

Canton Executive Summary

Introduction to the Payment in Lieu of Tax Program (PILOT)

The Town of Canton receives certain PILOT contributions from educational, medical and cultural institutions and other tax exempt entities. These organizations have voluntarily entered into agreements to help cover costs of municipal services rendered to medical facilities, college dormitories, ambulatory buildings, performing arts centers and a myriad of other properties owned by tax exempt institutions where police, fire and public works and emergency medical response services may be regularly rendered. Without PILOT contributions, the cost of such essential services would otherwise be borne exclusively by Canton's residential and commercial taxpayers. While the Town faces continuing fiscal challenges, and with a substantial amount of Canton real estate currently owned by tax-exempt organizations, the Town of Canton views PILOTs as an important and fair source of municipal operating revenue.

Getting Started

The Town of Canton, Board of Assessors, and Board of Selectmen typically initiate discussions regarding a PILOT agreement at the time a tax-exempt organization contemplates either expanding its real estate holdings via new construction or begins construction on its existing property. Organizations filing a building permit with the Canton Building Commissioner (BC) may contemplate PILOT agreements at the early project development stage. In such instances, the BC notifies the Assessors Office of the organization's intention to expand or build new property holdings; the Assessors contact the organization and request a PILOT. Additionally, organizations that do not seek Town project approval enter PILOT discussions with the Assessors Office when the organization acquires property from a for-profit owner and subsequently applies for statutory tax abatement.

The Town's PILOT policy focuses on the expansion of tax-exempt real estate and the replacement of previously taxable property as well as PILOT payments on existing tax-exempt non-profit owned facilities. This policy has the pragmatic advantage of allowing exempt institutions to include the cost of any PILOT payment in the financial planning of new facilities. For instance, a PILOT agreement could take the form of a property wide agreement with provisions allowing for PILOT contribution increases in the event of property alterations. This type of agreement allows for a predetermined formula to be applied to future property acquisitions or expansions and avoids duplicating the entire PILOT process each time a new project is undertaken.

The Agreement Process

When a tax exempt organization demonstrates its intention to expand, improve, replace or acquire a new facility, the institution is sent a PILOT New Project Profile Notice Form by the Assessing Department. The organization is asked to provide on the form data regarding its property, revenue raising capability, intended use of property, and other related information.

Once the Assessing Department reviews the New Project Profile, representatives of both the tax-exempt institution and the Assessing Department begin discussions about the property acquisition, expansion or development, an appropriate PILOT contribution amount, and various other terms to be incorporated into the PILOT agreement.

Once a preliminary PILOT agreement is reached, the Assessing Department makes an initial draft of the PILOT agreement. The draft agreement is then forwarded to the Board of Selectmen and the subject organization for further review and final comment.

After the PILOT agreement is approved by the organization, the Assessing Department, Town Counsel, and Board of Selectmen, the contract is finalized and executed by all parties.

Establishing the Annual PILOT Amount

PILOT payments are based upon the project in terms of property value and the revenue the municipal government forgoes because of the project's tax exempt status. The Town utilizes the following guidelines according to the character and nature of the institution's acquisition and/or development and organizational mission.

Estimating Value – Establishing PILOT Amount

The appropriate value of a tax exempt property is determined by using one of the following value methodologies:

A. Cost Approach To Value

When an institution undertakes a large construction and/or renovation project, the cost involved in the construction provides a basis for determining its value. The Assessing Department establishes a price per square foot based on the cost information provided by the institution.

B. Replacement of Tax Revenue Lost Approach

In situations where the exempt institution purchases property that was previously taxable and makes no renovation to the property, the assessed property value is then used as the basis for the PILOT.

Where possible, the value of the real estate is based on the assessed value of comparable buildings in the same or comparable neighborhood and occupied for a similar use.

Calculating the PILOT Amount

The “tax value” of a project is determined by multiplying the project value by the current tax rate. The commercial or residential tax rate is used, depending on the intended use of the property. Size of the project, construction cost of the project development, comparable taxable buildings, and square feet occupied are among the points considered. The “base PILOT” is determined by multiplying the tax value of the project by 40%. This percentage is used because it reflects the percentage of the Town’s operating budget that is devoted to basic service, e.g., fire protection, police protection, and public works, for which the Town feels tax-exempt institutions, should contribute. This percentage may be adjusted depending on the anticipated consumption of town services or neighborhood impact of the project.

Escalator Clause

In order to mitigate the effects of inflation on service costs, PILOT agreements contain an escalator clause which provides that the agreed upon base PILOT amount increase annually by an appropriate measure of inflation. For an inflation index the town uses the Implicit Price Deflator (IPD) for State and Local Government produced by the Bureau of Economic Analysis at the U.S. Department of Commerce. The IPD measures the purchasing power of the state and local governments and is therefore the most accurate measure of inflation affecting PILOT values.

