

PILOT Project Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104
Thursday June 22, 2017
7:30 am – 10:30 am

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Niles Deneen, Jon Gutzmann, Bror Herrick, Matt Hill, Jake Hamlin, Doug Hennes, Heather Johnston, Jay Kiedrowski, Susan Kimberly, Barb McCormick, Greg Mellas, Joan McCusker, James Moeller, Kaye Rakow, Rinal Ray, John Regal, Joe Reid,

Members not present: Mike Day, Kit Hadley, Pa Der Vang

Staff & staff support present: Sean Kershaw, Mark Haveman, Matthew Burgstahler, Fatjon Kaja

Guests: Amy Filice, John Manuel, Luke Nelson, David Dominick, Pat Born, Paul Cerkenik, Kristen McHenry, Daphne Kenyon, Matthew Dougherty, Amy McDonough, Jasman Myers, Jenna Styles Spooner, Leah Linderman, Jeannie Fox, Ellen Olsen, Beth Swanberg, Barb Herrington-Hall, Melanie Soucheray, Ben Hayon, James McClean, Jordan Ash

Project scope: Is a 'payment in lieu of taxes' and/or 'services in lieu of taxes' (PILOT/SILOT) model advisable for Saint Paul, and how would the program be structured and sustained if so?

Proposed Committee outcomes:

- Findings: Shared understanding of the facts, data and local/national trends on this issue that are accessible and relevant to broader public.
- Conclusions: Shared set of statements and questions related to the implications of these findings. Why do they matter to the citizens of Saint Paul and the region?
- Recommendations: Proposed set of actionable recommendations IF changes are needed to address current situation. Recommendations might come in phases.
- Base of support for implementation: Buy-in from key stakeholders needed to advance and sustain any potential recommendations.

Proposed outcomes for June 15 meeting:

- Discuss June 1 meeting and approve minutes from 5/11 and 6/1
- Provide an opportunity for representatives from property tax exempt organizations to share their perspectives on PILOT/SILOT Programs in Saint Paul and what the committee should consider when addressing the project scope and potential outcomes.
- Prepare for June 22 meeting by discussing materials from Lincoln Land Institute and Boston; and
- Discuss agenda for June 22 meeting and additional speakers/data/questions.

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe Reid, 7:30 – 7:50)
 - a. Discuss 6/15 meeting: insights/thoughts/questions since meeting?
 - b. Approve minutes from 6/15 meeting.
2. Next steps in committee process (Sean, 7:50 – 8:00)
3. Lincoln Land Institute/ City of Boston Presentations, Q&A and Discussion (8:00 – 10.20)
4. Evaluation (Joe Reid, 10:20 – 10:30)

Co-Chair Reid called the meeting to order at 7:30am.

Introductions (Joe Reid, 7:30 – 7:50)

Co-Chair Reid welcomed the committee members. He took a moment to introduce the two panelist members from the East Coast, Daphne Kenyon and Matthew Englander.

He also spoke about the logistics of the meeting, discussing the points in the agenda and how he would like the committee to address the procedure that would be used when questions will be asked after the panelists' discussion. He highlighted the role of the previous meeting and the insights that it provided to the board. Then, he asked if anyone had any questions or changes in regards to the minutes from June 15th.

Co-Chair Reid decided to focus a few minutes to the discussion that the committee had last week. He shaped the discussion around a hypothetical where the finances of the city were entirely healthy and whether a PILOT would be obsolete or sustainable on those occasions. A committee member, who represents an organization that does not have tax-exempt status, spoke about the fear of reaching a threshold where businesses would no longer like to invest in St. Paul if they would be the only ones to pay taxes all the time. Another committee member, who also represents an organization that does not have tax-exempt status, said that there would be benefits if all organizations contributed to a PILOT program regardless of the city budget because it allows the city to invest in some areas that benefit all. Another member spoke that all members benefit from a vibrant community and that all organizations should take their fair amount of civic responsibility. Another member emphasized that if the Supreme Court of Minnesota had not ruled against the ROW 's program, then these meetings would not have occurred at all; however, the tax-exempt organizations cannot fulfill the budget of the city each time so there needs to be a long term solution. Many members echoed the same sentiment.

A Citizens League staff member pointed out that there will be a new agenda for the next week where the chairs will send the committee a document with the most important findings. In addition, he apologized for having a smaller room this particular meeting due to scheduling conflicts for the other rooms. In the coming meeting, there will be clickers for the committee to use to answer some questions about the project so they can test the waters on where the committee stands.

