

Lawrence J. Mancini
Chief Financial Officer



Jorge O. Elorza
Mayor

Sara Silveria
Finance Director

Finance Department

Tina Mastroianni
Acting City Clerk
Room 311
City Hall
Providence, RI 02903

January 14, 2022

Dear Madam Clerk:

We hereby respectfully transmit to the Providence City Council, Committee on Finance, the report on Review and Assessment of Payment in Lieu of Taxes (PILOT) Agreements.

The report provides review and analysis, with recommendations, in accordance with City Council Resolution Number 213, passed on May 6, 2021, and effective May 17, 2021, and assigned to the Finance Department and Mayor's Office on Policy.

Respectfully submitted,

A handwritten signature in blue ink that reads "Lawrence J. Mancini".

Lawrence J. Mancini
Chief Financial Officer

A handwritten signature in black ink that reads "Sara Silveria".

Sara Silveria
Finance Director

CC:
Mayor Jorge O. Elorza
Council President John J. Iglizzi
Council Finance Chair Jo-Ann Ryan
Theresa M. Agonia, Acting Chief of Staff, Mayor Jorge O. Elorza
James J. Lombardi, Chief of Staff, City Council
Diana Perdomo, Chief of Policy, Mayor Jorge O. Elorza
Gina M. Costa, Internal Auditor

REVIEW AND ASSESSMENT OF PAYMENT IN LIEU OF TAXES

PROGRAM SUMMARY

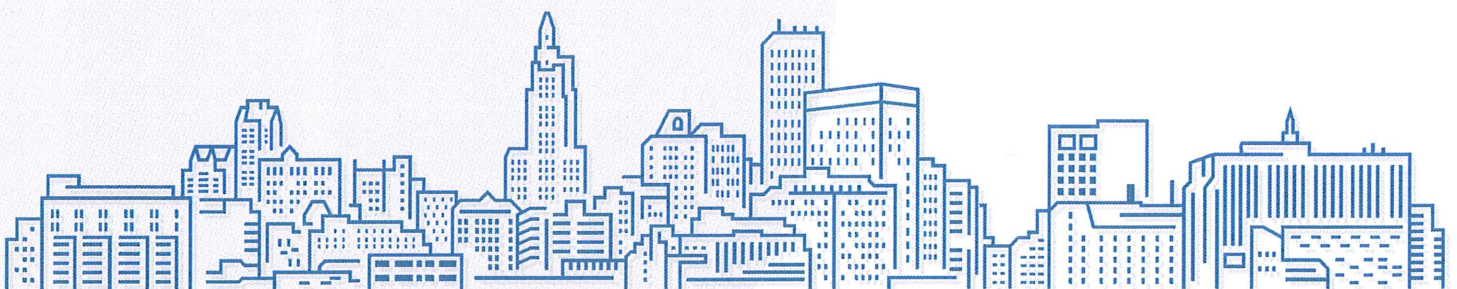


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EXECUTIVE SUMMARY

This report is hereby respectfully submitted in accordance with City Council Resolution Number 213, approved May 6, 2021 and effective May 17, 2021.

The City of Providence hosts a number of large, medium, and small-sized nonprofits. In fact, the percentage of total land parcels that nonprofits own is approximately 39.3% of all parcels. Of that 39.3%, approximately 28% are owned by the largest nonprofit institutions based in Providence.

As a result of federal law, organizations with a 501c(3) nonprofit status are exempt from paying property taxes, the largest revenue generator for the City. In 2010, a commission was convened to study the impact of the tax-exempt institutions on the City's tax base and to identify means to increase contributions from such institutions to the City. As a result, the City pursued formal agreements to establish Payment in Lieu of Tax (PILOT) financial programs with Brown University, Johnson & Wales University, Roger Williams University, Providence College, the Rhode Island School of Design, and Lifespan.

Additionally, the Elorza Administration, in 2018, established the Urban Innovation Partnership (UIP), a body meant to foster collaboration in a way that leverages the core strengths of each of these institutions. It is in all of Providence's best interest to work collaboratively with large nonprofit partners to ratify updated PILOT agreements using best practices identified by researchers and other cities.

Namely, the City seeks to establish a stable, transparent process by which all stakeholders are clear and accountable to the terms of the agreements. The ultimate goals of these agreements is to ensure fair contributions and partnerships with large nonprofit institutions, and additional stability for Providence's fiscal future.

