

Citizens League Report
Saint Paul PILOT/SILOT Project

Prepared by
Citizens League Payment In Lieu Of Taxes (PILOT) Study Committee, 2017

Approved by
Citizens League Board of Directors
August 31, 2017

Citizens League
400 N Robert Street #1820 Saint Paul, MN 55101
www.citizensleague.org
651-293-0575



*This report was made possible by the generous support from major donors:
The Saint Paul Foundation and the F.R. Bigelow Foundation.*



TABLE OF CONTENTS

INTRODUCTION	4
EXECUTIVE SUMMARY	6
CITIZENS LEAGUE KEY FINDINGS AND CONCLUSIONS	6
CITIZENS LEAGUE RECOMMENDATIONS TO THE CITY OF SAINT PAUL	6
WORK OF THE CITIZENS LEAGUE PILOT/SILOT STUDY COMMITTEE	8
MEMBERSHIP OF THE PILOT/SILOT STUDY COMMITTEE	8
RESOURCE PERSONS WHO MET WITH THE STUDY COMMITTEE	9
DATA AND FINDINGS	10
CONCLUSIONS	28
PILOT/SILOT RECOMMENDATIONS.....	29
MINORITY REPORT.....	34
STUDY COMMITTEE MEMBER COMMENTS	35
APPENDIX	36
PILOT/SILOT STUDY COMMITTEE PROJECT OUTLINE (CHARGE).....	36
COMMITTEE MEMBER BIOS.....	38
CITIZENS LEAGUE BOARD MEMBERS (AS OF 8/31/2017).....	42
MEETING MINUTES	43
 ATTACHMENTS	
STATEMENT FROM PRIVATE COLLEGE COUNCIL	
STATEMENT FROM MINNESOTA HOSPITAL ASSOCIATION	



INTRODUCTION

"In St Paul...the terms of negotiation had been reestablished and the settlement had been reached. The result was not a community of consensus, nor had it ever been. What was achieved instead was a locally circumscribed arena in which opposing interests could bargain effectively, thereby reinforcing cultural understandings that would influence politics...for years to come."

Claiming the City by Mary Lethert Wingert

The history of the City of Saint Paul and many of its tax-exempt organizations is shared: they literally grew up together. From the incorporation of the City of Saint Paul in 1854, to the siting of the State Capitol in 1858, to the establishment of its first hospital, St. Joseph's, in 1853, to the founding of higher education institutions like St. Thomas by Archbishop John Ireland in 1885, their fates have been intertwined and their successes have been dependent on one another. The same could be said for hundreds of other tax-exempt organizations and their relationship to Saint Paul.

Saint Paul's unique civic character, even the identities of its neighborhoods, is the result of a uniquely-Saint Paul alliance between residents, businesses, congregations, higher education, government, and charitable institutions. They have all built, and benefited from, this strong civic partnership.

Over these past 150 years, and especially in the past 25 years, each of these historic institutions has also been transformed, sometimes dramatically, as all aspects of our economy and society have changed. The same can be said for most tax-exempt organizations.

Looking ahead, all tax-exempt organizations face unique challenges that will test their own success and their work together. Nonprofit charities, higher education institutions, healthcare organizations, and governments face a range of threats to their business models and financial health in the coming decades. In Saint Paul, the recent Minnesota Supreme Court case of *First Baptist Church of Saint Paul, et. al. vs. City of Saint Paul* impacted the source of over \$30 million in revenue for the City, and was a precipitating incident for this Saint Paul PILOT/SILOT project.

When the Citizens League began the effort reported on here, the assumption was that Saint Paul was also unique in the relatively high percentage of its property that is tax-exempt.

Data shows that in 2016 the percentage of Saint Paul's property tax base value that is tax-exempt (23.4%) is less than widely assumed; that most of these tax-exempt owners are government and public schools (57.4%); and that Saint Paul is similar to its peer cities in Minnesota (e.g. Minneapolis, Duluth) in this regard. At the same time, the City of Saint Paul requires two to three times more property tax effort from properties that are taxable to compensate for exempted properties than the average metro area city.

Payments in lieu of taxes (PILOT) and services in lieu of taxes (SILOT) are short-hand names for a variety of initiatives throughout the United States that encourage tax-exempt organizations to make voluntary payments for some part of the basic city services that they consume. PILOT/SILOT initiatives have been explored in many communities, implemented in dozens of cities, and not implemented in others. A few programs like Boston's that is perhaps the best known, initially stood out as potential models for success in Saint Paul.



The Citizens League worked with a diverse set of leaders to answer the fundamental question: 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?

The committee spent almost four months of intensive work investigating the data behind the City of Saint Paul's budget and property tax trends, the legal basis for PILOT/SILOT initiatives in Minnesota, PILOT/SILOT programs in other cities, and what has worked well here and in other communities. Based on this work:

- The PILOT/SILOT Committee is recommending that the City of Saint Paul immediately begin working with representatives from tax-exempt organizations to discuss and design an initiative for voluntary contributions that works for both the City of Saint Paul and these organizations.
- This final report identifies the key questions that should be considered in this effort, and provides a guide for developing solutions and working together.

Ultimately, this Committee is recommending that the City of Saint Paul and its tax-exempt organizations do what has always worked best in Saint Paul: sitting down together to negotiate a uniquely-Saint Paul partnership and strategy that provides for the future health and vitality of all of the organizations and individuals in Saint Paul.

Their fates remain intertwined and their successes remain dependent on each other.



EXECUTIVE SUMMARY

From May to August 2017, the Citizens League convened a special committee to consider the following question: Is a ‘payment in lieu of taxes’ (PILOT) and/or ‘services in lieu of taxes’ (SILOT) model advisable for Saint Paul, and how would the program be structured and sustained if so?

A PILOT initiative¹ reflects the basic principle that all consumers of city services, including tax-exempt property owners, should pay some share of the cost of delivering services from which they benefit. PILOT initiatives can come in many forms, ranging from simple solicitation of voluntary contributions from tax-exempt property owners to much more structured programs.

However, since PILOT initiatives in *any* form will remain voluntary by Minnesota constitution and statute, establishing a structured and sustainable PILOT initiative acceptable to the property tax-exempt community will require the City to make its development a collaborative effort with a significant investment of time, energy and commitment.

Citizens League Key Findings and Conclusions

1. There is no legal basis for a mandatory PILOT initiative and therefore any initiative must be voluntary.
2. Saint Paul is similar to other “cities of the first class” (Minneapolis, Duluth, and Rochester) in its percentage of tax-exempt properties and as a percentage of its overall tax-exempt property value.
3. Cities of the first class have a disproportionate percentage of tax-exempt properties when compared to other cities in the metropolitan area.
4. A Saint Paul PILOT cannot -- and should not -- be viewed as a “solution” to Saint Paul’s significant budget gaps or long term financial challenges.
5. A successful PILOT initiative depends on strong, well developed relationships between City government and tax-exempt property owners. The desired level of collaboration and partnership may be missing in Saint Paul and needs attention.
6. A mutually agreed upon framework is essential to a successful PILOT initiative. To establish this framework, City leaders must include tax-exempt property owner stakeholders in designing and implementing any PILOT initiative.
7. The implementation of a PILOT initiative for Saint Paul has implications for local governments and property tax-exempt organizations across the state.

Citizens League Recommendations to the City of Saint Paul

The Committee recommends that the City of Saint Paul initiate discussions with owners of tax-exempt properties in order to design and implement a PILOT initiative for Saint Paul.

As detailed in this report, this initiative can take many forms, but the important point is for the City and owners of tax-exempt properties to agree on a voluntary initiative that meets the needs of the City and the ability of tax-exempt property owners to participate.

¹ For the purposes of brevity, and to minimize confusion created by acronyms, “PILOT” will refer to the potential for both payment in lieu of taxes and/or services in lieu of taxes initiatives unless otherwise specified. The word “initiative” is used rather than “model” because there are so many potential forms of PILOT/SILOT rather than one single “model”.



1. **The City of Saint Paul could seek out voluntary contributions from the property tax-exempt community.**
 - Many organizations in the property tax-exempt community are keenly aware of the budget circumstances facing the City and are likely to be willing to offer at least some level of support for the delivery of City services.
2. **If there is City interest in establishing any PILOT initiative, the City should pursue discussions with the property tax-exempt community now to establish the necessary foundation required to create and sustain it.**
 - Efforts from around the country demonstrate that sustainable, successful PILOT initiatives depend on long-term partnerships between the City and the property tax-exempt community, with collaboration in advancing shared interests and goals and supporting each other's missions. Without this foundation, a PILOT initiative can backfire, resulting in unrealistic expectations and increasingly adversarial relationships.
 - If there is interest in establishing a more structured PILOT, creating a foundation will take time, effort, and commitment to build and there are costs of administering, implementing and sustaining a structured effort. Over the course of the committee's investigation, testifiers and members of the property-tax-exempt community shared examples of relationship concerns with the City driven by administrative rigidity, regulatory inflexibility, and related issues. Others questioned the truly voluntary nature of a PILOT initiative expressing concerns about coercion, shaming, and unfavorable treatment or loss of access to City officials if they didn't participate.
 - The City of Saint Paul should designate an individual administrator to spearhead the initiative.
3. **The City of Saint Paul should use these discussions with potential PILOT participants to assemble a workable policy framework for any potential PILOT initiative development.**
 - **Threshold for Participation:** There should be no threshold for participation because the recommended initiative is totally voluntary. All property tax-exempt organizations should be invited to participate in the initiative.
 - **Collection Basis:** It is important to ensure a PILOT initiative is fair, predictable, consistent, and transparent, and a framework-based approach is essential to accomplish these objectives.
 - **Use of Funds/"Earmarking":** The ability for property tax-exempt organizations to direct their contributions could enhance support for the initiative and encourage property tax-exempt organizations to be vested in it.
 - **Use of "Service in Lieu of Taxes" (SILOT) Offsets:** The many service contributions the property tax-exempt community makes to the health and welfare of the City go largely unrecognized and unappreciated. However, formally incorporating these efforts into some framework presents numerous administrative and likely costly challenges and complications.
4. **The City of Saint Paul should invest in necessary transparency infrastructure and initiatives including:**
 - Public disclosure of PILOT receipts
 - Description of any framework used to establish potential PILOT "asks" along with the rationale or justification for using it
 - Annual disclosure of parcel counts moving from taxable to tax-exempt status and vice versa
 - Information on the use of any earmarked PILOT payments and narratives describing the service contributions made to the City by any tax-exempt property owners
5. **We recommend that the State include enhanced consideration of tax-exempt properties in the distribution of Local Government Aids (LGA).**



WORK OF THE CITIZENS LEAGUE PILOT/SILOT STUDY COMMITTEE

Membership of the Pilot/Silot Study Committee

The study committee consisted of 23 members including two Co-Chairs: Joe Reid and Kaye Rakow. The Study Committee members represented a broad range of interests, ideologies, geographic locations, experiences and skills. Members were selected through referral and were open to Citizens League members and non-members. The Citizens League Board approved the final slate of committee members on April 3, 2017.

*(Committee member bios included in Appendix. An * indicates that the person or their organization was a current member of the Citizens League when the project began.)*

1. Tanya Bell*, Principal, Grand Real Estate Development
2. Ellen T. Brown*, Retired, Advocate, public policy and social justice
3. Zach Crain, Attorney, Nilan Johnson Lewis PA
4. Mike Day, Executive Vice President, Science Museum of Minnesota
5. Niles Deneen, President, Deneen Pottery
6. Jon Gutzmann, Executive Director, Saint Paul Public Housing Agency
7. Kit Hadley, Retired Director, Saint Paul Public Library
8. Jake Hamlin*, Director State Government Affairs, CHS Inc.
9. Doug Hennes*, Vice Pres. of Gov't Relations and Special Projects, University of St. Thomas
10. Bror Herrick*, Interim VP of Operations, United Hospital, part of Allina Health
11. Matt Hill*, Principal, D&H Consultants
12. Heather Johnston, City Manager, City of Burnsville
13. Jay Kiedrowski, Senior Fellow, Humphrey School of Public Affairs
14. Susan Kimberly*, Retired Deputy Mayor Saint Paul, Interim Pres. Saint Paul Area Chamber of Commerce
15. Barbara McCormick, Senior Vice President for Housing with Services, Project for Pride in Living
16. Joan McCusker*, Vice President and CFO, Wilder Foundation
17. Greg Mellas*, Director, Institute for Community Engagement & Scholarship, Metro State Univ.
18. James Moeller, Operations Manager, R.F. Moeller Jewelry
19. Kaye Rakow, Co-Chair, Retired Dir. of Public Policy, NAIOP, the commercial real estate dev. assn.
20. Rinal Ray, Deputy Public Policy Director, Minnesota Council of Nonprofits
21. John Regal*, Director, Risk Management & Local Public Affairs, Securian Financial Group
22. Joe Reid, Co-Chair, retired City of Saint Paul Budget Director, VP of Administration Marsden
23. Pa Der Vang, Associate Professor, St Catherine University

The Study Committee was assisted by Citizens League Executive Director Sean Kershaw, Minnesota Center for Fiscal Excellence Executive Director Mark Haveman, and interns Lincoln Bacal (Venture Academy High School), Matthew Burgstahler (Saint John's University), and Fatjon Kaja (University of Minnesota Law School).

ACTION BY THE CITIZENS LEAGUE BOARD OF DIRECTORS

The Citizens League Board approved the report on August 31, 2017.



Resource Persons Who Met with the Study Committee
(Listed in the order they appeared before the Study Committee.)