Daphne A. Kenyon- Presentation slides on Citizens League website (Kaye Rakow, 7.50 – 8.35)

Co-Chair Rakow took the lead in offering appreciation and gratitude for Ms. Kenyon and Mr. Englander as presenters from the Lincoln Institute of Land Policy and the Boston Assessing Department respectively. Co-Chair Rakow thanked Mark Haveman for his logistical assistance, connection, and communication with the presenters and asked him to introduce Ms. Kenyon. Mark expressed the credentials and quality of the Lincoln Institute of Land Policy and Daphne Kenyon as a Resident Fellow in Tax Policy at the Institute and as co-author of a key PILOT report (see Payment in Lieu of Taxes Balancing Municipal and Nonprofit Interests). Ms. Kenyon was identified as an expert in property taxes.

Co-Chair Rakow explained the timeline of two thirty minute presentations from Ms. Kenyon and Mr. Haveman followed by questions from the committee. Ms. Kenyon started with the definition of PILOTS, which are voluntary payments made by non-profits as a substitute for property taxes. She explained the Lincoln Institute of Land Policy excludes payments from public institutions. Ms. Keyon made a point to express that there are different types of PILOT programs and to be careful to delineate what type of PILOT program all stakeholders are discussing. As an example of different 'flavors' of PILOT programs, she discussed Boston as the most long standing most revenue productive program, but that there are other types of PILOT programs, which work best depending on the municipality at hand.

Ms. Kenyon explained that PILOTs can contribute to the general fund or a specific program much like fire service fee. She explained that cities have a preference for PILOTs when they have a strong source of income from property taxes and a large non-profit sector. Again, she reiterated that PILOTS generally only contribute a small percentage of the overall budget of a city.

Ms. Kenyon expressed arguments for and against PILOT programs (see presentation), by highlighting the fairness of having non-profits pay for public services, and the counterpoint of reducing the mission of non-profits by cutting into already constricted budgets. Horizontal inequity refers to the inability to have very similar non-profits pay the same amount to the city. Vertical inequity refers to a rich organization paying less than a very poor organization.

One of the biggest issues Ms. Kenyon identified was the contentious nature of some PILOT programs and she highlighted the solution of having a truly collaborative approach. She expressed that the fiscal health of a city is tied to the health of many non-profits.

She mentioned that in certain circumstances, when non-profits buy up land the city asks the organization to continue to pay the property tax on this parcel understanding that this is voluntary. Ms. Kenyon then talked about SILOTs or community benefit and suggested that the committee understand the sensibility of allowing non-profits to pay some of their contribution in services. However, she urged the committee to not get too far into arguments with nonprofits about their services because they are hard to quantify.

Co-Chair Rakow thanked Ms. Kenyon and called for Mark Haveman to introduce Matt Englander.

Matt Englander – Presentation slides on Citizens League website (Kaye Rakow, 8.35 – 9.15)

After being introduced, Matt Englander thanked the committee for their time and began his presentation by introducing himself. He also highlighted the fact that the city of Boston has had a PILOT program from a long time so his presentation will try to cover up as many aspects of the program as possible and the lessons that have been learned on what worked and what didn't work.

He spoke about the challenges that come from having a large amount of tax-exempt organizations concentrated in a single city. He spoke about the need to have a fair PILOT program in which tax-exempt organizations of the same size/mission should pay an amount that is approximately the same. He also spoke about the fact that Boston has a type of government where the city, county and local government are one, which made the PILOT implementation program easier to implement.

In addition, he urged members to check out the numbers from the PILOT program that are accumulated thus far (the spreadsheet can be found at the Citizens League website). He also about competing interests that the City of Boston has with the tax-exempt organizations in the area. Namely, the city would prefer more revenue, meaning that they were more fond of a PILOT program whereas the organizations liked the idea of a SILOT program. Boston's program is comprehensive so it accounts for both contributions. Mr. Englander then went over his presentation, which can be found at the Citizens League website. Throughout the presentation, Mr. Englander emphasized the importance of collaboration between the city and the organizations that participate in the PILOT program and the constant need to be open minded, regardless on whether you represent the city or a tax-exempt organization.