This report has been compiled as a means to inform the public of the current state of City finances, the current state of PILOT agreements, recommended best practices for future agreements, and the City's goals for collaborating with the largest nonprofits moving forward.

CURRENT STATE OF PROVIDENCE'S FINANCES

PROVIDENCE'S FUTURE FINANCIAL STABILITY

The COVID-19 pandemic, the resulting economic fallout, and the City's increasing pension liability payment will have dramatic impacts on the City's expenses over time. The economic impact of the COVID-19 pandemic created a loss of \$6.5M in the last quarter of Fiscal Year (FY) 2020 alone.

As the pandemic continues to unfold, the budget impacts continue to be calculated and monitored closely. The economic impact has reduced the City's revenue generated from meal taxes, hotel taxes, business licenses, parking meters and permits, and fines and fees (due to court closure). The pandemic has also increased the number of EMS rescue runs and police and fire details, a cost incurred by the City.

Further, the City of Providence is required to pay its retirees' pensions each year through an actuarially determined contribution (ADC). In FY2022 the ADC is \$93.6M, of which the City's General Fund is responsible for \$77.8M. The ADC amount will increase by approximately 5% annually, far outstripping our revenue growth. By the year 2040, this payment will increase to approximately \$140M (General Fund portion)

The sum total of these challenges presents the case for the City to expand its efforts to responsibly stabilize the fiscal future of Providence, thereby preserving existing services and providing the City the flexibility to invest in future needs.

It is critical that the City and large tax-exempt property owners form transparent, collaborative agreements that outline fair contributions and that our anchor institutions can contribute to our shared future while maintaining a high quality of City services for residents.

TAX SYSTEM

The total tax revenue budgeted in FY22 is \$343,073,602 and represents 93.75% of the total tax levy, or total assessed value of taxes owed to the City, of \$365,945,176. Tax revenues, including those generated by tax stabilization agreements, account for nearly 66% of the City's annual budget. State Aid, funding allocated to the City by the Rhode Island General Assembly, represents 18% of the City's overall budget and totaled \$96.8M in FY22. The remainder of the budget is supported by departmental fees, charges for service, and local PILOT agreements.

The City budgets an average collection rate of 94% of the real and tangible property levy. Actual collections have met, or exceeded the budget each year. The chart below shows the percent of levy collected in fiscal years 2015-2020.

FISCAL YEAR ENDING JUNE 30	TAX YEAR	LEVY \$	NET ADDITIONS & ABATEMENTS \$	NET LEVY \$	COLLECTED END OF FISCAL YEAR \$	PERCENT OF NET LEVY AT END OF FISCAL YR	
2020	19	357,927,849	(8,834,404)	349,093,445	339,684,148	97.30	%
2019	18	358,895,513	(4,174,796)	354,720,717	344,202,602	97.03	
2018	17	363,331,867	(7,097,519)	356,234,348	348,884,056	97.94	
2017	16	364,264,528	(8,373,655)	355,890,873	344,482,858	96.79	
2016	15	351,854,213	(10,635,476)	341,218,737	330,475,210	96.75	
2015	14	345,156,658	(12,439,962)	332,716,696	321,248,525	96.47	

Source: City Tax Collector

The City sees a negligible expansion of the tax base, less than 1% per year, from natural tax base growth including new development and property improvements. This limited natural expansion, combined with the acquisition of taxable parcels by large nonprofits, does not provide sustained financial growth that the City requires to maintain and expand city services.

Further, the City has limited means to generate additional revenue as many fees and charges are set by state law. Although the City could increase property tax rates, with commercial rates already being the second highest in the state, doing so would create additional burden for non-tax-exempt residents and businesses.

The City is not, however, without any means of generating additional revenue through existing property taxes. Rhode Island state law requires statistical updates be performed every three (3) years with a full physical revaluation every nine (9) years. This process requires a careful analysis of recent sale prices conducted to identify and quantify the features that have motivated buyers and sellers in the real estate market.

While both statistical and physical revaluations are conducted thorough analysis of all real estate to determine their fair market value, the physical nine (9) year revaluation is the City's opportunity to measure, list attributes, and capture photos of every property on the tax roll. The most recent full revaluation was completed as of December 31, 2018 for the 2020 fiscal year. This full revaluation of real property resulted in the City's taxable gross assessments increasing by 22%. This equaled a total property value increase of \$2,410,087,635 from \$10,846,516,915 to \$13,256,604,550.