- Todd Hurley, City of Saint Paul Finance Director
- John McCarthy, City of Saint Paul Budget Director
- Jean Stepan, Ramsey County Attorney's Office
- Chris Samuel, Ramsey County Assessor's Office
- Todd Guerrero, Attorney, Kutak Rock LLP
- Jon Gutzmann, Executive Director, Saint Paul Public Housing Agency
- Doug Hennes, Vice Pres. of Gov't Relations and Special Projects, University of St. Thomas
- Greg Mellas, Director, Institute for Community Engagement & Scholarship, Metro State Univ.
- Rinal Ray, Deputy Public Policy Director, Minnesota Council of Nonprofits
- Kerri Gordon, Director Health Policy and Government Affairs, Allina Health
- Daphne A. Kenyon, Resident Fellow in Tax Policy- Lincoln Institute of Land Policy
- Matt Englander, Director of Tax Policy at City of Boston Assessing Department



DATA AND FINDINGS

Committee Findings are included at the end of this section, including how the members voted

Originally the words “Payment in Lieu of Taxes” (PILOT) were used to describe Federal payments to local governments that helped offset losses in property taxes due to non-taxable Federal lands within their boundaries.² Although Minnesota law made provisions for reimbursing counties for the costs of managing state owned lands as early as 1933, the main state PILOT law was enacted in 1979.³ This law provided for payments for land owned by the state. More recently the term PILOT has been broadened to cover a variety of transactions between tax-exempt organizations and local governments across the United States but concentrated in the Northeast.

Legal Context for Property-Tax-Exemption

Minnesota has one of the most complex property tax systems in the nation.⁴ For example, Minnesota has 55 property tax classes and tiers, 47 exemption categories, 6 exclusions, 4 special valuations and deferments, regional tax base sharing, and one of the larger sets of levying authorities in the country.⁵

Tax-exempt properties are exempted either by the state constitution, by specific state statutes, or both.

Minnesota Constitution

The Minnesota constitution exempts cemeteries, public school houses, education institutions and seminaries of learning, purely public charities, churches and places of worship, property used exclusively for any public purpose, and hospitals from property taxes. However, the legislature may define or limit the property tax-exemption for any of these exemptions, other than that of places of worship, educational institutions, and seminaries of learning.⁶

Statutes of the State of Minnesota

The Minnesota Statutes define or limit the constitutional property tax-exemption. For purely public charities, the legislature adopted factors a charity must meet in order to qualify for exemption above and beyond demonstrating status as an organization exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (referred to as “501(c)(3)s”). In addition to other factors, these factors require organizations to prove that they are financially supported by the community and that they provide services for free or reduced cost or alleviate the service burden of government. Their exemption is reviewed every three years by county or city assessors for eligibility.⁷

Because the property tax-exemption is more restrictive than the income tax-exemption, many organizations are not subject to income tax but are subject to property tax.

There are some notable distinctions about property-tax-exemption:

- To qualify for exemption, the property must be owned by the exempt organization and used for an exempt purpose.
- The exemption only applies to property owned by an exempt organization. Organizations that lease space from a property tax-paying organization usually pay property taxes that are passed on to them by their landlords through rent charges.

² Public Law 94-565, dated October 20, 1976.

³ 1979 Minn. Laws, ch. 303, art. 8, §§ 1-4.

⁴ Testimony of Jean Stepan, Ramsey County Attorney’s Office

⁵ <http://www.revenue.state.mn.us/propertytax/workgroup/finalreport.pdf>

⁶ Minn. Constitution Art. X, § 1

⁷ Minn. Stat. § 272.02, Subd. 7



- Hospitals are taxed differently than some clinics. Some clinics are taxable, but hospitals and community clinics are exempt.
- Property-tax-exemption also exempts these entities from levies by counties, cities, and school districts.

Government Properties

The Constitution of the State of Minnesota exempts “public property used exclusively for any public purpose” from taxation. In general, governmental bodies are exempt from other governmental bodies’ taxing as long as their activities or enterprises are confined to their strictly governmental business. In this context the State of Minnesota, United States Government, Ramsey County, and School District 625 are exempt from the property taxes of the City of Saint Paul.

Non-Tax Payments by Tax-Exempt Properties

Special Assessments

The state constitution also authorizes cities to levy and collect assessments for local improvements upon property benefited.⁸ Special assessments can be charged on all properties (including tax-exempt properties) for local improvements that result in a measurable or special benefit to the property. Special assessments must be uniform on the same class of property and may not exceed the benefit provided. For example, the extension of a sewer line to a property, whether taxable or tax-exempt, would be a local improvement with a measurable benefit to the property, likely in the form of increased value.

Special Charges

Cities can charge all properties, including tax-exempt properties, for specific services directly provided to properties. Special charges are often collected as special assessments for services such as sidewalk repair, streetlight operation, and the removal of public safety hazards from private property.⁹ Special charges originate in the city’s police power. Cities may collect “regulatory charges or service fees” under their police power to defray cost of regulating private activity for purpose of preserving public health, safety, welfare, and abating public nuisances. Examples: permit and license fees, utility charges, building/inspection fees, etc.

Municipal Consumption Fees

Tax-exempt properties also pay many municipal fees for direct services: for example, water and sewer fees, etc. Generally, these fees are tied to the use or consumption of a particular service and the charge must be proportionate to consumption.

Saint Paul’s ROW and First Baptist Church

In 2003, the City of Saint Paul expanded the range of services it charged to nearly every owner of real property within the City limits. New services were added to the old street maintenance assessment and the program was given a new name. It became known as the right-of-way assessment (ROW assessment). However, in 2016, the Minnesota Supreme Court concluded in *First Baptist Church of Saint Paul, et. al. vs. City of Saint Paul* that the City’s power to collect the ROW assessment derived from its power to tax rather than from its police power in that the ROW raised revenue for a public purpose that benefited the general public, was an annually recurring assessment, and was imposed City-wide for a diverse set of services. Hence, as a tax, the ROW assessment was subject to constitutional limitations, which meant it could not be applied to entities that the Minnesota constitution exempts. Local

⁸ Minn. Constitution Art. X, § 1

⁹ Minn. Stat. § 429.101



governments in Minnesota have to abide by the new ruling and are subject to all the rules governing local taxation.

As a result of the court case *First Baptist Church of Saint Paul, et. al. vs. City of Saint Paul*¹⁰ the change from the Right of Way Program back to a Street Maintenance Program caused an overall loss to City revenue of \$19,082,383.¹¹ The City intends to cover most of this loss by adding to the property tax levy an amount equal to most of the former ROW assessment. But an estimated \$1,811,389 was lost from properties owned by tax-exempt organizations (including government organizations) in Saint Paul.¹²

Property Tax Payments

In addition to tax-exempt property, some nonprofit organizations own property that is taxable (housing, commercial, etc.) and the organizations pay property taxes on those properties. For example, healthcare organizations pay property taxes on the clinics that they operate.

Negotiated Agreement Payments

Purchase or development agreements entered into by tax-exempt organizations with public agencies may require some payment as part of the negotiated deal. For example, the Saint Paul Housing Redevelopment Authority (HRA) offered bonds on a nonprofit project and in recognition of that financial assistance, required the nonprofit to make payments in lieu of taxes for 15 years. These payments were later “forgiven” in exchange for improvements to the building’s entryway and plaza. Another example is the sale of property by the Saint Paul Port Authority to a tax-exempt organization that required the purchaser to pay a minimum amount of property taxes for a period of 25 years through a development agreement. These payments effectively work like a PILOT payment.

Quid Pro Quo Payments

The potential for municipal agencies to extract concessions from tax-exempt organizations in the course of every day public business is not unique to Minnesota and is a practice observed across the country. From Lincoln Land Institute Nonprofit PILOTs Policy Brief: “One strategy used by local governments to gain leverage in PILOT negotiations is to request a PILOT when a nonprofit needs a building permit, zoning change, or some other approval from the city. Nonprofits may view these requests as extortion while others see the payments as bribery for special treatment. In some cases, nonprofits agree to PILOTs after the city or state has threatened to impose a new tax or fee.”¹³

Payments in Lieu of Taxes (PILOT) and/or Service in Lieu of Taxes (SILOT)

Tax-exempt property owners may voluntarily choose to make payments to governmental bodies to support or expand the services provided by those bodies. The same property owners may offer to contribute services that enhance, supplement or replace services by governmental bodies. Currently the committee is aware of only two PILOT payments in Saint Paul, one by the Public Housing Authority and the other by the Saint Paul Downtown Airports Tenant Association. The negotiated agreement payments described above have many similarities to PILOTs and may be included under a broad definition of PILOT.

¹⁰ <https://citizensleague.org/wp-content/uploads/2017/06/Supreme-Court-Decision.pdf>

¹¹ <https://citizensleague.org/wp-content/uploads/2017/04/Documents-.pdf>

¹² More than \$1 million of this amount was from government entities in Saint Paul.

¹³ <http://www.lincolnnst.edu/sites/default/files/pubfiles/nonprofit-pilots-policy-brief-v2.pdf>



Examples of PILOT Payments in Minnesota:

The Public Housing Agency of the City of Saint Paul (PHA) has made PILOT payments for over 40 years. These payments are distributed among all local taxing jurisdictions in Ramsey County (city, county, school district, etc.) where PHA properties are located.

- In 2016, the PHA's county PILOT payment was \$287,822; Saint Paul's share was \$76,040.
- In 2017 the PHA's PILOT payment was \$336,888¹⁴.
- These payments were originally (40 years ago) a contractual mandate required by the Federal Department of Housing and Urban Development. It has since become voluntary.
- The PHA pays an additional \$560,000 each year to the City for community policing services (a 26 year partnership with the Saint Paul Police Department). Another mission-driven program, the PHA's Officer in Residence (OIR) program, costs the PHA \$75,000 per year in lost rental income.

According to PHA Executive Director Jon Gutzmann, *"The PHA makes PILOT payments for at least three reasons:*

- *Sense of civic duty and pride; we want to do our fair share to keep Saint Paul a great place in which to live and work;*
- *Our PILOT payments help offset the cost of essential services which we know benefit our properties and clients; and*
- *In striving to fulfill our mission, and by making financial contributions 'above and beyond' such as community policing, the PHA also plays a small role in helping the City be a safe, healthy, and thriving community."*

The Saint Paul Downtown Airports Tenant Association makes an annual payment to the City of Saint Paul.¹⁵ In 2016, the PILOT Payment was \$106,287.

The Saint Paul Downtown Airport Tenants Association is an association of tenants of the Metropolitan Airport Commission on land surrounding Holman Airport in the City of Saint Paul. The formula, established in 1997, is still in use. It provides a basis for contributing to a share of the estimated cost of police and fire services for the Association.

Minnesota Tax-Exempt Property Is Concentrated in First Class Cities

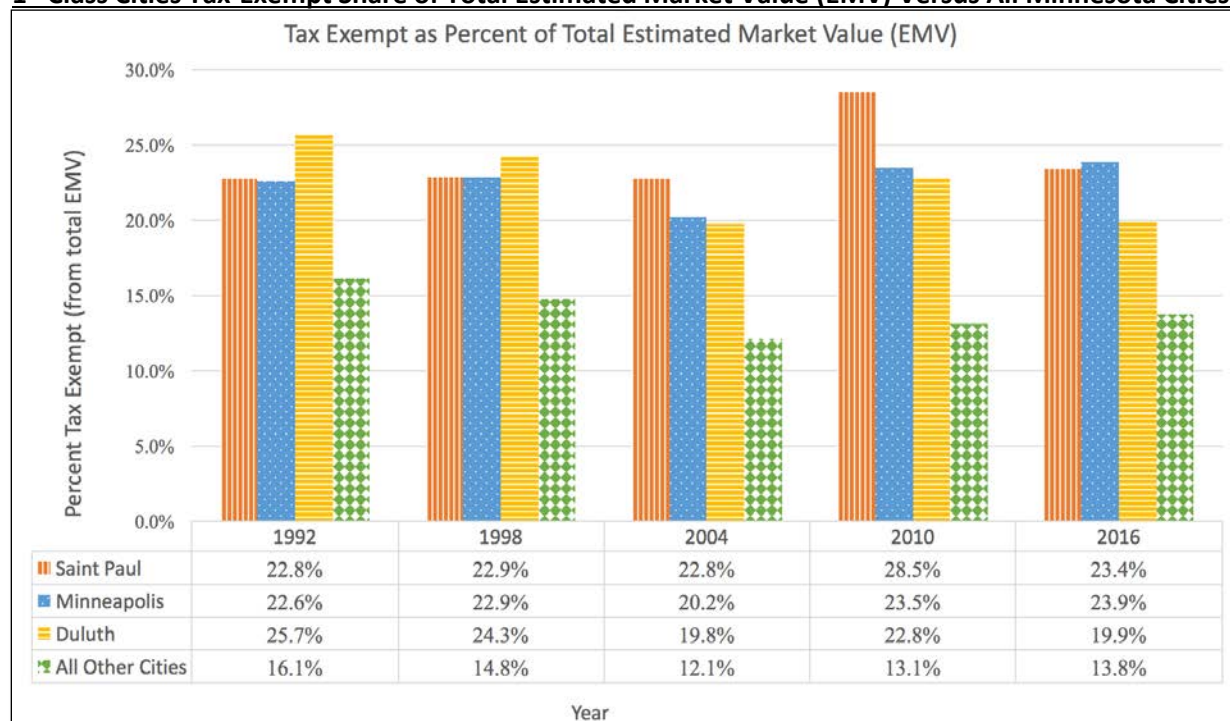
Nationally, - tax-exempt property tends to be highly concentrated in a small number of municipal jurisdictions—namely college towns, state capitals, and central cities. When considering whether or not to seek PILOT payments from tax-exempt organizations, the tax-exempt share of the municipal's estimated market value is a primary consideration.