Additional Provisions

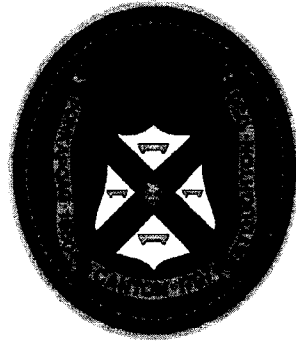
Credits for Extraordinary Community Services Provided by Tax-Exempt Institutions

Several institutions make contributions to Canton charitable organizations, missions, or town sponsored community programs in the form of direct community services or monetary donations. Examples of contributions include academic scholarships, volunteer classes or workshops for community based non-profits or public school programs. The Town will consider a credit for money spent on such contributions for up to 40% of the institution’s then current PILOT (base PILOT) obligation. In order to qualify as a credit, the community service must be a new service or contribution performed above and beyond any service or contribution the institution was providing prior to the execution of the PILOT agreement. The Town annually evaluates and may

approve requests for community service credits on a case-by-case basis. Institutions should be aware that services that support the priorities of the Board of Selectmen – promoting health, recreation and education, expanding jobs and economic development – are preferred.

The Town of Canton recognizes and appreciates those institutions that support the PILOT program. These guidelines aim to provide an open and equitable process for the effective fiscal management of Canton's tax base.

Town of Canton
Tax-Exempt Property
PILOT Program



Published by the
Canton Board of Selectmen

I. Introduction

A. *Overview*

The Massachusetts State Constitution, written in 1780, empowered the legislature to promote the arts, sciences, and natural history of our country by granting “reasonable exemptions” to the institutions that embrace these pursuits. The impact of this law is realized by the erosion of Canton’s tax base.

Canton must be fair and even-handed in managing its 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 and limitations of Proposition 2 ½;
- Increase demands for costly municipal services which require additional revenues;
- The continued decline in federal and state fiscal assistance;
- A precarious state revenue forecast that threatens the state’s ability to provide fiscal relief;
- Real costs of providing municipal services to tax exempt properties;

Throughout the Town’s history, Canton has responded to the rising cost of servicing the growing number of properties which are tax-exempt by increasing property taxes on other classes of taxable property. However, the enactment of Proposition 2 ½ in fiscal year 1982, first drastically cut property tax revenues, and then limited their future growth to 2 ½ percent a year. Canton is no longer able to absorb reduced operating revenue effect of tax-exempt property by increasing revenues from its taxable base.

B. *Purpose*

The increase in the amount of tax-exempt property and the corresponding decrease in Canton’s tax capacity necessitates policy guidelines to manage the tax base effectively. The intent if this policy guideline is to outline a fair, open, and equitable process for managing the tax base through a payment in lieu of tax (P.I.L.O.T.) program. These guidelines represent the product of an ongoing process evolving from extensive dialogue between Town officials, representatives of the tax-exempt institutions and the general public. With a standardized format, the nature of the relationship between the tax-exempts and the Town of Canton is better established, and understood for mutual cooperation.

C. *Benefits of Tax-Exempt Institutions*

The Town of Canton appreciates the contributions of those institutions which currently fulfill the financial, philanthropic, health, educational, and community service benefits.

Tax-exempt institutions bestow many benefits upon Canton, the Commonwealth, and the entire nation. Since many of the benefits associated with tax-exempt institutions are intangible, they are difficult to quantify. In addition to these intangible benefits, tax-exempts offer various community services such as scholarships, free use of institutional facilities, and patient care to the medically indigent. Tax-exempts provide services that contribute to the overall welfare of our Town. To the extent that tax-exempts care for the poor, educate the unenlightened, and uplift the spirit, the Town appreciates and recognizes the benefits of tax-exempt institutions.

Tax-exempt institutions also significantly contribute to the region's economy, especially health and education industries.

While tax-exempt institutions have a positive impact on Canton's economy, it must be remembered that municipal government is unable to reap directly the benefits of this economic activity. Since the Town relies on the property tax as its primary source of tax revenue on the local level, Canton is not allowed to tax incomes, expenditures, or financial assets and, as a result, cannot capitalize on the contributions tax-exempt institutions make to our economy.

D. Cost of Tax-Exempts to Canton

While Canton benefits from its reputation for excellence cultivated by its tax-exempt institutions, it must contend with the increasing municipal costs of providing services to these facilities. First, the Town must absorb the cost of providing municipal services to tax-exempt institutions. Exempt institutions such as colleges, hospitals, museums, and other educational and cultural entities annually attract students, patients, visitors, and tourists. The Town of Canton must bear the entire cost of providing public services to these institutions and their constituents; yet, for the most part the Town is restricted from receiving compensation revenues directly from non-residents who take advantage of the resources of the Town and its institutions.