This increase in valuation did, however, come with additional limitations. Rhode Island General Laws Section 44-5-2 limits the amount by which a city or town may increase its tax levy unless it qualifies for certain exemptions relating to loss of non-property tax revenue, emergencies, payment of debt service, or substantial increase in the tax base necessitating significant expenditures. For fiscal year 2013 and thereafter, the maximum amount by which a city or town can increase its tax levy is 4%. With limited means of revenue generation, state aid plays a significant role in the City's fiscal stability.

STATE AID

The City receives State Aid payments in the form of PILOT, School Housing Aid and Distressed Communities. It also receives shared tax revenues from the Meals & Beverage Tax, Hotel Tax, and Public Service Corporation Tax.

Further, the State currently reimburses up to 27% of the taxes that would have been collected if the entity were taxable, but adjusted proportionately so total PILOT paid to municipalities does not exceed the total PILOT appropriation in the State Budget. This reimbursement is paid to municipalities on July 31 annually. The City of Providence records the July payment as revenue of the previous fiscal year.

Because all state aid is subject to annual appropriation in the budget, there exists a risk that these amounts could be reduced. Additionally, and more specifically to state PILOT reimbursements, if more tax-exempt properties are identified in other municipalities, the City's share of reimbursement decreases. The following list details the previous 5-year trend related to amounts received by the City from the State for PILOT reimbursements.

2017 - \$33,291,936

2018 - \$33,497,659

2019 - \$33,187,319

2020 - \$14,199,131*

2021 - \$34,027,856

*The FY2021 proposed Governor's budget included \$34,077,915 in PILOT for the City. However, the final State Budget included \$14,199,131 and instead appropriated Coronavirus Relief Funds to support City expenses related to first responders.

While the City of Providence greatly benefits from this state subsidy, a large burden of recovering lost revenue from tax exempt organizations ultimately still falls on taxpayers.

COMPARISON OF OTHER CITIES' TAX-EXEMPT PROPERTIES

Providence is host to a number of nonprofits, large and small. Existing state and federal law prohibits taxation of a property owned by a designated 501c(3) nonprofit. Therefore, Providence loses the authority to generate tax revenue from these properties, and instead is reliant on non tax-exempt commercial and residential real estate property for tax revenue. In Providence, as of December 31, 2020 a total of 39.3% of the tax base is exempt from property taxes due to a 501c(3) or other tax-exempt designation. In comparison, some other cities are as follows:

- A** | Boston | 24% of tax base is exempt from property taxes
- B** | Brockton | 12% of tax base is exempt from property taxes
- C** | New Bedford | 17% of tax base is exempt from property taxes
- D** | Springfield | 19% of tax base is exempt from property taxes
- E** | Worcester 27% | of tax base is exempt from property taxes

Relative to other cities, Providence clearly has a disproportionate share of its property that is exempt from taxation. Of the 39.3% of exempt institutions, the largest anchor institutions comprise nearly one third of that. When put into terms of assessed value, the opportunity cost associated with lost revenue is clear. Currently, the total assessed value of the land owned by the City's largest tax-exempt institutions, specifically large medical providers and institutions of higher education, is over \$3.56B.

If those parcels were taxed at the same commercial rate as other businesses, the City would see an annual yield of over \$130M. As mentioned in the previous section, the State PILOT reimbursement generates \$33-34M/year for the City. The table below details the City's assessment of major tax-exempt property owners.

	Brown	J&W	PC	RISD
CURRENT ASSESSMENT	\$1,343,601,630	\$350,036,500	\$441,835,400	\$318,551,800
TRUE TAX IF AT 100%	\$49,310,179	\$12,846,339	\$16,215,359	\$11,690,851
STATE PILOT REIMBURSEMENT	\$13,004,569	\$3,474,163	\$4,336,653	\$3,184,936
	Butler Hospital	Home & Hospice Care	Miriam Hospital	RI Hospital
CURRENT ASSESSMENT	\$165,918,800	\$6,173,200	\$152,039,800	\$665,471,700
TRUE TAX IF AT 100%	\$6,089,219	\$226,556	\$5,579,860	\$24,422,811
STATE PILOT REIMBURSEMENT	\$1,644,089	\$61,170	\$1,506,562	\$6,884,869
	Women & Infants			TOTAL
CURRENT ASSESSMENT	\$124,796,800			\$3,568,425,630
TRUE TAX IF AT 100%	\$4,580,042			\$130,961,220
STATE PILOT REIMBURSEMENT	\$1,236,369			\$35,333,384