¹⁴ <http://www.stpaulpha.org/images/issues-speeches/JMG%20PILOT%20PPT.pdf>

¹⁵ [Saint Paul Downtown Airports Tenant Association and the City of Saint Paul](#)



1st Class Cities Tax-Exempt Share of Total Estimated Market Value (EMV) Versus All Minnesota Cities:¹⁶



(Saint Paul Source: Ramsey County Data- Pay Year 2016 / Source: Patrick Todd- Mpls Exemption Summary Report ^{17 18}) *The data depicts percentages of total value and does not suggest one city has 'more' of a specific category.

Type of Exemption

Public Institutions

Government (Federal, County, Municipal)

K-12 – Public

Special Taxing District

Tax Forfeited Property

College & Universities – Public

Non-public Institutions

College & Universities – Private

Hospitals

Church Property

Charitable Institutions

K-12 – Private

Other (wetlands, cemetery, hydro-power)

% of total EXEMPT value

Saint Paul

Minneapolis

57.4%

72.29%

35.0%

40.2%

12.4%

6.6%

9.1%

4.4%

0.1%

0.1%

0.8%

21.0%

41.6%

27.51%

14.3%

3.4%

10.4%

6.8%

7.2%

5.7%

7.2%

11.1%

2.5%

0.6%

1%

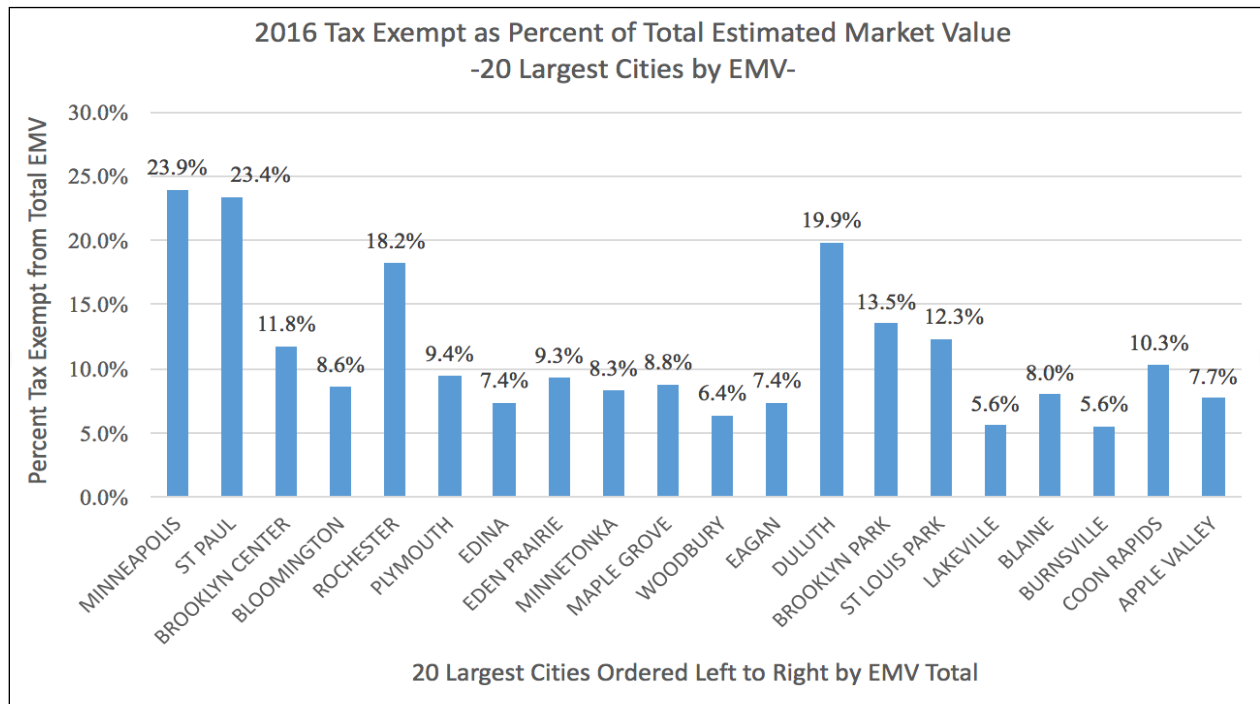
0.2%

¹⁶ Property Tax Research, MN Department of Revenue (Erick Willette)

¹⁷ [Mpls Exemption Summary Report](#)- Excel File

¹⁸ [Source: Ramsey County Data- Pay Year 2016](#)-Excel File

According to research conducted by the Minnesota Department of Revenue for 2016, the overall percentage of tax-exempt property in Minnesota cities (from data in all cities) is 15.5%.¹⁹



Exempt Value Per \$ of Tax Capacity

Tax capacity is determined by multiplying the estimated market value of a property by its relevant class rate. For example a commercial property valued at \$100,000 has more tax capacity than a residential property valued at \$100,000 because the class rate for commercial properties is higher.

The government finance challenge created by tax-exempt properties is not just a function of how much of the total market value in the city exempt properties represent, but also how much effort is required of properties that are taxable to support this amount of exempt value. To assess how Saint Paul compares to other metro area cities, we took total exempt value and divided it by the tax capacity of the city to derive an exempt value per dollar of city tax capacity.

As the accompanying table illustrates, Saint Paul's exempt property share is 2.8 times that of the median metro city, but the City's exempt value per dollar of City tax capacity is 3.5 times that of the median city placing it 9th among 138 metro area cities.

¹⁹ [2016 Tax-exempt as Percent of Total EMV \[by City\]](#)



2016 Exempt Value Per \$ of Tax Capacity- (Top 10 in the Metro)²⁰

City	EMV Exempt Property (\$)	EMV Taxable Property	Total EMV	% Exempt	Tax capacity	Exempt Value per \$ tax capacity*
METRO AVERAGE	347,467,104	2,264,967,144	2,612,434,247	10.1%	19,834,180	14.8
METRO MEDIAN	99,791,600	953,872,300	1,053,663,900	8.4%	7,837,264	10.6
FALCON HEIGHTS	701,777,600	420,187,400	1,121,965,000	62.5%	3,770,506	186.1
ARDEN HILLS	834,577,200	1,178,208,500	2,012,785,700	41.5%	11,398,510	73.2
DAYTON	301,473,800	632,286,500	933,760,300	32.3%	4,797,395	62.8
BAYPORT	139,757,900	256,217,400	395,975,300	35.3%	2,246,737	62.2
LANDFALL	1,495,000	6,853,900	8,348,900	17.9%	26,677	56.0
HILLTOP	12,930,000	23,577,400	36,507,400	35.4%	253,068	51.1
OSSEO	68,004,900	239,167,900	307,172,800	22.1%	1,730,017	39.3
MPLS	13,888,375,814	44,105,603,900	57,993,979,714	23.9%	360,696,248	38.5
ST PAUL	6,729,042,400	22,055,098,300	28,784,140,700	23.4%	183,360,292	36.7
ANOKA	324,119,500	1,362,116,000	1,686,235,500	19.2%	9,294,971	34.9

*The exempt value was divided by the tax capacity.

Conversion of taxable to exempt properties in Saint Paul:²¹

When property is sold, the ownership change may change its taxable status. If it is sold by a taxable entity to a tax-exempt one, the sale will reduce the number of parcels and acres of land supporting general public services. A preliminary search of data shows that 381 parcels in Saint Paul have gone from taxable to tax-exempt usage over the past 10 years (2007-2017).

- 142 (37.3%), with a total 2017 EMV of \$26,101,000, are now owned by the City of Saint Paul
- 10 are now owned by the state (roads mostly)
- 3 are now owned by the county (biggest being Metro Square)
- 30 are now owned by schools and colleges
- 30 are now owned by churches
- 3 are now owned by hospitals/exempt clinics
- 9 - are now owned by entities providing apprenticeship training or emergency shelter
- 55, with a total 2017 EMV \$31,730,800, are now owned by charitable organizations
- 33 went from commercial use to exempt
- 15 went from residential use to exempt
- 5 went from apartment use to exempt
- 5 went from industrial use to exempt
- 93 were tax forfeit properties

²⁰ [2016 Tax-exempt as Percent of Total Emv, By City- Tax Capacity](#)- Excel File

²¹ Mn Dept of revenue for exempt values, bulleted info from Ramsey county assessor office



Using data from the Ramsey County Assessor, we estimate Saint Paul lost \$1.02 million in 2017 City property tax revenues from parcel transition to exempt ownership that has occurred over the past decade.

National Trends in the Use of PILOTs

The Lincoln Institute of Land Policy is a nonpartisan nonprofit private operating foundation whose origins date to 1946. The Lincoln Institute researches and recommends creative approaches to land taxation policies as a solution to economic, social, and environmental challenges. Its research on PILOTs across the United States provides the following information.

PILOTs have been received by at least 218 localities in at least 28 states since 2000²²; these payments are collectively worth more than \$92 million per year. (2012)

Most PILOTs go to cities and towns, but at least seven school districts and four counties also have received PILOTs.²³

- School Districts: Newton School District, Newton, MA; Ithaca School District, NY; Dresden School District, Dresden, NY; DeKalb County Schools, DeKalb, GA; Indiana School District, Indiana, PA; Harrisburg School District, Harrisburg, PA and multiple school districts, PA.

PILOTs tend to provide limited revenue as a percentage of general revenue.²⁴ PILOTs account for less than 0.25 percent of general revenues for 70 percent of localities with data, and more than 1 percent of revenues for just 11 percent of localities, according to the most comprehensive analysis of PILOTs to date.

Table 1

U.S. Cities That Receive the Most PILOT Revenue

City	State	Year	PILOT REVENUE		Number of Nonprofits Making PILOTs
			Total \$	% General Revenue	
Boston	MA	2015	27,925,183	0.84%	36
New Haven	CT	2015	10,936,010	1.49%	2+
Providence	RI	2016	8,233,374	0.94%	7
Cambridge	MA	2015	6,919,135	0.64%	15
Princeton	NJ	2015	3,610,000	5.93%	6
Erie*	PA	2015	2,862,897	0.44%	13
Baltimore	MD	2015	2,411,533	0.07%	15
Lancaster	PA	2015	1,614,344	2.08%	38
Lebanon	NH	2016	1,553,546	4.78%	1
Ithaca*	NY	2014	1,550,619	0.86%	2
Pittsburgh	PA	2015	419,000	0.07%	41 (in 2012)

Note: This table shows updated data for localities identified as receiving the most PILOT revenue in a 2012 survey that still receive a PILOT. (Langley, Kenyon, and Bailin 2012).

* Table shows combined PILOT revenue for the city, county, and school district.

** General revenue is from the Census Bureau's 2013 Survey of State and Local Government Finances, but adjusted for inflation to match year with PILOT revenue for each city.

²² http://www.lincolnst.edu/sites/default/files/pubfiles/langley-wp12a11-full_0.pdf

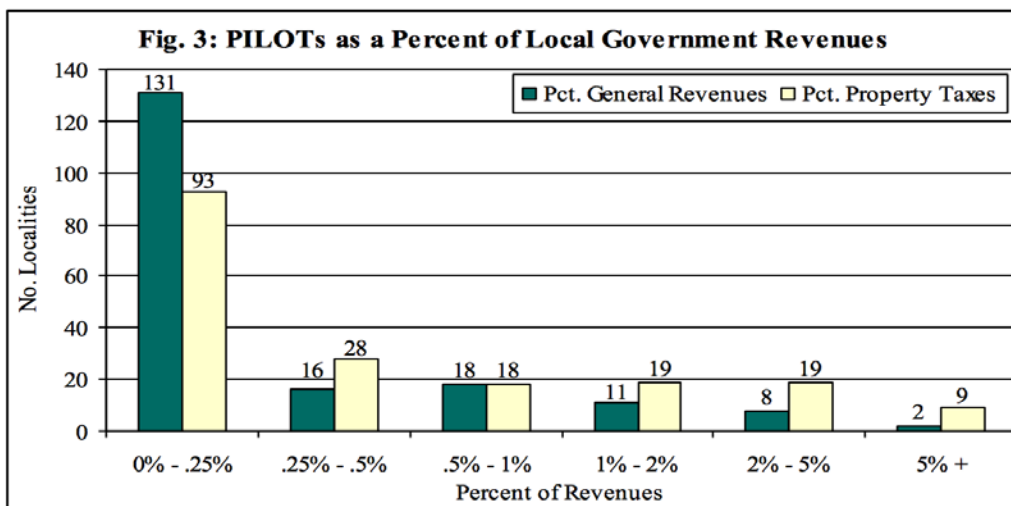
²³ [Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them Lincoln 2012](#)

²⁴ <http://www.lincolnst.edu/sites/default/files/pubfiles/nonprofit-pilots-policy-brief-v2.pdf>



Revenue Productivity of PILOTs

As figure 3 shows, PILOTs account for a nominal share of total general revenue in the majority of localities receiving these voluntary payments. Of 186 localities with information on revenue from PILOTs, 131 generate less than 0.25 percent of their total revenue from PILOTs. These payments account for more than 1 percent of total revenue in only 21 localities.



Note: Figure 3 is for 186 localities where the total amount of revenue generated by PILOTs is known.

Source: Lincoln Institute of Land Policy²⁵

Although more than 90 percent of all PILOT revenue comes from “eds and meds” — college payments are far more important than hospital payments with colleges contributing about two-thirds of PILOT payments and hospitals another quarter.²⁶

Most nonprofits make fairly small PILOTs while most revenue generated comes from a small number of multi-million dollar PILOTs. As a result, the average PILOT for all nonprofits (\$292,952) is nearly 10 times larger than the median (\$30,000).²⁷

Using the Lincoln Institute’s report of PILOTs producing a range of 0.25% - 1.0% of general revenue, Saint Paul would receive an estimated \$1.4 million - \$5.6 million from a PILOT.

