

## **Indiana Local Government Officials: Exploring Support for PILOTs (Payments-in-Lieu of Taxes)**

**Kirsten Grønbjerg and Kellie McGiverin-Bohan with Lauren Dula and Rachel Miller**

Briefing Number 5, Spring 2016

This briefing explores reasons why Local Government Officials (LGOs) in Indiana may support requiring charities that own real estate to make payments in lieu of [property] taxes (PILOTs). Using survey and administrative data,<sup>1</sup> we find that indicators of economic distress, tax equity, political forces, relationships between nonprofits and local government, and LGOs' personal involvement with nonprofits may influence LGOs' support of PILOTs.

This is the fifth in a series of briefings from the *Indiana Nonprofits: Scope and Community Dimensions* project that focuses on nonprofit-government relations in Indiana. The first four briefings explored LGOs' attitudes toward 2-1-1 services, PILOT and SILOT policies, collaboration between local government and nonprofits, and LGO trust in nonprofits. These briefings are available at the project website: [www.indiana.edu/~nonprof/results/specialsurveys/localgovt.php](http://www.indiana.edu/~nonprof/results/specialsurveys/localgovt.php).

This briefing expands upon briefing No. 2 where we focused on the extent to which LGOs support PILOTs and SILOTs (services in lieu of taxes) for *particular types* of charities or government entities.<sup>2</sup> PILOT policies have received more attention nationally and are of most concern to nonprofits because they impose cash

### **Quick Facts**

- PILOTs, or “payments in lieu of taxes,” are payments (e.g., fees) that charities (and some other organizations) may be required to make to local governments in lieu of taxes. SILOTs are “services in lieu of taxes.”
- When only considering PILOT fees, 41 percent of LGOs support requiring nonprofit universities/schools to pay PILOTs to local communities, 34 percent support hospital PILOTs, and 27 percent support church PILOTs.
- Controlling for all other factors, LGOs are more likely to support PILOTs if their communities are undergoing economic distress, have instituted tax increment financing, are urban counties, or have high nonprofit assets. Support is also high for LGOs from counties with high voter turnout and those who believe government should exert control over nonprofits.
- Factors that predict LGO support for PILOTs is fairly consistent for universities/schools, hospitals, and churches.
- When asked specifically which considerations were important for requiring PILOT policies, LGOs gave most weight to the need for tax revenues and whether nonprofits provide valuable services.

outlays. This briefing therefore focuses exclusively on PILOT policies and explores possible reasons why LGOs may support such policies.

### **What are PILOTs and why are they important?**

Under the Indiana State Constitution, the General Assembly may provide property tax exemptions for “property being used for municipal, educational, literary, scientific, religious or charitable purposes.”<sup>3</sup> Such exemptions benefit charitable nonprofits that own real estate and implicitly acknowledge the public value of their services to local communities.<sup>4</sup>

Nationally, the estimated foregone revenue (or tax expenditures) from nonprofit property tax ranges from \$9 to \$32 billion, not counting religious organizations.<sup>5,6</sup> Similar estimates are not available for Indiana, although the aggregate dollar value of the exemption is likely to exceed \$200 million for the state as a whole.<sup>7</sup>

In 2012, Indiana’s 3,231 units of local government relied on property taxes for about 23 percent of their total revenues and 80 percent of all tax revenues under their control. This is down from respectively 31 and 90 percent in 2007 and reflects the decline in property taxes from \$8.4 billion to \$6.4 billion during that period.<sup>8</sup> Consequently, the property tax cap that Indiana voters approved in 2010 means that many local governments in Indiana have encountered new challenges in providing important services, most notably for local public schools and police and fire services.

