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Local Government Interest in and Justifications for Collecting Payments-in-Lieu of (Property) Taxes from Charities

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Abstract: We use data from a survey of Indiana local government officials (LGOs) to explore their attitudes towards PILOTs for major types of charities. We consider whether these attitudes are related to local economic conditions, political factors, LGOs' attitudes towards the relationship between local government and nonprofits, and the extent to which LGOs are personally involved with nonprofits as leaders, members or volunteers. We also explore whether these attitudes vary by type of charity involved (hospitals, schools/universities, churches) and present preliminary data on LGO agreement with various justifications for PILOT policies.

Keywords: charities, property taxes

Media reports confirm that nonprofit property tax exemption has become a major policy issue in many communities. From Maine to California, at least 154 jurisdictions in 27 states have sought to obtain some form of property taxes from charities whose real estate holdings traditionally have been exempt from such taxes (Brody, Marquez, and Toran 2012). These policies have targeted mainly hospitals and universities, but also museums, camps, and other charities with substantial real estate holdings.

Efforts to collect some form of *payments in lieu of taxes* (PILOTs) are often justified as necessary to relieve strained local government budgets by finding new tax revenue, especially in the wake of the Great Recession and the collapse of the housing market. The former threatened local sales and income tax collections and the latter property tax collections. Other arguments have focused

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on tax equity issues, e.g., that major charitable institutions make extensive use of fire, police, sanitation, streets and other public services that are financed at least in part by real estate taxes. As a result, other non-exempt property owners have to pay higher taxes than they would if all real estate properties were taxed.¹ However, the initiatives may also reflect a more fundamental shift in attitudes towards charities as no longer automatically deserving the benefits and trust to which they have become accustomed.

The estimated foregone revenue (or tax expenditures) resulting from non-profit property tax ranges from \$9 to \$32 billion, not counting religious organizations (Bowman and Fremont-Smith 2006; Sherlock and Gravelle 2009). Such numbers explain why charities are tempting targets for local governments seeking new revenues. However, they also hint at the economic and political clout that charities may hold in local communities and why PILOT policies are likely to reflect political considerations at least as much as fiscal ones. Media reports confirm that PILOT proposals have met with considerable resistance and controversy in the communities where they have been introduced.

We explore these issues by examining data from a survey of local government officials (LGOs) in Indiana on their attitudes towards PILOTs for major types of charities. Previous research has examined the adoption of PILOT policies but not the attitudes of policy makers who formulate and enact them. We do so here and consider whether these attitudes are related to four major explanatory factors: local economic conditions, political factors, LGOs' attitudes towards the relationship between local government and nonprofits, and the extent to which LGOs are personally involved with nonprofits as leaders, members or volunteers.

Also new are efforts to examine differences in attitudes towards major types of charities – hospitals, schools or universities, and churches – and whether attitudes with regard to PILOTs differ from attitudes towards requiring charities to provide *services in lieu of taxes* (SILOTs). Research on the latter is very limited and appears mainly as an afterthought to PILOT studies. We therefore explore two overarching hypotheses, namely that the factors predicting attitudes towards PILOTs will be similar across all three major types of charities and that the factors predicting attitudes towards PILOTs will be similar to attitudes towards SILOT.

Our data come from the *Intergovernmental Issues in Indiana* survey conducted periodically by the Indiana Advisory Commission on Intergovernmental Relations (IACIR) to assess the attitudes of local government officials in

¹ Usually ignored in these debates is the fact that property tax exemption for charities also introduces inequities among charities, since charities that rent space pay a share of the property's real estate taxes as part of the rent.

Indiana – mayors, county auditors, county and town council members, county commissioners, school board members, and township trustees – on key community issues and major policy issues. We rely here on data from the 2010 survey of 1,150 Indiana LGOs with a response rate of 35% as well as some preliminary data from the 2014 survey. The 2012 survey encountered some technical problems, and is excluded here for reasons of space. We present also preliminary data from the 2014 survey.

Each survey contains questions on whether LGOs favor requiring PILOTs (or SILOTs) from particular types of charities (nonprofit hospitals, schools and universities, or churches in 2010). Other survey questions capture several explanatory variables: whether the LGOs hold elected positions and whether they say local government depends on nonprofit service providers. For 2010 two three-item scales, ranging from 5 (agree strongly) to 1 (disagree strongly), measure officials’ beliefs on whether local government should control nonprofits or whether nonprofits should be active participants in local government. For 2014 we have questions on the importance of a variety of justifications for PILOT policies. Finally, we have data on the extent to which LGOs are involved with nonprofits as members, leaders, or volunteers, and how important they perceive this involvement to be for their own work as government officials.

We merge these survey responses with county-level information on economic distress (percent unemployed), political engagement (percent voter participation), and total nonprofit assets from Form 990 (The Urban Institute 2014). We also consider whether respondents are from urban communities and from (or adjacent to) counties with PILOT programs. We use logistic regression analysis with county-level clustered robust standard errors to test the hypotheses for each of the dependent variables.