²⁵ http://www.lincolnst.edu/sites/default/files/pubfiles/langley-wp12a11-full_0.pdf

²⁶ http://www.lincolnst.edu/sites/default/files/pubfiles/langley-wp12a11-full_0.pdf

²⁷ http://www.lincolnst.edu/sites/default/files/pubfiles/langley-wp12a11-full_0.pdf



Lessons from Boston

Boston has the best-known PILOT program in the country. While the similarities between Saint Paul and Boston—capital city, many colleges and universities—at first blush suggest a PILOT program here might produce revenue comparable to that in Boston, the committee found important differences between the two cities as well. Specifically:

- over 50% of Boston’s land area is tax-exempt, compared to 25% of land area in Saint Paul;
- there is only one jurisdiction (city, schools, and county are one entity);
- property tax made up 66% of Boston’s revenue, compared to 35.9% in Saint Paul; and
- Massachusetts’s Proposition 2 ½ establishes a levy limit on the local property tax levy.²⁸

Both the Lincoln Institute research staff person and the Boston tax assessor, who met with the committee, stressed that collaboration between -tax-exempt properties and local government is the foundation for effective PILOTs. “These payments are voluntary, so local officials must explain the need for a PILOT, demonstrate that they are trustworthy partners who will use the funds efficiently, acknowledge non- profits’ contributions to their community, and listen to their concerns.”²⁹

In Boston the City collected over 90 percent of what the City requested in FY2012. The Boston tax assessor noted that a key component of the program’s initial success was the “emphasis on promoting a sense of partnership between the City and its institutions.”³⁰ This was accomplished “in part by providing a high degree of transparency in the process.”

In terms of revenue raised, the City of Boston receives PILOTs equal to 0.84% of its General Revenue. If Saint Paul were to receive an equal percentage of its general revenue, it would be about \$4.7 million.

²⁸https://www.lincolninst.edu/sites/default/files/pubfiles/2186_1512_payments_in_lieu_of_taxes_boston_0113ll.pdf

²⁹ <http://www.lincolninst.edu/sites/default/files/pubfiles/nonprofit-pilots-policy-brief-v2.pdf>

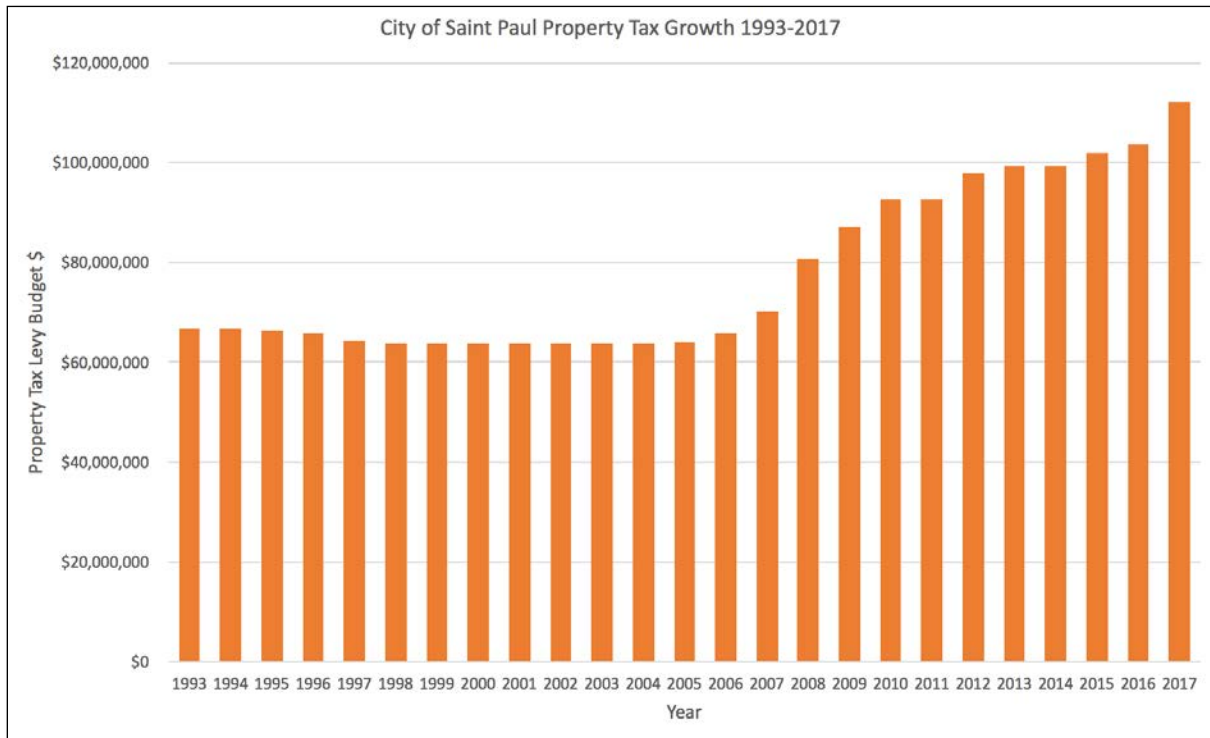
³⁰

https://www.lincolninst.edu/sites/default/files/pubfiles/2186_1512_payments_in_lieu_of_taxes_boston_0113ll.pdf



City of Saint Paul budget data from the ROW implementation period:

City of Saint Paul Property Tax Growth -1993-2017: Between 1993 and 2005 there was no increase in the certified property tax levy. In 2006 the levy began to grow and since 2006 the levy has grown by an annual average of 4.9 percent. Overall, for the past 25 years, the property tax levy grew at an average of 2.3 percent per year.³¹



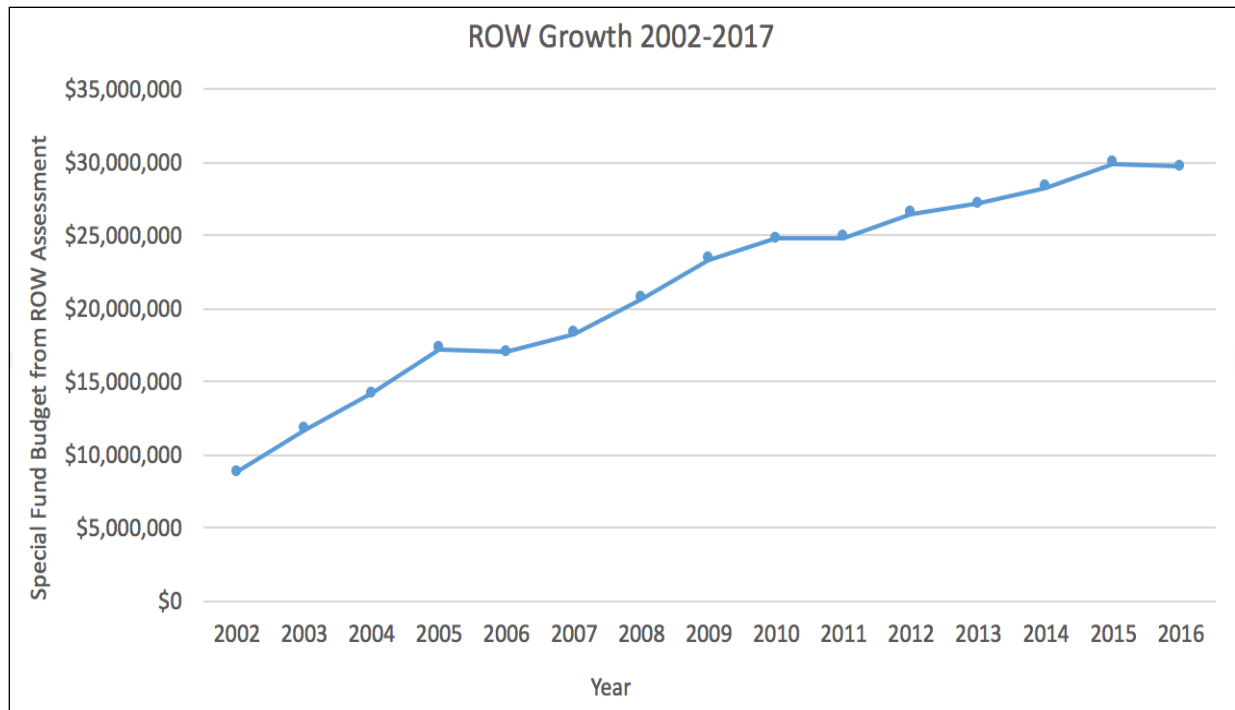
Right of Way (ROW) Assessments

Since the early 2000s many local governments around the state/country have faced fiscal pressures and have sought new revenue sources to compensate for declines in state aid and other revenue sources. Saint Paul is no exception.

Right of Way Assessments (ROW) were one of Saint Paul's ways of raising revenue without raising property taxes. Beginning in 2003 a Right of Way Assessment replaced the historic Street Maintenance Assessment. Over the years, the renamed assessment added services and the assessments grew at an average annual rate of 7.4 percent a year. Without the ROW revenues Saint Paul would otherwise have raised property taxes, or managed with service reductions and other cost cutting measures.

³¹ [Property Tax Growth](#) from 1993





As noted earlier, the City’s ROW was challenged in Court and determined to be, in large part, a tax rather than a fee, thus not legally payable by tax-exempt properties.

Taken together, property taxes and ROW assessments make up about 25 percent of the total City budget, but they are the two revenue sources that have provided a significant share of the general operating revenue, which cover the basic City services – those generally supported in part by pilot payments in other jurisdictions.

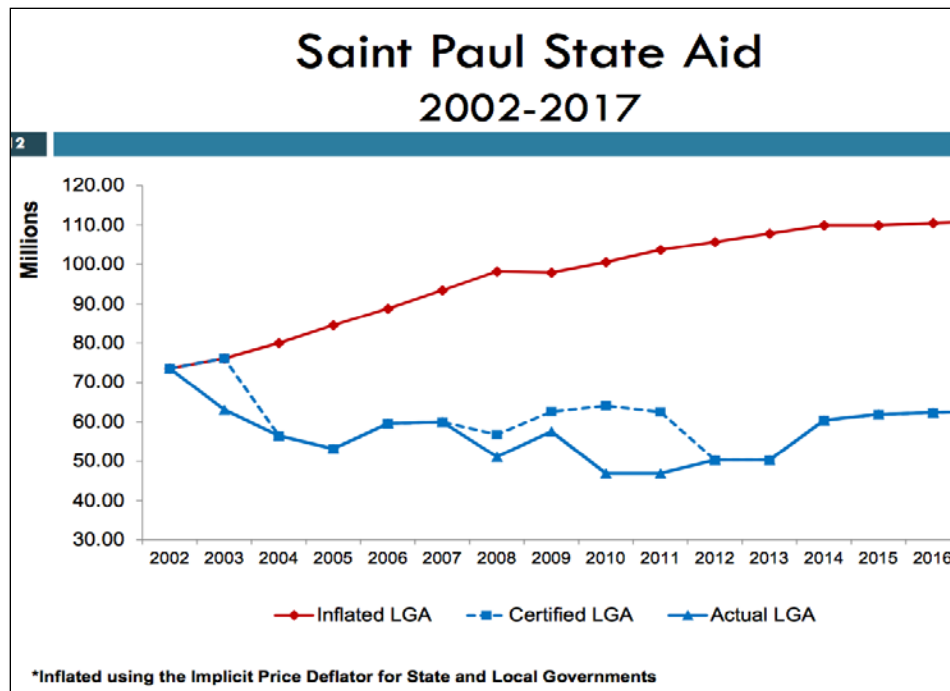
State of Minnesota Local Government Aid³²

In 1967 Minnesota passed a state-wide sales tax and provided some property tax relief for local units of government in the form of state aid. The aid to local governments (LGA) was intended to hold down local property taxes and was combined with a homestead credit that paid a portion of the property taxes on owner occupied homes. This initial effort to provide property tax relief was followed in 1971 by the so-called “Minnesota Miracle” that pledged to boost state support for schools and reduce their dependence on locally collected property taxes.