Faced with decreasing revenues and growing budgetary pressures, especially in the wake of the Great Recession, it is not surprising that many municipalities have begun to reconsider nonprofit property tax exemptions.<sup>9</sup> So far, at least 154 jurisdictions in 27 states have sought to impose mandatory fees for municipal services from organizations owning real estate

that is otherwise exempt from property taxes.<sup>10</sup> Indiana is typical of most states in having only a handful of documented PILOT policies in place.<sup>11</sup> Most such policies target hospitals, universities, museums, camps, and other charities with substantial real estate holdings

As Matt Greller, executive director of the Indiana Association of Cities and Towns, noted: “[w]e’re having to look at the public services nonprofits use and how we can adequately cover those costs... We can’t give them away for free any longer.”<sup>12</sup>

Not surprisingly, many nonprofits are concerned about sentiments similar to those of Matt Greller. In Indiana, these concerns have increased in light of recent PILOT policy discussions by the Indiana legislature.<sup>13</sup> As a result, the Indiana Association of United Ways has added this topic to its list of top policy priorities for 2016 and issued a statement on nonprofit property tax exemption.<sup>14</sup>

Other nonprofits, including the National Association of Independent Schools, vigorously oppose mandatory payments, pointing to their nonprofit tax-exempt status and the important community services they provide.<sup>15</sup> Similarly, the National Council of Nonprofits ranks PILOTs, taxes and fees as first among its list of “Clear and Present Dangers” to the social compact between governments and nonprofits.<sup>16</sup>

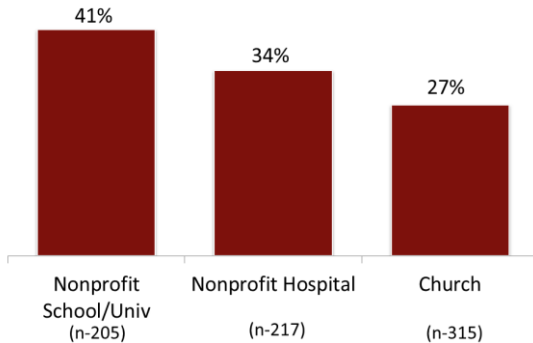
### **Which charities should be subject to PILOTs?**

**Local government officials were more in favor of requiring PILOTs from universities and schools than hospitals or churches.**

More than two-fifths (41 percent) of local government officials said they were in favor of requiring PILOTs from private universities or schools, compared to about a third (34 percent) who said hospitals should pay (Figure 1). Surprisingly, given the separation of church and

state in the U.S., about a quarter (27 percent) of LGOS said churches should make payments in lieu of real estate taxes.<sup>17</sup>

**Figure 1: Percent of Indiana LGOs Supporting PILOTS for Three Types of Charities**



### What explains LGO support for PILOTS?

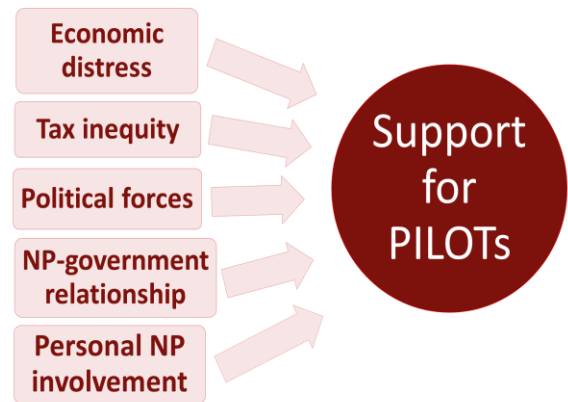
We turn now to a closer look at what may explain support for PILOTS by Indiana LGOs. Specifically:

- Are LGOs more likely to support PILOT policies if their communities are facing **economic distress**?
- Is support for PILOTS related to **tax equity** issues, such as whether nonprofits have the ability to pay or own larger shares of property?
- Do **political forces** matter, such as voter participation or the type of government position held by the LGO?
- Does it matter what LGOs think about the **relationship between nonprofits and local government**?
- Is the support by LGOs for PILOTS related to their own **personal involvement with nonprofits**?