Secondly, Canton must also absorb the implicit opportunity costs associated with the loss in revenue due to the exempt status of the property. If privately-owned exempt properties were fully taxable, Canton would realize a substantial increase in property tax revenue. The loss of revenue associated with these state mandated exemptions, results in both a restrictive revenue base and a higher tax effort for the Town taxpayers, thus imposing significant economic costs to the Town.

E. Reconciliation of the Benefits and Costs

While the benefits associated with tax-exempt institutions extend far beyond the Town's borders, Canton residents must bear the entire costs associated with these institutions. Where possible, a portion of the municipal costs associated with the tax-exempt institutions should be borne by the constituents of these institutions. The

implementation of a standardized payment in lieu of tax system will enable the Town to address the cost-benefit gap.

II. Guidelines

A. Initiatives

In order to protect itself against the additional loss of taxable property, the Town of Canton proposes the following initiatives:

1. An owner of a currently taxable property who requests tax-exempt status will be requested and encouraged to make a voluntary annual payment to the Town (PILOT Payment),
2. Discussions regarding a voluntary annual payment to the Town will commence at the time a tax exempt organization institutes proceedings to acquire, expand or improve its property;

Seeking payments on existing facilities is also an important part of the Towns PILOT initiative. Certain portions of our PILOT policy has the advantage of allowing exempt institutions to include the cost of any PILOT payment in the financial planning of new or expanded facilities. In addition, this policy includes institutions that, through their intent to expand, demonstrate a favorable financial position and thus an ability to contribute. Therefore, as exempt institutions expand, improve, and replace their facilities, the Town will assist and manage the fiscal impact of PILOTS on these properties with the intent to not impose undue financial pressures on exempt institutions.

In addition to these initiatives which address privately owned tax-exempt properties, the Town of Canton also proposes two additional initiatives regarding state-owned properties:

3. The Commonwealth of Massachusetts will be asked through legislation to compensate the Town for certain state-owned properties at a level beyond the amount currently provided under existing laws;
4. Independent State Authorities, such as MBTA, will be asked to negotiate or increase in lieu of tax payments in recognition of the economic costs they impose on the Town of Canton.

As the single largest owner of property within the Town, state government has a responsibility to adequately compensate the Town for the municipal costs associated with servicing state properties and facilities. The Town will advocate and urge the General Court to consider these important legislative proposals that will reduce the burden that state-owned properties impose on cities and towns.

B. Payment in Lieu of Taxes

The following procedures outline the payment in lieu of tax negotiation process. This process applies to all currently located tax exempt properties in town as well as new tax exempt projects.

1. When an institution demonstrates its intent to expand, improve, replace, or acquire a facility, the institution will be sent a Payment In Lieu of Tax Agreement Application Form. The institution will provide relevant data regarding its property, its revenue raising capability, intended use, etc. When available, the institution will submit its master plan to the Town.
2. Representatives of the tax-exempt institution and representatives from the Town of Canton will meet to discuss the formulation of a payment in lieu of tax agreement;
3. After this initial meeting the Town of Canton will draft the payment in lieu of tax contract. The Town of Canton will follow a standardized format drafting the agreement.
4. After the agreement is approved by the institution and the Town of Canton, the contract is then executed.

C. Guidelines for Establishing the Payment in Lieu of Tax Amount

Historically, payment in lieu of tax amounts have been negotiated using payment schedules based on such factors as the cost of municipal services consumed by the institution, the revenue if taxable on the property, and the income produced by the facility. The wide range of methodologies employed indicates the difficulty of having any formula which accurately weighs all the specific information needed for an equitable payment in lieu of tax agreement. Rather than advocate the use of a single payment mechanism which may not provide the flexibility needed in negotiating an equitable payment in lieu of tax, the Assessors Office will apply the following criteria in determining the in-lieu of tax amount (Assessors shall use their discretion when determining the PILOT Calculation Method based on each individual tax exempt circumstance).

1. The Cost of Providing Municipal Services to the Institution

This is an important measurement of one of the primary costs of the tax-exempt properties. While it may be unreasonable to expect a full tax payment from most institutions, tax-exempts should make a contribution toward the essential municipal services that they consume. The estimation of the cost of servicing an exempt institution provides an excellent starting point for negotiating an in-lieu of tax amount.

2. The Revenue of the Property If Taxable

This is a measurement of the second cost associated with tax-exempt property- the revenue the municipal government forgoes due to the exempt status of the property.