During the 1990’s and early 2000’s -LGA received by the City of Saint Paul grew by 2 to 4 % on an annual basis. In dollar terms, -LGA added between \$1 million and \$2.0 million per year to Saint Paul’s budget. The additional revenue was important, but the reliability of the financing was equally important. With a roughly \$13 million drop in LGA revenue to the City of Saint Paul - between 2002 and 2003, -LGA dropped back to 1996 levels and became very volatile in the following years as demonstrated in the graph below. In 2017 -LGA to Saint Paul is about the same as 2003. -

³² <https://citizensleague.org/wp-content/uploads/2017/04/Presentations-on-ROW-and-budget-merged.pdf>





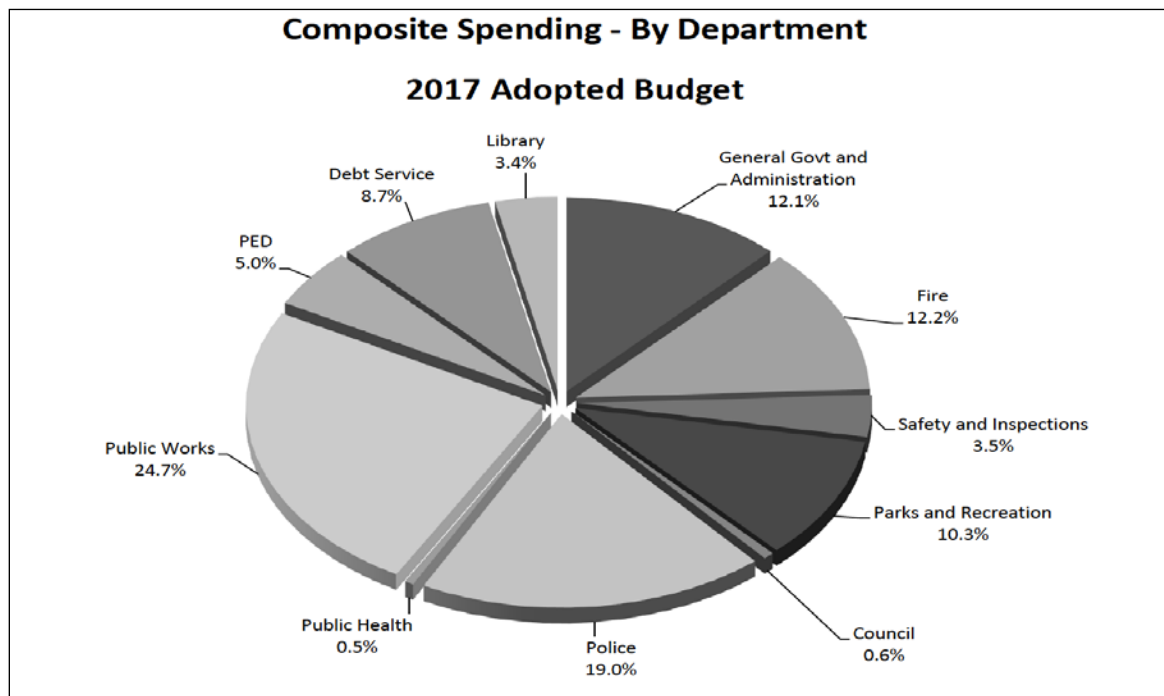
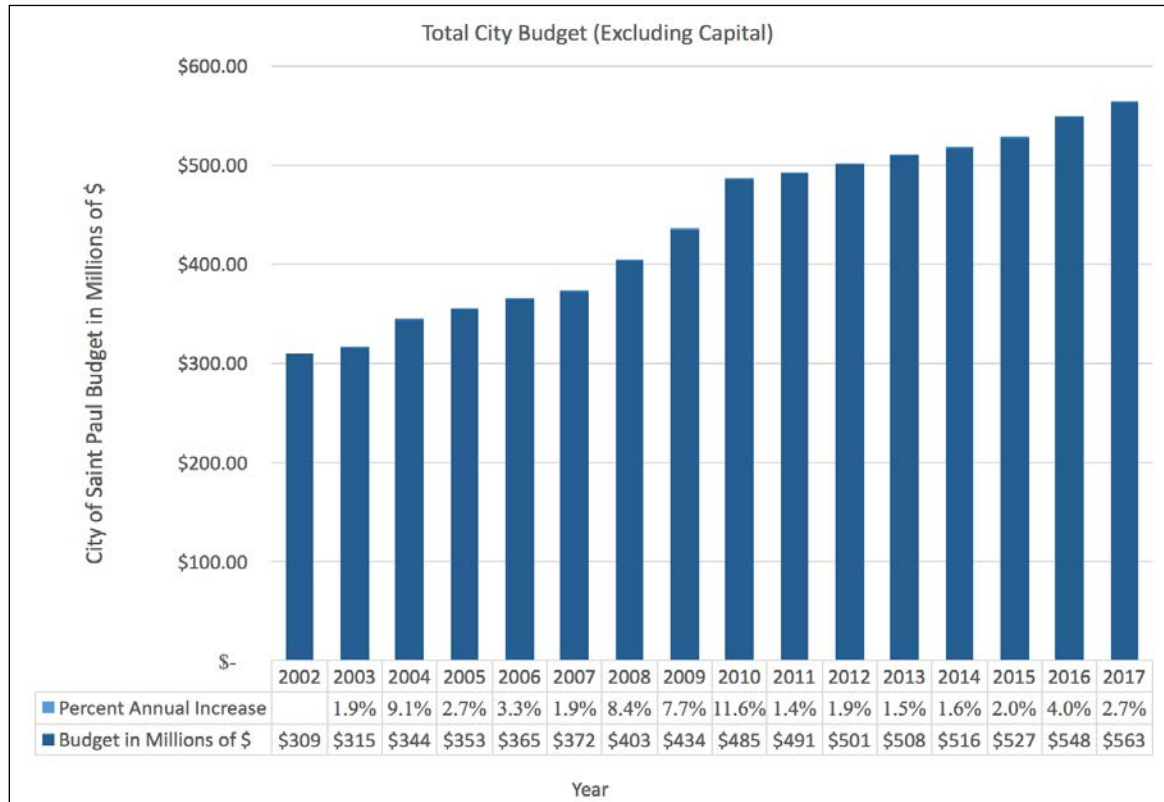
“Inflated LGA” refers to what LGA would have been if it had continued increasing at past rates. “Certified” refers to what was approved by the Department of Revenue and “Actual” means what was appropriated by the Legislature.

Obviously, Local Government Aid (LGA) used in the past for property tax relief has not been a stable revenue source for the City of Saint Paul in recent years. LGA distributed across Minnesota’s cities³³ follows the same trend and thus many municipalities in Minnesota have this funding stream issue.³⁴

³³ http://www.revenue.state.mn.us/local_gov/prop_tax_admin/aclb/lga_17_summary.pdf

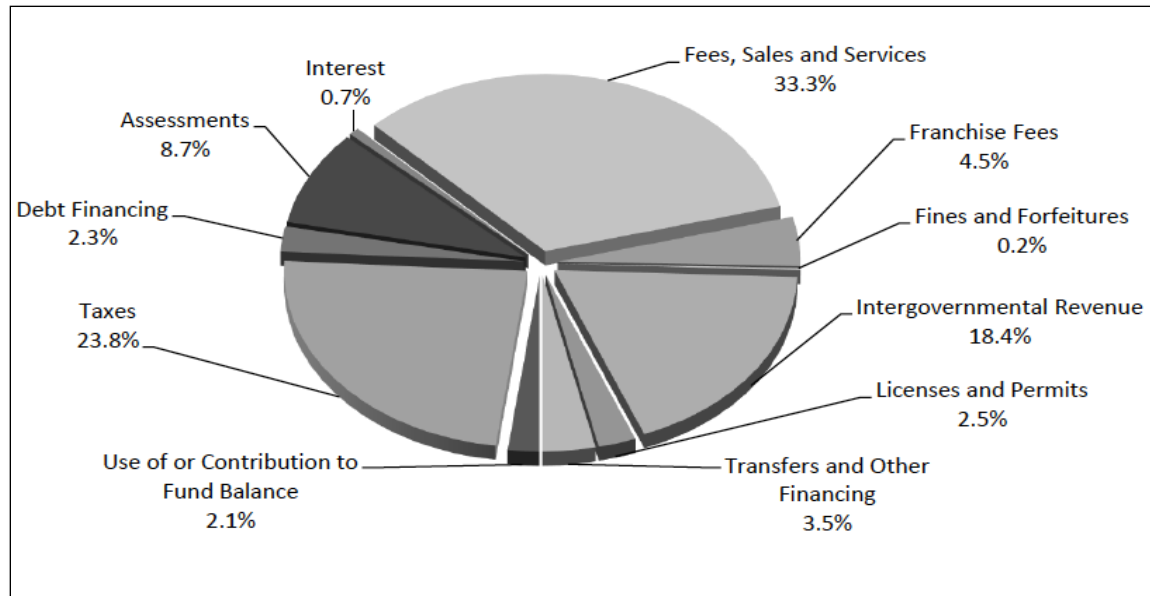
³⁴ [LGA history Minnesota Department of Revenue](#)

City of Saint Paul Budget, Spending and Revenue Data³⁵



³⁵ [City Budget Growth 2002-2017](#)-Excel File

Total Budget Financing Summary (2017 Revenue by Source)³⁶



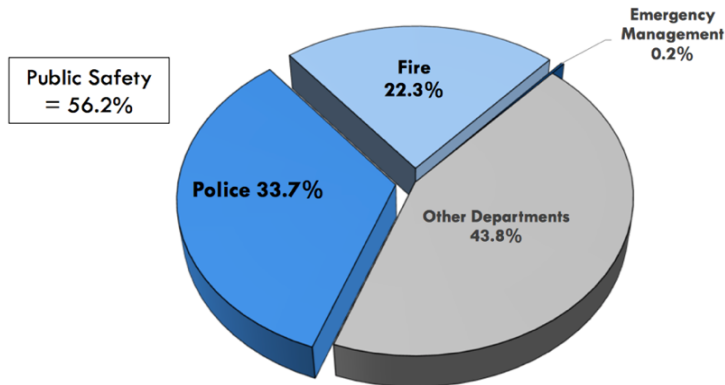
³⁶ [Adopted Financing Summary \(2017 Revenue By Source\)](#)



What do we spend our money on?

7

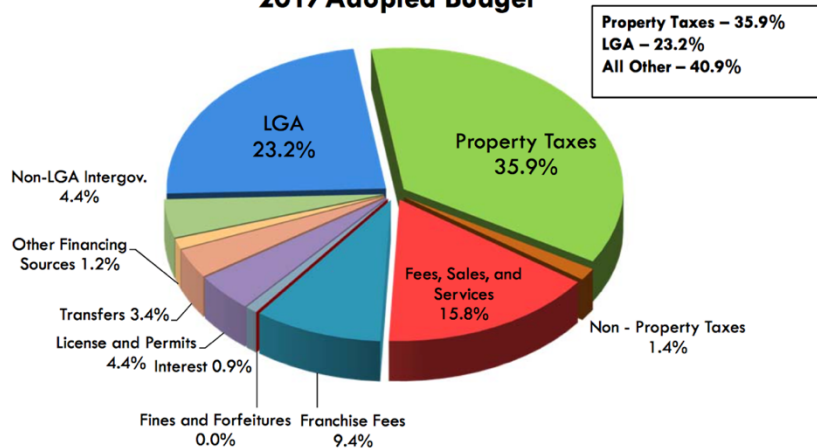
2017 General Fund Spending by Department



Where does our revenue come from?

9

2017 Adopted Budget



³⁷ <https://citizensleague.org/wp-content/uploads/2017/04/Presentations-on-ROW-and-budget-merged.pdf>

FINDINGS

After reviewing the data summarized above and hearing from many experts, the Committee agreed to the following findings.

100% agreement

- Some cities around the country, including Cleveland, Ohio, St. Louis, MO, New Orleans, LA, and Madison, WI, have considered or studied PILOTS, but did not establish them. **(100% Yes)**
- The implementation of a PILOT/SILOT for Saint Paul has implications for local governments and property tax-exempt organizations across the state. **(100% Yes)**

90-95% agreement

- The degree of collaboration and partnership essential to a successful PILOT/ SILOT initiative may be lacking in Saint Paul and needs attention. **(95% Yes, 5% Maybe)**
- A PILOT initiative requires a strong partnership between a community and its tax-exempt organizations and that relationship takes considerable time, effort and commitment to build. **(95% Yes, 5% Maybe)**
- The voluntary nature of a PILOT/SILOT initiative means that it cannot create a constant and predictable revenue source. **(95% Yes, and 5% No)**
- Administrative costs for managing an initiative in Saint Paul have to be part of the cost-benefit analysis for establishing an initiative. **(95% Yes, 5% Maybe)**
- PILOTS can take on many forms but successful ones are voluntary and employ a collaborative approach that serve mutual interests, offer a systemic framework so that they are fair, are relatively predictable and offer consistent treatment. **(91% Yes, 9% Maybe)**
- The Saint Paul property tax-exempt community offers considerable contributions to the health and welfare of the City that citizens do not know about, that is not quantified in dollars, and can be rather difficult to quantify.” **(91% Yes, 5% Maybe and 5% No)**

80% to 85% agreement

- Greater transparency on cost of City services, cost trends and reasons for change is important to gain broad acceptance of a PILOT initiative.” **(85% Yes, 15% Maybe)**
- PILOTS can have “service in lieu of taxes” (SILOTs) offsets in recognition of the contributions tax-exempt organizations make to the community. **(84% Yes, 11% Maybe and 5% No)**
- Tax-exempt organizations use many of the services provided by the City of Saint Paul. **(84% Yes, 11 % Maybe and 5% No)**
- The division of local service delivery across multiple different units of government creates some additional complications for establishing a Saint Paul PILOT/SILOT initiative. **(81% Yes, 5% Maybe and 14% No)**
- Geographic inequities exist among certain tax-exempt organizations in providing support for local services and in having City taxpayers subsidize broadly dispersed benefits. (Ex. An organization that uses services in the City but its benefits are spread broadly vs. an organization that uses services in the City but its benefits remain in the City.) **(80% Yes, 10% Maybe, and 10% No)**



75-79% agreement

- Property tax-exemption in Minnesota is spread unevenly in municipalities across the state. **(79% Yes, 16% Maybe, and 5% No)**
- The considerable amount of uncertainty surrounding federal and state tax and fiscal policies adds some complications for establishing new PILOT initiatives. **(77% Yes, 14% Maybe, 9% No)**
- Saint Paul faces a challenging budgetary environment now and in the future.” **(76% Yes, 14% Maybe, and 10% No)**



CONCLUSIONS

Conclusions Relating to the Merits & Justification of a Saint Paul PILOT Initiative

1. There is no legal basis for a mandatory PILOT initiative and therefore any initiative must be voluntary.
2. A Saint Paul PILOT cannot -- and should not -- be viewed as a “solution” to Saint Paul’s budget gaps or long term financial challenges.
3. Although PILOTs rarely account for more than a very small percent of a locality’s total revenue, the absolute dollar values can play an important role in funding public services.
4. Saint Paul is similar to other cities of the first class in its percentage of tax-exempt properties and as a percentage of its overall property value.
5. Cities of the first class, Saint Paul-, Minneapolis and Duluth, have a disproportionate percentage of tax-exempt properties (measured as a percentage of total property value) when compared to other cities in the metro. This creates geographic inequities, where the service demands of a tax-exempt property occur in a particular municipality but the benefits accrue more broadly to a region.
6. A PILOT would not completely address the inequities that currently exist in the property tax treatment of nonprofit organizations; for example the benefits that exist, in most instances, for owning real property versus leasing property.