Figure 2 shows how we expect these factors to operate. We use responses to the 2010 IACIR survey of LGOs together with county-level information about the communities the LGOs represent to capture the particular explanatory factors. We then subject these measures to multi-variate analyses to determine whether

the combination of factors predict LGO support for PILOT policies for universities or schools, hospitals, and churches.

**Figure 2: Model Explaining LGO Support for PILOT Policies**



### *Is economic distress related to support for PILOTS?*

Declining federal and state aid, efforts to reduce taxes (such as tax caps), and decreasing tax bases have squeezed the budgets of many local governments. The Great Recession and the collapse of the housing market further aggravated fiscal distress for local governments by reducing receipts from sales, income, and property tax collections.

Our multivariate analysis shows that three measures of local economic distress are important in LGO attitudes. Specifically, **LGOs are more likely to support PILOTS if their counties have *high levels of unemployment*, are *urban counties*, or have already used *TIFs in response to the property tax cap*** (the latter is only marginally important for predicting support for PILOTS from churches).

In an attempt to test if LGOs will be more likely to support PILOTS if their communities face economic distress, we considered the *level of unemployment* or whether LGOs report *using Tax Increment Financing districts (TIFs) in response to the Property Tax Cap* approved by

votes in 2010 (about one-third of LGO respondents report using TIFs in this manner).

We also thought local governments in *urban communities* might face greater economic distress since they are likely to have a greater concentration of property-holding charities (hospitals, universities and schools, churches, cultural institutions, and large social service agencies) than their rural counterparts.

Figure 3 shows the results for each type of charity but includes only those measures that are important in the final analysis.

**Figure 3: Analysis predicting LGO support for requiring PILOTs for hospitals, educational institutions, and churches**

Support for PILOTs		Hosp	Educ	Church
Local economic conditions	Unemployment (+)	+	+	+
	Urban community (+)	+	+	+
	Recent TIF (+)	+	+	(+)
Tax equity concerns	Total NP assets	+	+	+
	NP land as % of assessed value (+)		(-)	
Political forces	Voter turnout (+)	+	+	(+)
	County-level LGO (+)			+
Nonprofit-government relations	Use nonprofit contracting (-)			-
	Gov't & NP should collaborate (-)		-	
	Gov't should control NPs (+)	+	+	+
Personal NP involvement	# of volunteer areas (-)			+
	Importance of volunteering (-)	-		
Overall Model		+	+	+

### ***Is support for PILOTs related to tax equity issues?***

In addition to pressures from economic distress, tax equity concerns may play a role. Controlling for all other factors, **we find that support for PILOTs is higher among LGOs from counties where *nonprofits assets are high***, but measures of horizontal equity do not seem to matter. Indeed, support for PILOTs for educational institutions is marginally lower if nonprofits own a high proportion of local property.

When examining questions of equity, we considered LGO concerns for both vertical and horizontal equity. Vertical equity refers to a nonprofit's ability to pay property taxes, and here we used total nonprofit assets as a proxy to determine nonprofit ability to pay.

Horizontal equity refers to a situation in which tax burdens are distributed equally across equally-able payers. We used the share of local property owned by nonprofits to indicate the tax burden that charitable property tax exemptions place on other property owners. We also consider whether the county already has a PILOT in place since horizontal equity would suggest that other charities might then be required to make similar payments.

### ***Is support for PILOTs related to political concerns?***

Controlling for all other factors, **support for PILOTs for universities and schools, hospitals, and churches is stronger among LGOs from counties with *high voter participation***. We also find that ***county-level LGOs are more likely to support PILOTs, but only for churches***.

Given the stakes involved for both local government and charities, LGOs are likely to face complex political interests when weighting PILOTs. In Indiana, pervasive resistance to property taxes surfaced in the 2010 election when 72 percent of voters endorsed a constitutional amendment to cap property taxes. Thus, we are not surprised that LGOs in more politically active counties, as indicated by voter participation in the 2010 November election, are more likely to support PILOTs. Additionally, county officials administer property taxes and may be most concerned about voter preferences.