We have completed our analysis of the 2010 survey and draw seven major conclusions so far. *First*, although only a handful of local jurisdictions in Indiana have actually imposed PILOTs, Figure 1 shows widespread interest in such policies. About half of local government officials support requiring PILOTs

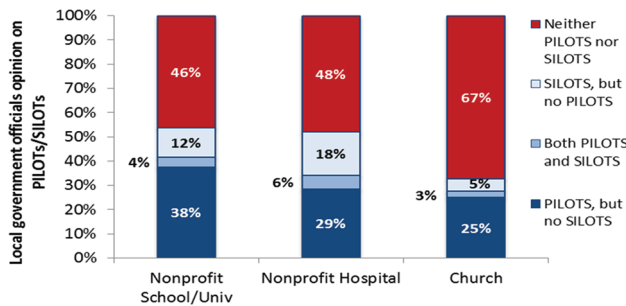


Figure 1: Local government officials’ opinions on payments or services in lieu of property taxes by type of charity. Source: 2010 IACIR Survey.

and/or SILOTs from universities/schools and hospitals and about one-third do so for churches. The officials appear to be disproportionately interested in imposing PILOTs on universities or schools (38% vs. 25–29% for the other two types of charities) and SILOTs on hospitals (18% vs. 12% for universities/schools and 5% for churches).

Second, focusing only on PILOT policies for now, our models are moderately successful in predicting attitudes towards such policies. As Appendix I shows, we account for 12–17% of total variance. While that may seem modest at best, logit models examining social issues are generally no more robust than in our analysis.

Third, local economic conditions appear to be relevant. As predicted, controlling for all other factors, LGOs are more likely to support PILOTs in counties experiencing economic distress as measured by county unemployment. Support is also higher when LGOs reside in urban counties and in counties with higher concentrations of property-holding nonprofits, as measured by total value of nonprofit asset. The latter holds also if we use the value of nonprofit land and equipment, rather than total assets.

Fourth, some political factors are also important. In late 2010 (at the time the LGO survey was in the field), Indiana voters endorsed by a wide margin (72%) a constitutional amendment to cap property taxes, indicating that tax resistance is pervasive. Holding all other factors constant, we find LGOs from counties with higher voter turnout in 2010 are more likely to support PILOTs than their counterparts, suggesting they are sensitive to voter interests in property tax policies. We also explore whether LGOs holding prominent elected positions, such as mayors or council members, might be sensitive to the political pressure that major charitable institutions can mobilize in local communities, but find no consistent patterns.

Fifth, the officials' professional/political nonprofit philosophy matters – at least to some extent. Those who believe there should be more governmental control over nonprofits tend to prefer PILOTs from all three types of charities. The impact of personal nonprofit involvement is less consistent. Those who are personally involved with a greater variety of nonprofits (and therefore presumably have greater in-depth understanding of the role that nonprofits play in local communities) are more likely to support PILOTs, not less likely as we had thought.

Sixth, the attitudes of LGOs depend to some extent on the type of charity involved. The patterns outlined above are most pronounced for hospitals, less so for universities or schools, and least for churches. Seventh, LGO attitudes to SILOTs appear to be shaped by different concerns than those related to PILOTs. These latter two findings are particularly important, since most scholars and commentators do not distinguish among types of charities. They also usually treat PILOTs and SILOTs as synonymous with one another. Our research suggests that confounding either or both of these distinctions is misleading.

Finally, our analysis focuses on attitudes towards PILOTs and SILOTs, rather than on whether such policies exist in local communities. Only a few PILOT agreements exist in Indiana, but we find no differences between the attitudes of LGO's located in PILOT communities or adjacent to them and all other counties. Focusing on attitudes rather than existing policies allows for a deeper exploration of nonprofit taxation and inter-sectoral relations. Indeed, details about existing or proposed PILOT policies are very difficult to come by, suggesting that the actual payment of property taxes is not the primary consideration. Rather, PILOT policies are at least in part symbolic politics – occasions for local government officials and spokespersons of local charities to negotiate their mutual dependencies and relationships.

It is therefore particularly important to get a better understanding of how LGOs rationalize their positions on PILOT and SILOT policies. We have preliminary results from the 2014 survey which asked respondents to indicate how important each of ten issues are to them when thinking about imposing PILOTs on nonprofits. These questions were designed to capture several key arguments policy makers have used when discussing or proposing such policies, most notably fiscal justifications (the need for more tax revenues), but also equity issues. The latter take several forms. Some arguments focus on the fact that large charities (hospitals and universities in particular) use high volumes of municipal services (fire, police, sanitation, etc.) that are financed at least in part from property taxes. Consequently, their exemption from property taxes imposes tax burdens on other property owners. Other equity issues focus more explicitly on unfair competition and whether exemption gives nonprofits an unfair advantage over for-profit businesses.

We also asked about considerations that might be seen as more supportive of charities, such as how important it is to LGOs whether nonprofits have the financial ability to pay taxes, whether property tax exemption is a mechanism by which local government can support nonprofits, and whether LGOs are concerned about financial burden PILOTs would impose on nonprofits. Finally, we asked how important it is to LGOs what attitudes constituents have about PILOTs as well as whether it is important to consider the costs and logistics of implementing such policies.