Conclusions Relating to Conditions Necessary to Establish a Successful PILOT Initiative

1. PILOTS require both City leadership and organizational commitment. City leadership must clearly communicate its goals and interests with respect to a PILOT initiative. Organizational commitment is gained by establishing a relationship of collaboration and partnership with the City in advancing shared interests and goals.
2. Additional efforts with respect to establishing the level of collaboration and partnership essential to a successful PILOT initiative in Saint Paul may be needed because of concerns by tax-exempt organizations related to issues other than PILOT payments.
3. A mutually agreed upon initiative framework is essential to a successful PILOT. To establish this framework, City leaders must include tax-exempt property owner stakeholders in designing and implementing any PILOT initiative.
4. Greater transparency on cost of City services, cost trends and reasons for change is important to gain broad acceptance of a PILOT initiative.
5. Any new PILOT initiative should be sensitive to the unique political and budget forces potentially impacting the nonprofit community and service-delivery organizations, e.g. Federal budget changes.

PILOT/SILOT RECOMMENDATIONS

The Committee recommends that the City of Saint Paul initiate discussions with owners of tax-exempt properties in order to design and implement a PILOT/SILOT initiative for Saint Paul.

As detailed in this report, this initiative can take many forms, but the important point is for the City and owners of tax-exempt properties to agree on a voluntary initiative that meets the needs of the City and the ability of tax-exempt property owners to participate.

+++

A PILOT initiative reflects the basic principle that all consumers of city services, including tax-exempt property owners, should pay some share of the cost of delivering services from which they directly benefit. There was general consensus among the committee that a PILOT initiative offers the potential to address equity and ability to pay concerns among all entities in the City of Saint Paul.

PILOT initiatives can come in many forms, ranging from simple solicitation of voluntary contributions from tax-exempt property owners to more structured programs in which thresholds for organizational participation, the amounts of revenue collected, the basis for collecting those revenues, the use of any funds collected, and other design features are formally established.

However, since PILOT initiatives in any form will remain voluntary by constitution and statute, any interest in establishing a more structured and sustainable PILOT initiative acceptable to the property tax-exempt community would require the City to make it a priority coupled with a significant investment of time, energy and commitment.

1. The City of Saint Paul could seek out voluntary contributions from the property tax-exempt community.

It is not clear to the committee whether some PILOT initiative by the City would be viewed as a potential enhancement to the now scaled-down ROW program (i.e. "Street Maintenance Services" or SMS program), a replacement for the SMS program itself, or something different altogether. Certainly the amount of potential revenue collected through such solicitations -- and the receptivity of the property tax-exempt community to these requests -- would be affected by the answer to this question.

Nevertheless, many organizations in the property tax-exempt community are keenly aware of the budget circumstances facing the City and are likely to be willing to continue to offer at least some level of support for the delivery of City services. Example: Saint Paul's five private colleges (Concordia, Hamline, Macalester, St. Catherine and St. Thomas) submitted an August 1 statement (see Attachments) to the Committee saying that they oppose a formal PILOT program but "are open to making voluntary financial contributions to the City." Such contributions, the colleges stated, "would reflect our interest in contributing to the costs of providing City services . . ."

2. If there is City interest in establishing a structured PILOT initiative, the City of Saint Paul should pursue discussions with the property tax-exempt community now to establish the necessary foundation required to create and sustain it.

Efforts from around the country demonstrate that sustainable, successful PILOT initiatives depend on long-term partnerships between the City and the property tax-exempt community with collaboration in advancing shared interests and goals and supporting each other's missions. Without this foundation, a PILOT initiative can backfire resulting in unrealistic expectations and increasingly adversarial relationships.

The City needs to recognize that there is work to be done in this area. Creating such a foundation will take time, effort, and commitment to build and there are costs of administering, implementing and sustaining a structured program. Over the course of the committee's investigation, testifiers and members of the property-tax-exempt community communicated examples of relationship concerns with the City driven by administrative rigidity, regulatory inflexibility, and related issues. Others questioned the truly voluntary nature of a PILOT initiative expressing concerns about coercion, shaming, and unfavorable treatment or loss of access to City officials if they declined to participate.

Such an undercurrent of tension and mistrust makes acceptance of a structured PILOT initiative in Saint Paul more difficult. It also demonstrates that the conditions for establishing the type of mutually-supportive foundation needed for a successful PILOT initiative requires additional attention.

Importantly, even if a structured PILOT initiative is not pursued, such conversations and relationship building remain essential to any efforts by the City to expand the participation of the property-tax-exempt community in any ongoing voluntary contribution campaign, such as that suggested by the City's five private colleges. As such, the City of Saint Paul should designate an individual administrator to spearhead the initiative.

3. The City of Saint Paul should use these discussions with potential PILOT participants to assemble a workable policy framework for any potential PILOT initiative development.

The committee cannot prescribe a detailed design for what a Saint Paul PILOT initiative should look like because initiative features and arrangements need to be tailored to and responsive toward the concerns and interests of all participating parties, which critically includes the City of Saint Paul.

However, in its review and study of PILOT initiatives, the committee has discussed several important program features and considerations for which decisions would eventually need to be made. Following are key initiative design decisions with some perspective on the consensus of the committee regarding these elements.

- **Threshold for Participation** — Options to consider would be to include all tax-exempt properties (i.e. including all government properties), or creating further limitations like exempting certain owners based on type of organization (e.g. churches, educational institutions, etc.), or size (e.g. by establishing a minimum property value or gross revenue threshold), or some combination of these factors.

According to the general consensus of the committee, there should be no threshold for participation because the recommended initiative is totally voluntary. Hence, the large majority of the committee believes that all property tax-exempt organizations (government owned, nonprofits etc.) should be invited to participate in the initiative.

- **Collection Basis.** Creating a predictable, consistent, and transparent “ask” in a structured PILOT initiative demands a systematic approach and a framework for individual payments which addresses two fundamental questions:
 - 1) The rationale and basis for determining how much revenue the PILOT initiative should aim to produce (for example, some portion of the cost of some pre-defined set of City services); and;
 - 2) The basis for determining what an individual PILOT payment should be (for example percent of assessed or insured value, square footage, or annual revenues).

The Committee recognizes that by definition a completely voluntary initiative creates an environment in which payment outcomes will be a de facto product of continuous discussion between the City and the participating property tax-exempt organizations.

Nevertheless, the committee’s general consensus was that it is important to ensure a PILOT initiative is fair, predictable, consistent, and transparent, and that a framework-based approach is essential to accomplish these objectives. Depending on decisions regarding the scope of organizations to be included in a PILOT, the framework may suggest different contributions for different tax-exempt property types to ensure “asks” are commensurate with ability to pay.

- **Use of Funds/“Earmarking”.** Determining whether a contributing organization can or should have a say in how its funds are used is an important design consideration. On the one hand general fund revenues are fungible so any attempt to “dedicate” PILOT revenues to specific services supported by the general fund is likely to be functionally impractical and ineffective. Yet the ability for a participating organization to dedicate its revenues to government spending closely allied with its public purpose mission and own organizational interests is not only likely to make the initiative more attractive to potential participants, it would help reduce resistance to the initiative among funders of property tax-exempt organizations.

One avenue potentially worth exploring is the earmarking of PILOT revenues to capital purchases or other forms of “one-time” city spending. Such an approach combines the initiative marketing advantages of earmarking while avoiding the inherent problems of attempting to build ongoing base city operating budgets on what are voluntary, and thus unpredictable, contributions. The possibility of geographic earmarking — linking payments to projects in which the property tax-exempt organization operates or serves may add to the appeal of this approach.

While recognizing that earmarking PILOT revenues is a potential departure from the usual organizing principle and purpose behind PILOT creation — having all property tax-exempt owners pay something toward the cost of general government services benefitting property ownership — the consensus of the committee was that the ability for property tax-exempt organizations to direct their contributions would enhance support for the initiative and encourage property tax-exempt organizations to be vested in it. A two-thirds majority of the

committee recommends earmarking be permitted in any future PILOT initiative. A minority report statement on this point is attached.

- **Use of “Service in Lieu of Taxes” (SILOT) Offsets.** Creating, within a PILOT initiative framework, financial credits or payment offsets based on the value of services property tax-exempt organizations provide is a complicated issue. National experience suggests SILOTs can be an effective way to obtain “buy-in” and highlight the many contributions of the non-profit community to the city, which are often not seen by the public. It can be an important component to the foundation building needed to establish a PILOT initiative. SILOTs can also stimulate and encourage government redesign thinking and potentially prompt more cost effective and efficient ways to deliver public services.

Arguments against the use of SILOTs include the additional administrative burden and costs and the inherent challenges on putting a dollar value on these service contributions, which vary widely by type. Moreover, many of the contributions are human service oriented which may more directly lessen the financial burden of county rather than city government, or are broadly beneficial to metro or even statewide residents rather than principally confined to Saint Paul, even as the city bears the financial burden of providing public services to the properties. Finally, there is the concern that the economic incentives of service credits could cause non-profits to subordinate their mission to the interest of the city.

The committee found that the many service contributions the property tax-exempt community makes to the health and welfare of the City go largely unrecognized and unappreciated. However, the general consensus was that formally incorporating these efforts into some payment framework presented numerous administrative and likely costly challenges and complications, and could potentially trigger new problems like conflict with public employee interests. The committee recommends that SILOT efforts and benefits provided to the community be recognized in other ways such as in the transparency recommendation below.

4. Invest in necessary transparency infrastructure and initiatives.

The committee believes that public transparency is one of the keys to the sustainable administration of a PILOT initiative and some additional transparency investments are needed from the City of Saint Paul. The committee recommends an annual PILOT report containing the following:

- Public disclosure of PILOT receipts (including “asks” if a structured initiative were to be pursued.)
- Description of any framework used to establish PILOT “asks” along with the rationale/justification for using it. If requests are driven by and derived from the costs of City services, information on service cost trends and explanations regarding reasons for growth should be fully disclosed.
- Annual disclosure of parcel counts moving from taxable to tax-exempt status (including identification of new ownership, market values, and property tax revenues lost.)
- Information on the collection and use of PILOT payments and narratives describing the service contributions tax-exempt owners have made to the City.

The committee also recommends better discussion and disclosure of other City development decisions and land use policies with respect to the impact on the City property tax capacity to support general City services.

5. **We recommend that the State include enhanced consideration of tax-exempt properties in the distribution of Local Government Aids (LGA).**

MINORITY REPORT

Minority Report in Opposition to Earmarked Contributions

Some members firmly object to earmarking for one or more of several reasons.

Some feel that allowing tax-exempt properties to designate the use of contributions essentially transfers budget authority from the elected officials who have budgeting responsibility to the tax-exempt organizations. Unless restricted to use for expenditures within the City's approved budget, earmarks might not be consistent with the overall priorities of the City, which are appropriately set by the Mayor and City Council, not by tax-exempt organizations.

Further, earmarking funds limits the flexibility of elected officials to focus resources on priorities as needs change. Earmarking specific programs leads to the development of constituencies for those programs, which could lead to the preservation of programs supported by grant funds even when the need for those services is no longer clear, making it more difficult to reduce spending.

Some members felt that earmarking will make little difference because monies are fungible. In other words, monies earmarked for a chosen project would just replace monies that were budgeted for that item, they wouldn't actually increase overall spending for that item. And, if earmarks are offset by a shift in City spending within the approved budget, the point of earmarking seems moot.

Some members were not persuaded by the non-profit organizations' argument that making voluntary contributions without the ability to earmark them could prove a deterrent to donors who fund the non-profits. The argument seems to be that donors would object to the organizations' paying for unspecified City services. However, no evidence was offered that the payment of mandatory ROW assessments by these non-profits for over a decade caused donations to suffer and it is not apparent why these voluntary contributions would be viewed differently by donors.

Further, it seems that what could be a psychological benefit for the tax-exempt community could create an unnecessary administrative burden for the City with no real benefit--especially if the funds do not cover an expense in the City's budget.

Respectfully submitted,

Pa Der Vang

Heather Johnston

Kit Hadley

Ellen T Brown

Study Committee Member Comments

Zach Crain, Attorney, Nilan Johnson Lewis PA

The City of Saint Paul used to assess tax-exempt property owners for “right of way” fees. Now that the Minnesota Supreme Court has forced an end to that practice, can the City of Saint Paul use a turn-key “PILOT program” to coerce tax-exempt property owners into replacing those lost fees? Answer: No. But the City can engage with its citizen tax-exempt property owners and work together to forge a partnership where some of those property owners voluntarily contribute financially towards the success of the City. Possible elements of that partnership have been laid out in this report. I encourage City leaders to continue exploration of this partnership. I can’t think of anyone better to teach the City how to develop a generous, sustaining and grateful donor base than those in our charitable community who do this work every day. Thank you for the opportunity to participate in this important discussion.

Matt Hill, Principal, D&H Consultants

Too often these days there is an unwillingness to tackle tough issues facing the governance of our society and communities. This Citizen League process has taken the opposite approach – focused on exploring a pathway for a new model to serve the needs of citizens and neighborhoods. More governments and elected officials need to look at this deliberate and intentional process for developing solutions to our 21st century issues.