### ***Does it matter how LGOs view government-nonprofit relationships?***

Controlling for all other factors, we find that

**support for PILOTs for all three types of charities is significantly higher among LGOs who agree that local government should be able to exert some control over nonprofits. We also find that LGOs who report contracting with nonprofits to deliver services are less likely to support PILOTs, but only in the case of educational institutions.**

Local governments collaborate with nonprofits in a variety of ways, such as contracting with them to deliver services or inviting them to participate in task forces. It is therefore reasonable that LGOs who say their unit of government contracts with nonprofits to deliver services or who in general endorse collaboration between nonprofits and local government will be less likely to support PILOTs.

However, tensions may also arise, especially if collaboration is less well developed or institutionalized. Under these circumstances, we would expect LGOs who believe government should exert control over nonprofits to be more likely to support PILOTs.

### ***Does it matter whether LGOs are personally involved with nonprofits?***

We find that **support for PILOTs is lower among LGOs who say their personal volunteer activities are important for their own government work, but only in the case of PILOTs from hospitals**. Contrary to expectations, **support for PILOTs from churches is higher among LGOs who are involved in a large number of non-profit areas**.

In addition to their political and professional attitudes, LGOs' personal nonprofit experiences may influence their support for PILOTs. However, given the mixed findings, it is unclear how these experiences affect LGO attitudes.

### **Conclusion and Policy Implications**

Our analysis focused on attitudes towards PILOTs rather than on whether such policies exist

in local communities. While there are only a few known PILOT agreements in Indiana, our findings suggest that support for such policies is relatively widespread and follows predictable patterns. In fact, Indiana state legislators have considered several PILOT-related policies and recently passed a bill restricting PILOT agreements in TIF areas.<sup>18</sup> It is therefore important to better understand how LGOs rationalize their positions on PILOT policies.

We have preliminary indications of what LGOs think from the 2014 IACIR 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 use when discussing or proposing such policies.

These arguments include most notably fiscal justifications (the need for more tax revenues), but also equity issues. The latter takes several forms. Some arguments focus on the fact that large charities (hospitals and universities in particular) use high volumes of municipal services (e.g., fire, police, sanitation) that are financed at least in part from property taxes. Consequently, the exemption of these charities from property taxes imposes non-trivial 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 pro-charities, such as how important it is to LGOs whether nonprofits have the financial ability to pay taxes, whether property tax exemption allows local government to support nonprofits, and whether LGOs are concerned about the financial burden PILOTs would impose on nonprofits. Finally, we asked how important it is to LGOs how their constituents perceive PILOTs and whether it is important to

consider the costs and logistics of implementing such policies.

Figure 4 presents a preliminary analysis of the responses to these questions in the 2014 survey. We 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).