PILOT PROGRAM OVERVIEW

2010 PROVIDENCE CITY COUNCIL COMMISSION TO STUDY TAX EXEMPT PROPERTIES IN INSTITUTIONS

In 2010 a commission was convened to study the impact of the tax-exempt institutions on the City's tax base and to identify means to increase contributions from such institutions to the City. The membership of the commission included the late Michael Van Leesten (Chair), Camille Vella-Wilkinson (Vice-Chair), Former Councilor Luis Aponte, Francis Smith (community organization representative), Steven Smith (labor organization representative), Daniel Egan (College/University representative), John Sutherland (hospital representative), Former Representative John Carnevale (city council representative), and Matthew Stark (mayoral designee). To approximate the costs imposed on the City of Providence by Tax-Exempt institutions, the commission looked at budget items where a) the institution, their employees or students, directly utilized the services and b) the presence of the tax-exempt institutions increases the marginal cost of the items to the city.

Apportioning these costs to the major tax-exempt institutions by land area (they occupied 23% of land at the time) of all non-public land yields a city service cost estimate between \$28.4 million to \$35.5 million. Subtracting the \$29.3 million the city receives in property tax, fees, voluntary contributions under the MOU, and PILOT payments from the state, that leaves a gap between zero and \$6.2 million. In addition to articulating the costs of the presence of the tax-exempt institutions, the commission made key recommendations including:

1. Create the "Capital City Partnership for Economic Growth"
 - a. Develop a well-resourced and staffed partnership dedicated to 1) growing the taxable business base in Providence, 2) increasing economic opportunities, and 3) continue existing and expand efforts to yield municipal savings and cost avoidance.
 - b. Establish a Standing Task Force on Neighborhood Economic Opportunity.
2. Give the City of Providence a Share of Knowledge Economy Revenue.
 - a. To actively encourage the expansion of higher education, healthcare and research, the City of Providence needs to directly capture some of the economic benefits in the form of general revenue.
3. Achieve full funding of the State PILOT for the City of Providence.
 - a. The presence of tax-exempt institutions does not have a measurable impact on city finances except in cities that are highly reliant on property taxes and have a significant share of total property owned by tax-exempt institutions, like Providence. Therefore, Providence should work with the General Assembly to achieve full funding of the PILOT at 27% for Providence.
4. Use MOUs to build trust, stability and predictability.
5. Maximize the future revenue stream from the Interstate 195 parcels by seeking taxable developments, developments under a MOU, or developments with revenue sharing from the state.

Since the report's release, the City has taken a number of steps towards implementing these recommendations. For example, in 2013, PILOT agreements were again ratified to provide a consistent and stable contribution to the City, and Providence has successfully advocated for a full 27% PILOT reimbursement from the State for the past seven years.

In 2018, the Elorza Administration, in collaboration with institutional partners, created the Urban Innovation Partnership. This initiative was initially developed to coordinate transformative investments in the Woonasquatucket Corridor, the Innovation and Design District, and the Smart City Providence project. In 2019, UIP partners adjusted the vision to begin creating and funding projects to support the students of the Providence Public School District (PPSD). Most recently, UIP institutions have joined the City of Providence's By All Means Cabinet to support their efforts on three strategic areas of focus: expanding learning opportunities, improving the teaching pipeline for teachers of color, and student wellness.

COMPARISON OF OTHER CITIES' PILOT AGREEMENTS

PILOT programs are not uncommon. In fact, there are many cities in New England that have established agreements with their large nonprofit institutions. A comparison of revenue generated from PILOT agreements in similarly-sized cities can be found below:

	FY 2020	Population	
Providence¹	\$7,200,000	180,000	1. Source: City of Providence Finance Department
New Haven²	\$43,589,060	130,000	2. https://www.newhavenct.gov/civicax/filebank/blobdload.aspx?blobid=37613
Worcester³	\$1,300,000	185,000	3. https://www.worcestermag.com/news/20190228/feature-fair-play-are-worcesters-large-nonprofits-paying-their-share
Bridgeport	\$12,493,483	145,000	4. https://www.cambridgema.gov/-/media/Files/budgetdepartment/FinancePDFs/fy21adoptedbudget/fy21adoptedbudget.pdf
Cambridge⁴	\$7,100,000	116,000	

Source: City Tax Assessor

REPORTING AND ACCOUNTABILITY

The overall structure of PILOT agreements vary between cities, as all PILOT agreements are unique to the terms agreed upon between the City and the institution. Overall, PILOT payments are voluntary, and the mechanisms that cities have to force institutions to pay are limited.