Rinal Ray, Deputy Public Policy Director, Minnesota Council of Nonprofits

This final report acknowledges the law clarified in *First Baptist v. City of Saint Paul* and the complexity of the city’s budget situation, institutional relationships, and PILOTs. It also lays out the importance of continued dialogue and process that engages more voices in this conversation.

We appreciate how this final report recognizes that the City, its citizens, and tax-exempt organizations all share the common goal of working in and toward the public interest. Transparency, trust, and the recognition of the value that each contributes to the overall success of the City is paramount in building a strong and unencumbered relationship. As the introduction to this report notes, indeed our “fates remain intertwined and [our] successes remain dependent on each other.”

Of course, this is ultimately about community and the people that make up that community – the people who live, work, grow up, grow old and thrive in Saint Paul. The City’s nonprofits are essential to the prosperity of this community and contribute generously to the health and wealth of Saint Paul. Like community members, tax-exempt organizations care deeply about its community and invest heavily in its success by paying taxes (payroll, special assessments, etc.), providing valuable services (frequently well below the cost of delivering them), and generating revenue for community businesses and the City’s general fund. We know that our community is at its best when everyone thrives.

We appreciate the conversations held by the working group to hear from many community members, pastors, higher education leaders, hospital administrators, nonprofit leaders, issue experts, and City officials in a thoughtful and robust process, hosted by the Citizens League. This process of community engagement lead to greater learning, trust, and relationship building amongst tax-exempt entities, businesses, and residents. We are grateful for Saint Paul’s leadership in modeling strong dialogue and partnership with its tax-exempt community to ensure our collective futures.

We look forward to continuing discussions with the City and its leaders on ways we can build and strengthen this relationship.

APPENDIX

PILOT/SILOT Committee Project Outline (Charge)

Approved by Board April 3, 2017

Saint Paul, as the Capitol City, has an unusually high percentage of parcels that do not pay property taxes. There are clearly enormous civic benefits to having these entities (mostly non-profits and governments) and what they contribute to the community, as well as “costs” in that they don’t pay property taxes for City services. This issue for the City of Saint Paul is made more acute by the recent Minnesota Supreme Court ruling that struck down most of the right-of-way assessments it used as a revenue source.

The question of whether or these properties might pay for some City services they consume, and/or how their civic contributions to their communities can be quantified or expanded, has national implications.

Given its history on municipal and fiscal issues, and its ability to be a neutral convener for all of the stakeholders on this issue, the Citizens League will use its study committee process to explore this issue.

Scope is limited to whether or not a ‘payment in lieu of taxes’ and/or ‘services in lieu of taxes’ (PILOT/SILOT) model is advisable, and how the initiative would be structured and sustained if so.

- *Committee may determine that either idea is inadvisable. The outcome is not predetermined.*
- Scope does NOT include questions related to ‘right of way’ services that the City will assess against all properties in 2017.
- Committee would need to determine which types of entities would be included in any potential initiative.
- The Committee has the ability to refine the scope once it’s started its work.

Structure will include representatives from key stakeholders on this issue: a range of for--profits, nonprofits, property owners, and both generalists and experts on this topic.

- Citizens League board has final determination of membership of the committee, and the committee is an independent project of the Citizens League.
- City of Saint Paul employees/representatives will provide background and information, and can observe the deliberations and testify, but not formal committee members.
- Meetings will be open and schedules available publicly.

Proposed outcomes:

- Findings: Shared understanding of the facts, data and local/national trends on this issue. Goal is to make these findings 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. (Committee could decide status quo is sufficient.) Given timeline below, recommendations might come in phases.
- Base of support for implementation: Buy-in from key stakeholders needed to advance and sustain any potential recommendations.

Timeline and time commitment:

- Anticipated nine (9) two--hour meetings, starting at 7:30 am.
- Goal is to have final proposal, or first phase of recommendations, ready by August 2017, in time for 2018 budget deliberations.

Funding:

- \$41,000 budget
- Majority of funding from Saint Paul Foundation and R.F. Bigelow Foundation approved. Additional funding is still being sought.

Questions: Sean Kershaw, Citizens League Executive Director, skershaw@citizensleague.org, cell: 651--324--0991.

STUDY COMMITTEE MEMBER BIOS

CO-CHAIR

Joe Reid, retired City of Saint Paul Budget Director, VP of Administration Marsden

Educated at St. John's University, Gregorian University in Rome, and University of Minnesota. Budget analyst to Minnesota House Appropriations Committee 1976-1979. Administrator, Attorney General's Office 1979-1994. City of Saint Paul budget director from 1994 until 2000. Retired from Marsden Bldg. Maintenance and American Security Corp in August 2010.

CO-CHAIR

Kaye Rakow, retired Director of Public Policy, NAIOP, the commercial real estate dev. Assn.

Now retired, Ms. Rakow has a long history with the commercial real estate industry, as a fifteen year broker of industrial property for CBRE and most recently, for fourteen years, as the Director of Public Policy for NAIOP, the commercial real estate development association. She was also the president of the TwinWest Chamber of Commerce. In all situations she has demonstrated assertive, yet persuasive organizational skills.

Tanya Bell, Principal, Grand Real Estate Development

Tanya Bell is co-founder and principal of Grand Real Estate Advisors, a creative, forward thinking commercial real estate practice that helps clients get their real estate working for them. Her career started as a real estate broker then sales manager at CB Richard Ellis, then VP of Acquisition and Development at Wellington Management. She has worked with organizations large and small assessing their real estate needs as well as having developed and acquired nearly \$300M in real estate from office space to condominiums. Most of her work has been in the core cities and Minneapolis and Saint Paul and the first ring suburbs.

Ellen T. Brown, retired, Advocate, public policy and social justice

Ellen's professional experience includes positions as Assistant Professor of Public Administration at Virginia Commonwealth University, Assistant Commissioner for Government & Community Relations for MnDOT, and VP for Strategic Planning for Control Data. Most of her current work is with FairVote Minnesota on electoral reform and Ujamaa Place on employment. Ellen is a 40+ year League member with service on its board and various committees including at least two chair roles.

Zach Crain, Attorney, Nilan Johnson Lewis PA

Zach is an attorney, representing businesses and healthcare and other charitable organizations in corporate and real estate transactions. Zach regularly helps his clients translate and navigate complex legal and regulatory issues through common sense and collaboration. He enjoys partnering with entrepreneurs and executive leadership to drive success and build strong and lasting relationships. Zach is a graduate of Drake University and the University of Minnesota Law School.

Mike Day, Executive Vice President, Science Museum of Minnesota

Mike Day has enjoyed a 30+ year career in museums and public initiative administration. Following

earning a Degree in Urban Economics from the University of Illinois, Day was awarded a New York State Arts Council grant to study museum management in Rochester, New York. He went on to the Cleveland Board of Education from which he was recruited to join the Science Museum. He has served as a mayoral appointee to the Saint Paul Convention & Visitor Authority.

Niles Deneen, President, Deneen Pottery

Niles Deneen has held the position of Deneen Pottery's president since 2012 after starting in an entry-level shipping position nearly 12-years earlier. He is responsible for all major operational, administrative, marketing and staffing decisions for the company. A father of two and former collegiate track and field champion, Niles loves working alongside his wife, parents, uncle and six-dozen dedicated employees.

Jon Gutzmann, Executive Director, Saint Paul Public Housing Agency

Jon Gutzmann has been the Executive Director of the Public Housing Agency (PHA) of the City of Saint Paul, Minnesota for over 29 years. Mr. Gutzmann manages 225 employees, an annual operating budget of \$73 million and assets over \$620 million. He has served as Director of Public Housing for the Minneapolis Community Development Agency, City Administrator of the cities of Tracy, Little Falls, and Oakdale, Minnesota, and NAHRO's Senior VP for Housing in the early 1990's and PHADA President from 2005 - 2007. Mr. Gutzmann earned a BA in Political Science from the University of Minnesota and a Master of Public Affairs degree from Indiana University.

Kit Hadley, Retired Director, Saint Paul Public Library

Kit is the retired director of the Saint Paul Public Library. Previously she was the director of the Minneapolis Public Library, executive director of Heading Home Minnesota, and the Commissioner of the Minnesota Housing Finance Agency. She has a law degree from the University of Minnesota Law School.

Jake Hamlin, Director State Government Affairs, CHS Inc.

Jake Hamlin is State Government Affairs Director for CHS. He represents CHS positions and interests on public policy issues at the state and local level. Hamlin's 15 years of government affairs experience includes work on agriculture, energy, and business policy, resolving state and local regulatory issues, and assisting businesses with capital projects. He earned a Master of Public Administration degree from Hamline University, and a Bachelor of Arts degree in political science from St Olaf College.

Doug Hennes, Vice Pres. of Gov't Relations and Special Projects, University of St. Thomas

Doug Hennes is vice president for government relations and special projects at the University of St. Thomas. He has been an administrator at St. Thomas since 1990 and previously was a reporter and editor for 14 years at the Saint Paul Pioneer Press.

Bror Herrick, Interim VP of Operations, United Hospital, part of Allina Health

Bror Herrick has worked at United Hospital for 5 years, with previous experience at Allina Health's system office. His current role is Director of Performance Improvement and Planning, but is serving an extended role as the interim VP of Operations. He has his Masters of Healthcare Administration from

the University of Minnesota.

Matt Hill, Principal, D&H Consultants

Matt Hill, Principal, D&H Consultants, works on behalf of local and national organizations on development and capacity strategies. A student of PILOTs during graduate school, Matt sees firsthand the resource equation facing public, tax-exempt, organizations. He has served on a number of organizational boards with a direct interest in this issue, including Saint Paul's Capitol River Council. Matt holds a Masters of Science in Public Administration from the University of Leiden, in the Netherlands.

Heather Johnston, City Manager, City of Burnsville, MN

Heather Johnston has been the City Manager of the City of Burnsville, since April 2013. Ms. Johnston has experience in government and nonprofit sectors, including at the City of Minneapolis Management & Budget and the federal Office of Management and Budget. She served as the President of the Government Finance Officers' Association of the United States and Canada (GFOA) in 2015-16. Ms. Johnston is a graduate of Augsburg College and received her Master's Degree in Public Administration from The George Washington University in Washington, DC.

Jay Kiedrowski, Senior Fellow, Humphrey School of Public Affairs

Jay Kiedrowski is a Senior Fellow at the University of MN's Humphrey School of Public Affairs, specializing in public finance, organizational performance, and leadership for the last 12 years. Kiedrowski retired from Wells Fargo in 2004 as the EVP of Institutional Investments after a 17 year career. Previously, he was MN Commissioner of Finance, Minneapolis Budget Director, and a MN Senate researcher. Kiedrowski currently serves on the UCare Board, is secretary-treasurer of the Greater Metropolitan Housing Corporation Board, and serves on the Guthrie Theater Board.

Susan Kimberly, retired, Deputy Mayor of Saint Paul, Interim President Saint Paul Area Chamber

Susan Kimberly served as Deputy Mayor and Chief of Staff for Saint Paul Mayor Norm Coleman. She was appointed Director of Planning and Economic Development by Mayor Randy Kelly. She was elected to two terms on the City Council and served as the Interim President of the Saint Paul Area Chamber of Commerce.

Barbara McCormick, Senior Vice President of Housing with Services, Project for Pride in Living

Barbara brings nearly 30 years of work in the nonprofit housing field to her position as Senior Vice President of Housing with Services. After a year as Field Officer for a housing funding organization, Greater Minnesota Housing Fund, Ms. McCormick returned to the work of developing and operating affordable housing in her position at Project for Pride in Living (PPL), overseeing the development, construction, management and resident services PPL offers. Ms. McCormick has seen PPL's portfolio grow from a little over 300 units to over 1300 units. She holds an MBA and is a licensed Minnesota Real Estate Broker.

Joan McCusker, Vice President and CFO, Wilder Foundation

Joan McCusker joined the Amherst H. Wilder Foundation in June 2014 and has more than 25 years of

experience in industries including nonprofit, manufacturing, government contracting, and retail. She currently serves as the Vice President of Finance and Administration and Chief Financial Officer for Wilder Foundation, a 110 year old foundation serving vulnerable citizens in Saint Paul.

Greg Mellas, Director, Institute for Community Engagement & Scholarship, Metro State Univ.

As director of Metropolitan State University's Institute for Community Engagement and Scholarship, Greg Mellas leads the university's civic and community-engagement, and supports the President and Provost in developing strategic university partnerships. He previously served as Service Learning Director, Center for Civic Engagement Leader, and Spanish Instructor at Minneapolis Community and Technical College.

James Moeller, Operations Manager, R.F. Moeller Jewelry

James Moeller is the Director of Operations and a third generation family business owner at R.F. Moeller Jeweler-a Saint Paul based, three store jewelry retailer. In addition he is a founding partner of Atique, an estate and antique jewelry e-commerce company. James is a graduate of St. John's University and is actively involved with or serves on the board for numerous organizations and charities, including the Greg Marzolf Jr. Foundation, the Saint Paul Area Chamber of Commerce, and the American Gem Society.

Rinal Ray, Deputy Public Policy Director, Minnesota Council of Nonprofits

Rinal Ray is the deputy public policy director at the Minnesota Council of Nonprofits. She works to further MCN's policy agenda, help nonprofits build their advocacy capacity, and advances legal projects. She teaches in the Masters in Advocacy and Political Leadership program at Metro State. She graduated from Macalester College and William Mitchell College of Law.