Questions from the committee (Kaye Rakow, 9:15 - 10:15)

Co-Chair Rakow opened the discussion by directing some questions offered by members that could not be present at the meeting. One member wanted to know what would the city of Boston do different had they had the knowledge of today when they started the program. Mr. Englander spoke of the importance of framing the community benefit aspect of the program, as something that the Boston PILOT program could have mastered at an earlier stage. Another member wanted to know about the administrative cost of the program. Mr. Englander spoke about the fact that Boston has a large Assessing Department, which allows them to have a lot of the workforce already in place. There is no outside consultancy for the program, so the program is under the purview of Mr. Englander and the Commissioner. There is only one position added (unless the current administration has one), which was a person that was in charge of establishing good relations with the PILOT members and following up with them.

Another committee member asked whether private colleges and public colleges are considered on the same playing field when it comes to the PILOT payments. Mr. Englander spoke about the fact that they try to treat all the

institution similarly on the whole, even though they try to strike a special balance with the public institutions. The committee member followed with the idea of earmarks, questioning on whether the money given through PILOT programs can be given for specific programs. Mr. Englander responded to that the Boston PILOT program makes accommodations for some “earmarking” programs but there is no specific structure. He spoke about the need to be flexible. Another member wanted to know whether the city cut down the funds for those programs that the PILOT money was earmarked. Mr. Englander said he was not 100 percent sure.

Another committee member wanted to know if tax-exempt organizations in Boston had to go through a process to attain the tax-exempt status and whether the tax-exempt organization had to do any additional fundraising to match their PILOT contributions. Mr. Englander spoke that the tax-exempt status can be reached as long as one provides the required documentation so whether one organization participates or not on a PILOT program does not affect the attainment of the status.

Another member asked about the consistency of the PILOT’s collection rate. Mr. Englander spoke of some of the difficulties, particularly because the program is voluntary. They base budget goals (which can be found in the presentation) based on actual collections from the previous year. The member followed with a question about the role of unions in SILOT programs. Ms. Kenyon said that she was not sure, whereas Mr. Englander said that he did not personally have any interaction with the unions but he could follow up with more information.

Another member wanted to know if there was any effort to get PILOT contributions by governmental owned land. Mr. Englander said that thus far there is nothing that the PILOT administrators have done on this front. On the other hand, it is also difficult to tax some government land as the government provides so many services such as fire and police protection.

Another member pointed out how successful the Boston program has been in attaining revenue through the PILOT program. The member was curious to know whether changes in the finances of the city are reflected on the amount of PILOT payments expected from the participants. Mr. Englander said that the program is structured to be as flexible as possible, but that any city with a PILOT program should take its fair responsibility. Another member wanted to know whether there are any PILOT programs that addressed the issue of “healing” relationship between the city and the tax-exempt community in order to calm the current climate. Ms. Kenyon gave a few examples, stressing the idea that “time heals” and the importance of personalities and open mindedness.

Another member wanted to know about the sustainability of the program, particularly its theoretical aspects of also applying to commercial property owners. Mr. Englander spoke of the importance of getting the business community involved and making them feel part of the conversation and the solution. He also stated that he does not see the shortcoming of a PILOT program to impact the business community in the area but it is still something to consider and to hear the opinions from a business perspective.

Co-Chair Reid spoke about the increases of property taxes and the unintended consequences that come from PILOT program. He stated that one of the good unintended consequences would be that tax-exempt organizations would now have a say in front of the city council about how the budget gets managed. He also asked about the fact that Ms. Kenyon spoke about previous PILOT programs in Minnesota and he wanted to identify where those programs took place. Ms. Kenyon said that according to her information the programs took place in St. Louis Park and the other one was St. Paul, which did not provide any information about its program in 2012. She said she would follow up with additional information.

Another member wanted to know “who was in the room when the last deal was cut?” Mr. Englander said that a group of community members made a recommendation to the Mayor and there was a lot of press coverage, which led to the creation of a task force and the recommendations of the task force were taken into account when the program was engineered.

A Citizen’s League staff wanted to know if the panelists had any advice about scope and staging for the committee. Mr. Kenyon offered to send links to other outcomes that similar task forces have reached. Another member said that it is clear that the job of this task force is not that of solving the city’s revenue problem. Ms. Kenyon urged the task force that no matter what this task force comes out, it needs to be something that engages the broader

community.

