



## The Research Bureau

### **Are PILOTs the panacea for Worcester's fiscal woes?**

Under relentless pressure from some citizen activists, Worcester City Councilors have recently asked the City Manager to solve the City's revenue shortfall, in part, by negotiating PILOTs (payment-in-lieu of taxes) with Worcester's nonprofit institutions, especially the colleges, which are exempt from paying property taxes under state law. Not only will this new revenue stream close this fiscal year's budget gap, the argument goes, it will also enable the City Council to reduce property taxes in future years. But is that the likely outcome?

In the two dozen years since the City Council adopted a tax rate for businesses that is almost double what it is for residential property, the value of commercial/industrial property has dropped from 35% of the City's total assessed value to less than 20%. As one instance of the effect of the City's heavy taxation of business property, Donald Melville, retired chairman and CEO of Norton Company (now Saint-Gobain), recalled in a recent letter to the *Telegram and Gazette* (September 2, 2007), this discriminatory tax rate drove Saint-Gobain to build a new plant in Northboro rather than in Worcester, despite having numerous vacant buildings on its Worcester campus. (Saint-Gobain recently announced a further expansion of its Northboro operations.) As Melville points out, the more businesses the City loses, the higher that residential taxes must rise.

Since businesses are already taxed to the legal limit, the City Council now sees PILOTs as the only remaining alternative to cushion property tax increases. Unfortunately, requiring PILOTs would threaten the prosperity of Worcester's newly thriving economy in health care (including biotechnology and related fields) and education, which together account for about 38% of jobs in the City. The only recent new construction, and consequently job growth of any significance, has been at Gateway Park (a project of WPI and the WBDC), UMass Medical School, and the Mass College of Pharmacy and Health Sciences, all non-profit institutions. (Although Gateway Park will include numerous profit-making enterprises that will be paying taxes in the City, its establishment depended critically on a \$45 million investment from WPI in the Life Sciences and Bioengineering building on which it is paying real estate taxes.) Reducing the net revenues of the City's colleges, universities and hospitals through PILOTs will leave those institutions with fewer resources to invest in projects like Gateway Park, the Gardner-Kilby-Hammond area (being revitalized by Clark University and the Main South CDC) and the former Howard Johnson's site (owned by Holy Cross), all of which will lead to more taxable property and more jobs.

Moreover, even if Worcester colleges agree to a PILOTs, there is reason to doubt that homeowners will get property tax relief as a result. In FY06, nonprofits paid more than \$32 million to the City of Boston, more than \$7 million of it coming from educational institutions. According to Boston's assessor, taxes for single-family, owner-occupied homes will increase by 12 percent this year. And in Cambridge, home of both Harvard and MIT, which make payments of over \$27 million, residential taxes will rise by 3%. In other words, the PILOT revenue stream like all other new sources of revenue, gets built into the annual budget for expanding government expenditures, and may not lead to property tax reductions.

While neither the private nor the nonprofit sectors are responsible for Worcester's fiscal woes, the City's future prosperity is integrally tied to their success. Recognizing the contribution that the City's colleges already make to the City's financial success, The Research Bureau recommends that the City and the colleges agree to a set of criteria for contributions that would be most beneficial to the City's financial well-being and qualify as services-in-lieu-of taxes (SILOTs). The Research Bureau suggests the following criteria as a starting point for discussion:

- ❖ The project undertaken increases the City's tax base of Worcester. (Gateway Park and the Gardner-Kilby-Hammond projects qualify under this criterion.)
- ❖ The project helps to increase the City's revenues or decrease its expenditures. (Holy Cross, for instance, paid for the master plan at Cookson Park and maintains the park grounds. It has also established the Nativity School, which assumes responsibility for educating 60 disadvantaged middle-school boys who would otherwise attend the Worcester Public Schools.)
- ❖ The Worcester Public Schools or Worcester municipal government would have to hire employees or reduce services to do what the colleges are currently doing at no cost to the City. The University Park Campus School and the Claremont Academy are partnerships with Clark University, which provides professional development, student teachers, curriculum development, Clark facilities, and free tuition to qualified graduates.

**To read The Research Bureau reports on PILOTs, go to [www.wrrb.org](http://www.wrrb.org)**

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