hospitals, and other cultural institutions.

²³ Connecticut also pays 100% of the tax value of state-owned land used for prisons and 100% for municipalities in which the state owns more than 50% of the property.

These state-funded programs have the advantage of sustaining cities that support large nonprofits without placing additional burdens on the nonprofits themselves as local PILOT programs do. It should also be noted that these institutions benefit the surrounding region, supporting the argument for broader cost sharing of city costs.

Figure 14

If Massachusetts Funded PILOTS through the State Local Aid Formula

Connecticut Model	Tax Valuations 2003	Tax Rate 2003	Lost Tax Revenue	State Aid PILOT Amount
Colleges and Universities (77%)	\$764,016,600	0.03144	\$24,020,681.90	\$18,495,925
State owned (45%)	\$477,648,300	0.03144	\$15,017,262.55	\$6,757,768
Worcester's Total				\$25,253,693
Rhode Island Model				
Colleges and Universities (27%)	\$764,016,600	0.03144	\$24,020,681.90	\$6,485,584
Worcester's Total				\$6,485,584

Challenging tax exemptions at the state level

Pennsylvania has a large number of unofficial PILOTs, largely because Pennsylvania’s tax exemption for nonprofits is weak and inconsistently applied, and nonprofits are susceptible to legal challenges of their tax-exempt status.²⁴ As a result, many institutions make voluntary payments to their host cities, rather than risk losing their tax-exempt status in a legal challenge.

Regional approaches: Regional Asset Districts

In order to compensate cities for lost tax revenue and reward nonprofits that are valued by a region, a few areas have established Regional Asset Districts, where a small regional tax is collected and distributed to municipalities and nonprofit institutions.

Municipalities in the Allegheny County Region Asset District (RAD) have an additional 1% in sales tax which funds the RAD. Those funds are distributed as follows: 50% to selected nonprofit institutions within the region, 25% to the county government, and 25% to municipalities that host the nonprofits (and lose potential property tax revenue as a result). This system currently draws in approximately \$144 million in sales tax which is distributed according the percentages above: \$72 million to nonprofits, \$35 million for the County government, and \$26 million to the cities and towns in the district (over 100 participate). The bulk of the funds for municipalities is distributed to Pittsburgh, which received \$19 million in 2003 (over 50% of the RAD money given to town and city governments). The advantages of such a program are that both nonprofits and the cities that support them benefit and the tax is placed directly on the region where the assets are found and used.

The Denver Region has initiated the Scientific and Cultural Facilities District (SCFD), which is similar to Allegheny, but it does not make direct payments to the municipalities. City representatives have a role in determining what nonprofits will be funded through the District. The District levies a .01% sales tax in the region and distributes \$35 million annually to organizations in seven different counties.

²⁴ In 1985 a Pennsylvania state court decision defined five characteristics of a “purely public charity” all of which have to be met in order to qualify for state tax exemptions including exemption from local property taxes.

VI. Conclusions

While difficult fiscal times always push City leaders to consider new revenue streams, this survey of data regarding PILOTs suggests that the City will be better served by increasing the tax base through economic development projects in collaboration with the institutions of higher learning—using WPI and Clark as models—rather than attempting to tax the City’s nonprofits.

The argument in favor of PILOTs that rests on the claim that the colleges do not “pay their fair share” is difficult to support in light of the data presented in this report. All of the colleges have made commitments to the Worcester Public Schools, and they have invested and continue to invest millions in their neighborhoods and the City of Worcester.

If these institutions contribute to a PILOT program, they may be forced to reduce their existing commitments to these community and business development projects, as Brown University has done in Providence. PILOTs could adversely affect the colleges’ competitiveness since they lack Harvard’s endowment, and they could have to increase tuition and fees. Currently, the City’s skilled and well-educated population helps attract tech-sector and biotech companies. Undermining the colleges’ ability to compete can also undermine Worcester’s ability to attract businesses.

Colleges are an important economic force in Worcester, providing jobs and economic vitality to the City and region in addition to the cultural and educational contributions they make. These institutions should be recognized as assets that should not be taxed, but instead, should be a part of the City’s strategic plan to boost economic development.