Another member wanted to know how the city of Boston gets its revenue and if it is through public shaming or otherwise coercion. Mr. Englander showed the data that the city of Boston has accumulated through years (the information is in the Citizens League website). The city does not engage in public pressure and shaming but he realized that the pressure is there and is often taken into account by PILOT contributors. Mr. Englander also stressed the importance of transparency when running a PILOT program.

Another member wanted to know if the PILOT program has ever looked at religious institutions to contribute into their program. Mr. Englander stated that religious institutions have been approached and by no means excluded from a PILOT program. However, given that religious institutions have a special status with tax-exempt organizations in Boston, there is also a tendency to be more flexible towards them.

Another member wanted to know if there have been any legal challenges to the PILOT program. Mr. Kenyon said that she was not 100% sure.

A member asked the presenters about how a PILOT might affect the school district and the county compared to Boston where all of these entities were one and the same. She also made the point that some non-profits might increase rather than decrease the burden of government, or offer services across entity lines such as human services run by the county but place a burden of police and fire on the city.

The presenters mentioned that in some instances counties and school districts also create PILOT programs atop the PILOT program run by the city. In these instances, the burden on government is often talked about dealing with overlapping jurisdictions.

A member made an observation that ability to pay becomes a factor in negotiations for non-profits when this is never a factor for commercial business.

Mr. Englander highlighted the point that a “no” by a nonprofit in PILOT negotiations does not mean that there aren’t ways of structuring services, in addition to any payment of cash, to achieve the goal.

A member wanted to know if the mayoral status had remained the same throughout the Boston experience as there is an upcoming shift in the city of St. Paul. Mr. Englander reiterated that a PILOT program is relationship based and many institutions in Boston know their standing with the mayor and administration, which plays a role in negotiations. A member brought up the point that a new PILOT program might lead to organizations trying to get in favor with the new administration, which would undermine fairness and consistency among organizations. Conversely, the member mentioned that it might be best to implement this program once the current administration has had adequate time to settle.

Also, Mr. Englander, speaking about the Boston reported PILOT program contributions document (see website) expressed that many organizations wanted their services highlighted. These organizations may not have met their respective total payment, but they offer a lot to the city. Often, tax payers look at the number that organizations are paying in PILOT and immediately claim this value as the overall value to the city, which discredits their respective services. Thus, rapport becomes very important.

A member asked the panelists if the addition of a PILOT program has improved the transparency of the City of Boston’s budget. In response, Mr. Englander mentioned there was a deep change in the language used to help improve governmental literacy. He went on to mention that PILOT programs were one aspect in a larger plan by the current administration to become more transparent.

A member mentioned that one ROW assessment benefit was that it generated numbers, which allowed people to understand where their money was going and what service was actually being provided. However, with PILOTs there is the worry about the general fund money and a lack of specific purpose with funding. The presenter asked the rhetorical question of if the money was tied to specific programs would it potentially generate even more funding.

Mr. Englander said that many nonprofits have a challenging time speaking with their boards of trustees about writing a check that heads to the general fund. Non-profits are much more likely to engage with the idea of a PILOT program if there is a tangible outcome of the money and/or if there were a service the organization could stand behind with the city. He mentioned that perhaps the future of PILOTs falls in the realm of tethering PILOT funding to specific projects.

A member discussed the ability to assess PILOTs on property value versus per square footage. For example, a university will spend money for a building that is meant to last 300 years whereas a developer will be looking at a 50 year time scale. Thus, evaluations can get very skewed. Also, a large building would have a much bigger drain on police or fire services potentially compared to the same sized grassy field.

A member mentioned that we are not here to fix a city budget issue, but that it is essential that the city determine exactly what it wants out of this project. Also, the city must conceptualize what exactly those community benefits are and how organizations have the potential to partner. It is difficult to make a recommendation without the city back in the discussion over what potential PILOT options could be paid and what recommendations would be practical.

Co-Chair Rakow mentioned to all of the observers to reach out via email or after the meeting with questions and concerns. A staff member explained that minutes, the agenda, and documents will be posted on the website and that the next meeting is one based on discussion, findings, and scope.

Co-Chair Rakow and Co-Chair Reid thanked the panelists and concluded with evaluation. Members of the committee evaluated the program as 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, and 5, for an average of 5 (2 members did not get a chance to vote, as they left early due to other commitments).

Chair Reid adjourned the meeting at 10:30 a.m.