Nonprofits under Boston's PILOTs, for example, sometimes come up short in their voluntary payments. Boston only received 81 percent of its promised payments in 2018, according to its city government fiscal report.⁵ Generally, institutions appear to pay what they agreed to. In Worcester, MA, for example, the city manager's office indicated that all Worcester PILOTs have been on time and paid in full over the past ten years.⁶

5. <https://www.boston.gov/finance/payment-lieu-tax-pilot-program>

6. <https://www.worcestermag.com/story/news/2019/02/28/feature-fair-play-are-worcesters-large-nonprofits-paying-their-share/5799212007/>

STRUCTURE OF AGREEMENTS

Agreement structures differ according to the institution and the payments agreed upon between the City and the institution. For example, an agreement between Harvard University and Cambridge had a one-time voluntary payment of \$1,358,000 in 2005, a payment of \$500,000 in 2006, and a payment in each subsequent tax year equal to the Annual Additional Voluntary Payment made in the previous Tax Year escalated at the annual rate of 3%. Further, In the 11th, 21st, 31st, and 41st Tax Years, \$100,000 is added to the Annual Additional Voluntary Payment payable for such Tax Year. This agreement, signed in 2004, is valid for 20 years until 2024, and subject to extension through June 2054.

RECOMMENDED BEST PRACTICES

The Lincoln Institute of Land Policy published a report that provided a detailed examination of PILOT programs across the country (including Providence)⁷. Among other things, the report provides best-practice recommendations on building support for local PILOT programs, the features of PILOT programs, strategies for obtaining PILOT agreements, and alternatives to PILOTs.

The report highlights that PILOT agreements should be built collaboratively with anchor institutions, particularly in municipalities in which the principal source of revenue is property taxes. In addition to PILOT agreements, the report recommends identifying alternative revenue sources like service contributions or user fees.

7. https://www.lincolninst.edu/sites/default/files/pubfiles/payments-in-lieu-of-taxes-full_0.pdf

IMPACT EXPANSION OF NONPROFITS ON PROVIDENCE COMMUNITIES

On March 29, 2021, the City unveiled the completion of “A Matter of Truth⁸.” This historical narrative documents “the role of the City of Providence and State of Rhode Island in supporting a ‘Separate and Unequal’ existence for African heritage, Indigenous, and people of color.” Chapter Eight of the report highlights the role that urban redevelopment policies between 1950-1975 had on displacing neighborhoods of African Heritage people.

The report notes that “the expansion of Brown University, the development of Pembroke College (originally the Women’s College of Brown University) and the Rhode Island School of Design, highway construction and urban renewal, and waves of gentrification undermined the African American presence on College Hill and in some cases erased evidence of the community’s historical association with the neighborhood.”

The report further notes that “...hospitals and university expansions have accelerated neighborhood disruption and transformation, impacting low-income and working-class neighborhoods such as South Providence.”

The report makes clear that expansion of the City’s largest nonprofits has had a disproportionate impact on residents of color. Additionally, the report adds an important nuance to this discussion. While the expansion of land continues to unfairly shift the burden of the tax code, the absence of tax dollars limits the city’s ability to invest in initiatives that support the needs of people of color.

8. <https://www.providenceri.gov/wp-content/uploads/2021/06/Matter-of-Truth2.pdf>

ARTICULATION OF STATED GOALS

It is clear that expansion of large nonprofit institutions and the subsequent property acquisition has limited the City's ability to generate sufficient revenue to keep up with increasing expenses. Moreover, the outsized burden of property taxes has fallen on non-exempt residential property and business owners.

To increase and further strengthen the fiscal stability of the City's future, and increase transparency and collaboration with large nonprofit organizations, the City seeks PILOT agreements that:

1. Have clearly articulated standardized formulas to determine contributions that an institution will make;
2. Provide opportunity to adjust yearly PILOT contribution based on services provided to the City by an institution;
3. Provide opportunity to adjust yearly PILOT contribution based on the acquisition or relinquishment of new property by exempt institutions;
4. Are multi-year agreements that provide predictability and stability in PILOTs.