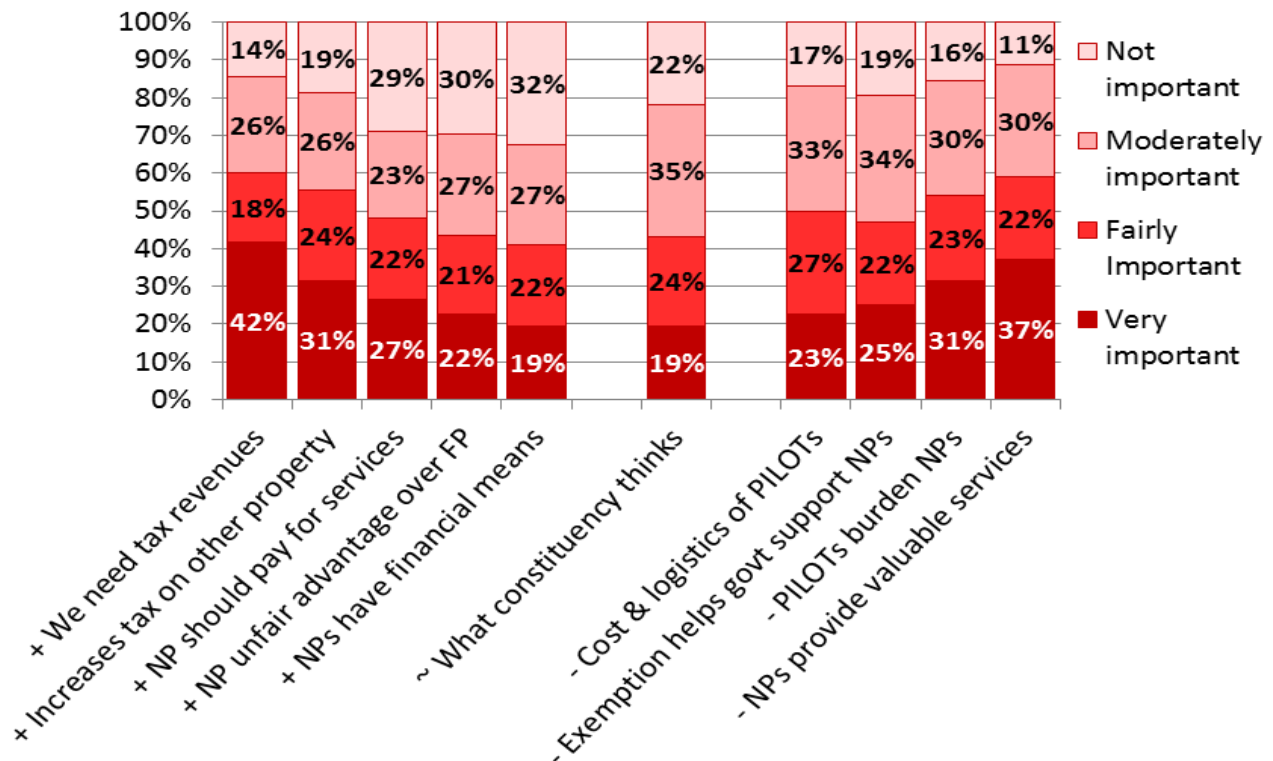
As the figure shows, **the need for tax revenues is considered very important** by almost two-fifths of the LGOs and more than half (54 percent) say it is at least fairly important. On the other hand, about the same (54 percent) say **it is at least fairly important that nonprofits provide valuable services** and more than a third (34 percent) say it is very important. The remaining eight considerations appear to be significantly less important than the need for tax

revenue and the services nonprofits provide.

These data are only preliminary, and we do not yet have a fully-cleaned set of survey responses from the 2014 survey. As a result, we do not know how any of the policy rationales included in Figure 4 relate to support for PILOT policies or how they play themselves out across different types of charities.

However, it seems clear that nonprofit leaders and philanthropic policy makers should pay careful attention to budget constraints faced by units of local government. Equally important, they should be ready to document the valuable services charities provide to local communities, since this appears to be an argument policy makers are ready to consider. Finally, they should be able 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 helps nonprofits provide

**Figure 4: Importance of Issues for Requiring PILOT Payments from Nonprofits (N-488-511)**



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[www.indiana.edu/~nonprof](http://www.indiana.edu/~nonprof)

such services.

In the final analysis, there are other, less damaging avenues for alleviating fiscal constraints of local government than imposing PILOTs on local charities. As noted by the Indiana Commission on Local Government Reform in 2007,<sup>19</sup> Indiana's system of local government is highly inefficient and streamlining the system would result in significant cost savings.

## Acknowledgements

This analysis of local government and nonprofit sector relations is a joint effort with the Indiana University Public Policy Institute, the School of Philanthropy, and the School of Public and Environmental Affairs at Indiana University. We seek to help community leaders develop effective and collaborative solutions to community needs and to inform public policy decisions by providing baseline information about the Indiana nonprofit sector.