Figure 2 presents a preliminary analysis of the responses to these questions in the 2014 survey. We have grouped the ten items into three broad categories: considerations that have relatively negative implications for nonprofits (first five columns), considerations that have relatively positive implications for nonprofits (last four columns), and one intermediary consideration (what constituents think). As the figure shows, the need for tax revenues is thought to be very important when considering PILOTs by almost two-fifths of the LGOs and more

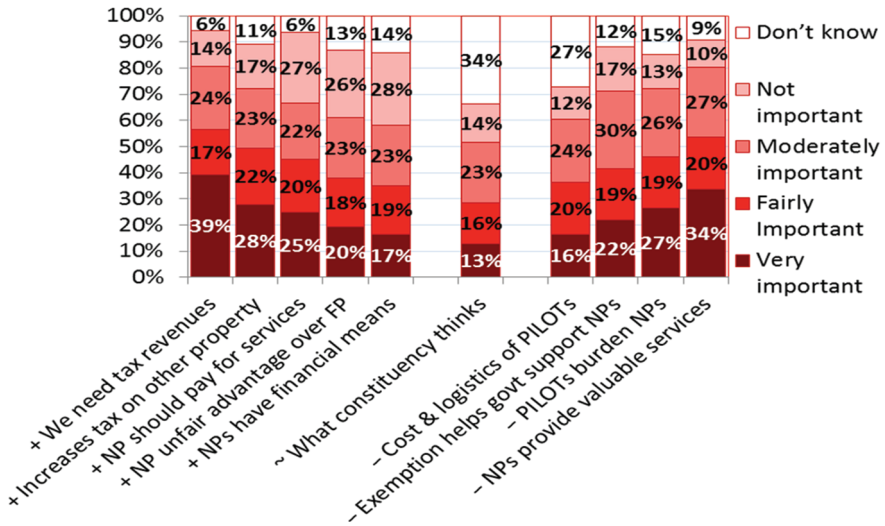


Figure 2: Importance of issues for requiring PILOT payments from nonprofits (including DK), *N* = 488–511.

Source: 2014 ICIR Survey.

than half (54%) say it is at least fairly important. On the other hand, roughly the same (54%) also say it is at least fairly important that nonprofits provide valuable services and more than a third (34%) say it is very important.

The remaining eight considerations appear to be somewhat less important than these two, although the next two on each side are close. More than a quarter thought it an important consideration whether charitable tax exemptions increases taxes on other property owners and 50% say that is at least fairly important. However, another anti-PILOT argument has about equally strong support: 27% say it is a very important consideration that PILOTs would burden nonprofits and 48% say it is at least fairly important. Notably, LGOs were least about the importance of the costs and logistics of implementing PILOTs (27% said they didn't know how to assess that factor) and what their constituents think about such policies (33% said they didn't know the importance of that consideration).

These 2014 survey responses are preliminary only and we do not yet have a fully cleaned set of survey responses from the 2014 survey (most notably responses to questions about support for PILOT policies in that survey). As a result, we are not yet able to assess how these policy rationales relate to support for PILOT policies or play themselves out across different types of charities. However, it seems clear that nonprofit leaders and philanthropic policy makers should pay careful attention to budgetary constraints faced by units of local government.

Equally important, they should be ready to document the valuable services they provide to local communities, since this appears to be an argument policy makers are very ready to consider. They should also seek to demonstrate how PILOTs would burden their ability to provide such services and explain how the exemption from property (and other) taxes is an important way in which government help nonprofits provide such services. Those arguments – and mobilizing important constituency groups to champion these positions – may go some distance in overcoming other pro-PILOT arguments that may otherwise carry the day as LGOs consider the pros and cons of implementing PILOT policies.

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Appendix. Summary of multivariate logistic analysis

Independent variables (hypothesized relationship)	Support for PILOTs			Support for SILOTs		
	Hospital	School	Church	Hospital	School	Church
Economic conditions						
Unemployment (+)	+	(+)	(+)		(-)	
Urban county (+)	+	+	+			
NP assets (+)	+	(+)	+			-
Political factors						
Voter turnout (+)	+	+		(-)		-
Mayor or council member (-)						
Political/professional NP attitudes						
Gov't control of NPs (+)	+	+	+			+
NP involvement in gov't (-)		(-)		+		
LGO use NP for services (-)				-		
Personal involvement with NPs						
# of nonprofit areas (-)			+	+	+	
NP activity very import. (-)	(-)					+
Significance	+	+	+	+	+	
Pseudo R-squared	11%	17%	14%	18%	21%	12%
Number of cases	142	140	223	96	80	122

Notes: Plus and minus signs in the body of the table indicate whether the coefficient is significant ($p < 0.05$ level). Coefficients with borderline significance ($p < 0.10$) are in parenthesis.

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Note: This analysis is based in part on McGiverin-Bohan et al. (2014).