The Town of Canton recommends that the payment for municipal services reflects the percentage that essential services (fire protection, police protection, and public works) comprise of the Town's operating budget. These services consume approximately 40 percent of the Town's Budget. Therefore, the Assessors Office advocates that 40 percent of the revenue of the Town would receive if the facility were fully taxable provide a rational basis for a payment in lieu of tax amount.

3. Building or Campus-wide Agreement

If an institution plans multiple alterations to its entire campus, a preferable form of payment in lieu of taxes would be a campus agreement. A campus agreement allows for a predetermined formula to be applied to future additions.

If an institution plans only a single alteration to its campus, then a building agreement is more appropriate. Such an agreement would allow for payment for the specific building.

4. Nature of the Public Benefit Provided by the Institution

While it is difficult to quantify many of the benefits associated with these tax exempt institutions, it is possible to evaluate certain aspects of the institution's benefits and consider these in the payment in lieu of tax amount. For example, factors such as servicing primarily Canton residents or contributing specifically to the Canton economy will be taken into consideration when formulating the payment in lieu of tax agreement.

5. The Revenue Producing Capabilities of the Institution

This factor is used to determine the extent to which exempts can and should pass the cost associated with the payment onto the beneficiaries of the institution. For example, an institution that is able to charge for its services or is able in some other way to pass the cost associated with the payment for municipal service payment onto the beneficiaries of the exempt institution is better able to make a payment in lieu of tax.

6. Credits for Services Provided by the Tax-Exempt Institutions

Many institutions prefer offering community services (i.e. scholarships, free use of an institution's facilities) to making actual payment in lieu of taxes to the Town. The Town evaluates requests for credits for community services on a case-by-case basis. However, such credits should not exceed 25 percent of the dollar value of a payment for municipal service agreement and will occur at the discretion of the Town of Canton, Board of Selectmen and Board of Assessors.

7. Escalator Clause

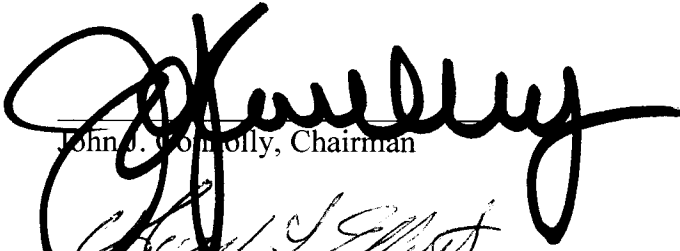
Payment in lieu of tax agreements will include an escalator clause to ensure that today's dollar is worth the same tomorrow, mitigating the effects of inflation. The Assessor's Office recommends the use of Implicit Price Deflator for State and Local Government, produce by the Bureau of Labor Statistics of the U.S.

Department of Commerce (I.P.D). The I.P.D. measures the purchasing power of the state and local government; therefore, it is clearly the most relevant measure of inflation for payment for municipal service agreements.

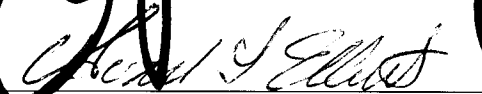
III. Summary

Once again, The Town of Canton thanks those institutions which currently contribute to our community. Town government and exempt institutions must maintain a cooperative partnership to ensure Canton's fiscal health.

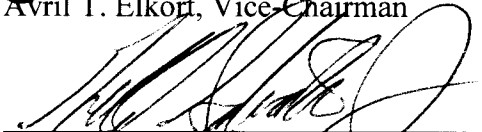
The problems associated with tax-exempt property are some of the most complex and controversial fiscal issues that face the Town of Canton. However, given that the property tax is Canton's only major source of tax revenue and that this source is restricted by Proposition 2 1/2, the large percentage of exempt property imposes significant economic costs on the Town. Thus, these guidelines provide a fair, open, and equitable process for the effective fiscal management of Canton's tax base, and shall serve as the basis for determining the terms and conditions of any PILOT agreement reached between the Town of Canton and any eligible non-taxable entity.



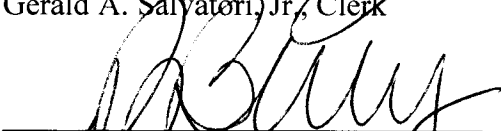
John J. Conolly, Chairman



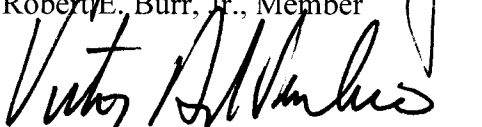
Avril T. Elkort, Vice-Chairman



Gerald A. Salvatori, Jr., Clerk



Robert E. Burr, Jr., Member



Victor D. Del Vecchio, Member