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## NOTES

<sup>1</sup> In 2010, the Indiana Advisory Commission on Intergovernmental Relations (IACIR) surveyed nearly 1,150 local government officials including mayors, county auditors, county commissioners, county and town council members, school board members, and township trustees. The response rate was 35 percent. A summary of findings from the full 2010 survey can be found at the IACIR website: [www.iacir.spea.iupui.edu](http://www.iacir.spea.iupui.edu) [Palmer, J., Wyeth, D., with Chang, J. (2010). Intergovernmental Issues in Indiana: 2010 IACIR Survey. Indiana Advisory Commission on Intergovernmental Relations.]. We also use preliminary data from the 2014 survey of Indiana LGOs which included questions that explicitly probed for why LGOs

We thank members of the Advisory Board of the Indiana Nonprofit Sector: Scope and Community Dimensions project for helpful comments and suggestions. We are particularly grateful to Tom Rugh and Lucinda Nord of the Indiana Association of United Ways and Bob Cross of United Way of Central Indiana for helpful comments on our original analysis plan and to Leslie Lenkowsky for his support in developing these and other nonprofit-related questions for the IACIR survey.

This briefing is based in part on a more extensive and technical analysis of LGO support for PILOT and SILOT policies forthcoming in the *Public Administration Review*.<sup>20</sup> Several other abbreviated analyses, using a different set of explanatory factors, were published in *Academy of Management Proceedings (2014)*<sup>21</sup> and in *Nonprofit Policy Forum (2016)*.<sup>22</sup>

## Suggested Citation

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might support PILOT policies. We are grateful for comments and suggestions from other members of the research team: Rachel Breck, Maxine Laszlo, and Lauren Shaman. We also thank Justin Ross for technical advice on estimating property taxes avoided by Indiana charities (see note 7 below).

<sup>2</sup> This briefing (#4) focuses on LGOs that indicated support for PILOTs only or in combination with SILOTs, and adds additional categories to the analysis, so the data reported are slightly different than in briefing #2.

<sup>3</sup> Article 10, Section 1 of the Constitution of the State of Indiana, (online at <https://iga.in.gov/documents/351228d2>)

<sup>4</sup> National Council of Nonprofits (2015). “2015-2016: The Years in (P)Review” (online at <https://www.councilofnonprofits.org/2015-2016-years-in-preview>).

<sup>5</sup> Bowman, Woods, & Marion Fremont-Smith (2006). *Nonprofits and State and Local Governments*. In Elizabeth T. Boris & C. Eugene Steuerle (Eds.), *Nonprofits and government: Collaboration and conflict* (2nd ed., pp. 181-218). Washington, D.C.: The Urban Institute Press.

<sup>6</sup> Sherlock, Molly F., and Jane G. Gravelle. (2009). *An Overview of the Nonprofit and Charitable Sector*. Washington, DC: Congressional Research Service.

<sup>7</sup> The total assessed value of all exempt property in Indiana is thought to be around \$17 billion (see Attachment C for IACIR Meeting, November 13, 2015, online at [www.iacir.spea.iupui.edu/documents/AttachmentC-CountyTax2014.pdf](http://www.iacir.spea.iupui.edu/documents/AttachmentC-CountyTax2014.pdf)), or slightly more than 4 percent of total real property gross assessed value for Indiana (\$403.1 billion). Almost half of the assessed value (46 percent) of exempt parcels are owned by churches or other religious organizations and the rest by a range of other institutions, including private universities, hospitals and other major charitable institutions, but also property owned by units of federal, state and local government and parcels in the Classified Forest and Wild Land Program. The median property tax rate for Indiana counties has been around 1.9 percent over the 2010-2015 period (see [www.stats.indiana.edu/dms4/propertytaxes.asp](http://www.stats.indiana.edu/dms4/propertytaxes.asp)). However, property rates vary by type of parcel (e.g., agriculture, homestead, commercial) and from one township to the next, so the amount of property taxes avoided by charitable nonprofits is unknown, but likely to exceed \$200 million at the state level.

<sup>8</sup> U.S. Census Bureau, *2013 Census of Governments: Finance - Surveys of State and Local Government Finances* (URL: <http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>). U.S. Bureau of the Census, *U.S. Statistical Abstracts, 2010*, Table 417.

<sup>9</sup> Pagano, Michael A. and Christiana McFarland (2013). “City Fiscal Conditions in 2013.” National League of Cities: Research Brief on America’s Cities.

<sup>10</sup> Brody, Evelyn, Mayra Marquez, and Katherine Toran. *The Charitable Property-Tax Exemption and PILOTS*. (2012). Urban Institute Center on Nonprofits and Philanthropy, Urban –Brookings Tax Policy Center.

<sup>11</sup> Langley, Adam H., Daphne A. Kenyon and Patricia C. Bailin (2012). *Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTS and Which Localities Receive Them*. Cambridge, MA: Lincoln Institute of Land

<sup>12</sup> Strom, Stephanie. (2010). *States Move to Revoke Charities’ Tax Exemptions*. *New York Times*.

<sup>13</sup> According to a November 13, 2015 presentation by the IACIR, this includes 2015 HB 1355, which would allow a county fiscal body to adopt a local service fee for tax exempt properties that are not places of worship (see Attachment B, online at [www.iacir.spea.iupui.edu/documents/AttachmentBRevenueforServices\\_JLP.pdf](http://www.iacir.spea.iupui.edu/documents/AttachmentBRevenueforServices_JLP.pdf)).

<sup>14</sup> See, Indiana Association of United Ways (2015), “Comments on Nonprofit Property Tax Exemption,” December 1, 2015 (online at [www.iauw.org/pubpol/iauw-comments-nonprofit-property-tax-exemption.pdf](http://www.iauw.org/pubpol/iauw-comments-nonprofit-property-tax-exemption.pdf)).

<sup>15</sup> Work, Whitney and Jefferson Burnett (2012). “PILOTS and SILOTS Revisited.” National Association of Independent Schools (online at [www.nais.org/Articles/SiteAssets/Pages/PILOTS-and-SILOTS-Revisited/PILOTSSILOTSREVISITED2012.pdf](http://www.nais.org/Articles/SiteAssets/Pages/PILOTS-and-SILOTS-Revisited/PILOTSSILOTSREVISITED2012.pdf)).

<sup>16</sup> See <https://www.councilofnonprofits.org/2015-2016-years-in-preview>.

<sup>17</sup> These percentages include the relatively few LGOs who supported requiring both payments and free or low-cost services (SILOTS) from the three types of charities: about 4 percent for universities/schools and churches, and 6 percent for hospitals. Not included in these figures are the LGOs who supported requiring only free or low-cost services (not outright payments) from charities: 12 percent of respondents for universities/schools, 16 percent for churches and 18 percent for hospitals.

<sup>18</sup> See House Bill 1180: <http://iga.in.gov/legislative/2016/bills/house/1180>

<sup>19</sup> See Indiana Commission on Local Government Reform (2007): *Streamlining Local Government: We’ve got to stop governing like this*. <https://indianalocalgovreform.iu.edu/>

<sup>20</sup> Kellie McGiverin-Bohan, Kirsten Grønberg with Lauren Dula and Rachel Miller (forthcoming). “Local Officials’ Support for PILOTS/SILOTS: Nonprofit Engagement, Economic Stress, and Politics” *Public Administration Review*.

<sup>21</sup> McGiverin-Bohan, Kellie, Lauren Dula, Kirsten Grønberg and Rachel Miller (2014). “Local Officials’ Support for PILOTS/SILOTS: Nonprofit Engagement, Economic Stress and Politics. *Academy of Management Proceedings*, Best Paper Summary.

<sup>22</sup> Grønberg, Kirsten, Kellie McGiverin-Bohan with Lauren Dula and Rachel Miller (2016). “Local Government Interest in and Justifications for Collecting Payments in-Lieu of (Property) Taxes from Charities”. *Nonprofit Policy Forum* 7 (7-14).

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