John Regal, Director, Risk Management & Local Public Affairs, Securian Financial Group

John is the Director of Risk Management and Local Public Affairs for Securian Financial Group. In addition, he directs the Company's business continuation planning efforts and is part of Securian's public affairs team. Prior to joining Securian in 1998, John spent over ten years in various capacities within the City of Saint Paul Department of Finance. He obtained his undergraduate degree from the Carlson School of Management at the University of Minnesota and an MBA from the University of St. Thomas. John is the immediate past Chair of the Saint Paul Area Chamber of Commerce board of directors and a past Chair of the Chamber's political action committee. He is also past Chair and current board member of the Saint Paul Port Authority. Previously, John was a past board member of both the Saint Paul Police Foundation and the Saint Paul Riverfront Corporation.

Pa Der Vang, Associate Professor, St Catherine University

Pa Der Vang has been a professor for over nine years and has published several articles on Hmong acculturation. She is trained as a clinical social worker and continues to practice. She is also on the board of Hnub Tshiab Hmong Women Achieving Together, a nonprofit organization in St Paul Minnesota whose mission is to be a catalyst for social, cultural, and institutional change to improve the lives of Hmong women. She cofounded the Minnesota Hmong Social Workers Coalition.

Citizens League Board Members (As of 8/31/2017)

Board Member	Affiliation
Rotulo (Ro) Adebiyi, <i>Treasurer</i>	Thrivent Financial, Brightpeak Financial division
Patrick Born	Retired, Metropolitan Council
Andrew Brehm	Jack Link's Beef Jerky
Robert Butterbrodt, <i>Chair</i>	Wells Fargo
Elizabeth Campbell	Ryan Companies
Nadia Elnagdy	Hennepin County Attorney's Office
Susan Hammel, <i>Past Chair</i>	Cogent Consulting
Scott Hietpas	Ecolab
Thad Hellman	Target
Heidi Larson	Goff Public
Cynthia Leshner, <i>Vice Chair</i>	Retired, Xcel Energy
Robert Longendyke	Medica
Laura Monn Ginsburg	Apparatus Public Affairs
James Nikolai	U.S. Bancorp
Paula Prah	Varde Partners
Aaron Pearson, <i>Secretary</i>	Weber Shandwick
Cullen Sheehan	Lockridge Grindal Nauen
Lisa Wagor	Blue Cross Blue Shield of Minnesota



Meeting Minutes

**All referenced attachments in the meeting minutes including handouts and PowerPoint presentations can be found online: <https://citizensleague.org/what-we-do/policy/pilotsilot-project/> **

Meeting Minutes

Wilder Foundation

451 Lexington Parkway North, Saint Paul, 55104 Thursday May 11, 2017

7:30 am – 10:00 am

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

Members not present: None

Staff & staff support present: Sean Kershaw, Mark Haveman, and Lincoln Bacal

Guests: Todd Hurley, Jon Manillo, Kristen McHenry, Jon Kavanagh, Amy Filice, James McClean, Melenie Soucheray, Rachel Walker

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 initiative 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 May 11 meeting:

- ☐ Introduce Committee members and co-chairs;
- ☐ Review proposed scope, outcomes and Citizens League study committee process, and answer questions related to these topics;
- ☐ Review and discuss the background and current city activity on 'right of way' questions;
- ☐ Provide overview and discuss basics of city budget process and sources of income/expenses; and
- ☐ Discuss agenda for May 18 meeting



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

Introductions

Co-Chair Rakow welcomed the committee members and introduced herself. All committee members were invited to introduce themselves, their organization, and add a comment. She outlined the goal (“to present a solid, well thought out perspective for the City of Saint Paul”) and urged the group to resist the temptation to jump to solutions right away.

A Citizens League staff member briefly spoke about logistics and outlined the scope. He stressed that the committee members can revise the scope. He then read through the proposed committee outcomes and proposed meeting outcomes. He also explained the Citizens League process of evaluations after a meeting. The staff member went through the contents of the binder, specifically the Citizens League governing document and operating guidelines.

A committee member wanted to know if there was going to be a way for ongoing communication between committee members. A staff member assured that he would provide a list of names and emails to distribute to the group before the next meeting.

A committee member asked if there was a general idea of how each meeting would go, or if that was still to be determined. A staff member answered by saying that although the next meeting was mapped out, the next meetings could be shaped by the committee members and what the group decided is important to talk about.

A committee member was curious about the City of Saint Paul’s right of way court case. She wanted to know if there any background on it that would be relevant to the committee. A staff member assured the committee that if it became important, they could bring in someone to talk about it, but stressed that although the court case is important in terms of timing, the committee’s role is not specifically tied to the outcomes of this case.

Co-Chair Rakow turned the meeting over to Co-Chair Reid to introduce the speaker. He invited the group to contact him or Co-Chair Rakow with any questions or comments outside of committee time. He then introduced Todd Hurley, Finance Director for the City of Saint Paul. He said Mr. Hurley was there for two main reasons: one, to talk about the Right of Way assessments, and two, to talk about the overall budget of Saint Paul. He made it clear that in August, once the committee has reached a conclusion, their recommendation would be given to the City of Saint Paul to help inform future budgets.

Right of way: background and current status by Todd Hurley, City of Saint Paul Finance Director (see PowerPoint)

Todd Hurley introduced himself and thanked the committee for giving their time and made himself available as a resource. He explained that he was there to provide an overview of the Right of Way program, how it affected the City, and what kind of revenue in generated. He said he would briefly comment about the court case, but warned that since they were still in litigation, he would not be able to go very deeply into the topic. He began his presentation by using PowerPoint slides to illustrate his points and provide statistics.

A committee member asked Mr. Hurley to clarify his definition of downtown. Mr. Hurley said that he



didn't have the exact information on hand, but there's a downtown boundary map which would be provided to the committee (and was distributed following the committee meeting).

A committee member asked Mr. Hurley to define Right of Way. Mr. Hurley clarified that Right of Way is City owned property that citizens have the right to use.

Todd Hurley continued his presentation by explaining the Right of Court case and how the Minnesota Supreme Court finally ruled that the City of Saint Paul should treat the Right of Way program as if it were a tax versus a fee. He went on to explain how it is now called the street maintenance program, and that the goal is to collect the revenue in a more equitable way.

A committee member asked for clarification about the court's ruling and whether or not Saint Paul could charge fees. Mr. Hurley clarified that the ruling was that Right of Way was not a fee and said they had to decide which services were going to stay in the new program, and which ones would be moved to the general fund.

Mr. Hurley continued by outlining the four main types of services that were staying in the program (streetlights, street sweeping, seal coating, and mill and overlay).

A committee member asked what services went to the general fund and whether or not a fee assessed for the homeowner was tax deductible.

A committee member wanted to know how Mr. Hurley was defining benefit. He clarified that he was not defining benefit, he was defining cost.

A committee member asked what the cost was based on. Mr. Hurley said that if you received a service, you would be charged the cost of the City paying for the service.

A committee member asked about the City council deciding to subsidize half the cost of the mill and overlays. Mr. Hurley answered by saying the City council was looking at the affordability of the services, and they had the option to charge full mill and overlay costs.

A committee member commented that mill and overlay is just for arterials, and everyone shares arterials, at least more than they share residential areas.

Mr. Hurley went on to present the adopted 2017 budget for everything in the Right of Way program and the current Street Maintenance program. He explained that the same services provided by Right of Way are still being provided, but many of them are now in the general fund.

A committee member asked if tax-exempts would have to pay in full for services provided to them. Mr. Hurley clarified that they will be paying full for light, sweeps, and seal coating. The committee member commented that the issue now was that before the Right of Way ruling, tax-exempts paid for everything, and now they don't.

He concluded by explaining parcel count and how tax-exempt property is valued.

A committee member asked if the scope of the group was just the tax-exempt part of street maintenance, and the co-chairs assured her it was bigger (see Project Scope above).



Fundamentals of City finances and process John McCarthy, City of Saint Paul Finance Director

John McCarthy introduced himself and began to explain Saint Paul's overall budget. He started with the total operating budget for 2017, which is \$563,000,000. The Right of Way program is about 6% of the overall budget. He explained that the operating budget is broken down into the general funds, which is \$270,000,000, and the special funds 290,000,000.

A committee member asked if the money from the Street Maintenance program went into special funds. Mr. McCarthy answered by explaining that special funds are funds where there is a dedicated revenue source tied directly to the spending. Based on this definition, he explained that the Street Maintenance program is a special fund because the money is specifically for the program.

General funds, Mr. McCarthy continued, aren't usually tied to a revenue source. Most core services that citizens rely on like police, fire, parks and libraries are in the general funds. It's also where property taxes go. He went on to explain Local Government Aid (LGA), and who receives it.

A member asked if one of the factors in determining the amount of LGA a City receives is the percentage of value that's in tax-exempt properties. Mr. McCarthy thought that was an interesting question, but he wasn't sure.

A member wondered if state government property had ever paid PILOTs, and if the state should be responsible for some of the PILOTs. A few committee members agreed that this was worth talking about.

A member asked about federal government properties, and Mr. McCarthy clarified that they don't pay. Co-Chair Reid thanked Todd Hurley and John McCarthy for their time and their presentations.

Discussion and May 18 agenda

A Citizens League staff member went over the preliminary agenda for the May 18th meeting. Co-Chair Rakow opened up the floor for comments and suggestions.

A committee member who is part of an organization that pays PILOTs to the City of Saint Paul offered to do a quick presentation about his organization's PILOT program. Another member agreed that this would be an interesting presentation, especially if he could tell the group why his organization agreed to pay PILOTs.

A member wanted more information about PILOT programs in other large cities, especially capital cities. A member introduced the idea of fiscal disparities and thought that that might be worth talking about. A member was curious about SILOTs.

A member wanted more information about tax-exempts paying for services that weren't covered e.g. Right Of Way. A staff member offered to find information about other capital cities for the group to use. A member mentioned discussing the school district, as it's a considerable percent of the tax-exempt property.

A member mentioned different classes of tax-exempt properties, and wondered if it was worthwhile to



look into the different types of services they use. A staff member pointed out the importance of using the words “tax-exempt” rather than “nonprofit.”

A member asked for information about Boston and cautioned the group against not learning from issues that they may have already solved in Boston.

A member brought up the issue of smaller tax-exempt properties not being able to pay PILOTs.

A member mentioned it might be worthwhile to discuss the difference between nonprofit status and tax-exemption. A member asked for clarification about the definitions of tax, fee, special assessments, and PILOTs.

A member mentioned that would like to have handouts in advance.

Evaluation

A Citizens League staff member explained the Citizens League evaluation process. He explained that staff would like to know how well the meetings are going. It is on a 1-5 scale, 5 being we met or exceeded objectives, 1 being it was not productive at all. The members evaluated the meeting as follows: 5, 5, 5, 4, 4, 5, 5, 5, 4, 4, 5, 5, 5, 5, 5, 5, 4, and 5 for an average of 4.7

Chair Rakow adjourned the meeting at 10:00 a.m.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday May 18, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Mike Day, Niles Deneen, Jon Gutzmann, Kit Hadley, Doug Hennes, Bror Herrick, Matt Hill, Heather Johnston, Jay Kiedrowski, Susan Kimberly, Barb McCormick, Greg Mellas, Joan McCusker, James Moeller, Kaye Rakow, Rinal Ray, Joe Reid, Pa Der Vang

Members not present: John Regal, Jake Hamlin

Staff & staff support present: Sean Kershaw, Mark Haveman and Lincoln Bacal

Guests: Rachel Walker, Melenie Soucheray, James McClain, Jack Hoeschler, Jon Kavanagh, Amy Felice, Jon Manillo, Mary Gilbert, Amy McDonough, and Sam Walseth

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 May 18 meeting:

- Discuss May 11 meeting and identify additional data/questions that need to be brought/discussed at subsequent meetings;
- Learn about and discuss the legal fundamentals of tax-exempt properties;
- Review the fundamentals of the property tax system in Minnesota and on the types of tax-exempt properties in Saint Paul; and
- Discuss agenda for June 1 meeting and additional speakers/data/questions.

Co-Chair Rakow called the meeting to order at 7:36am Review/approve agenda and outcomes (7:30 – 7:40 Co-Chairs)

Co-Chair Rakow called the meeting to order by reminding the group of the scope of the PILOT project. She brought up the May 11th meeting and told the committee members they should mention any questions, comments, or anything the group should keep in mind for future meetings. She also quickly reviewed the agenda for the day before turning the meeting over to Co-Chair Reid. He opened the floor for comments about the May 11th meeting.

A committee member posed a question about tax increment financing (TIF), and Co-Chair Reid assured her that TIF would be covered by Chris Samuel, one of the speakers for the day.

A member wanted to know what other mechanisms has the City or county considered in the past. The committee member thought that what the City might have thought through could be useful to the committee. Co-Chair Reid agreed and said he could get that information for the group.

A member asked about the 2008 data provided in the packets and wondered if there was anything more recent than that. A Citizens League staff member responded that they had not updated it because although they would like to, they don't have the resources. He did say, however, that he had been talking to Center for Fiscal Excellence about updating the information. Another committee member asked if the legislature did anything with the information in that report.

Co-Chair Reid mentioned how the Citizens League's partner from the Center for Fiscal Excellence had found some information about PILOTs on government owned property. Since there were no further questions, he introduced Jean Stepan from the County Attorney's office. He made it clear that she was there to speak about the fundamentals of tax-exempt property, not about Right of Way or to give any legal interpretation or opinion about ROW litigation.

Legal fundamentals of tax-exempt properties in Minnesota (Jean Stepan, County Attorney's Office, 7:50 – 8:20)

She began by reviewing what kinds of property can be exempt, and whether or not they are exempted



by the state constitution or by specific statutes. She listed burying grounds, public school houses, education institutions and seminaries of learning, purely public charities, churches and places of worship, property used exclusively for the public purpose, and hospitals as the types of exempt properties exempt by the constitution. She also brought up the distinction between hospitals and clinics

A committee member asked a question about whether hospitals had to be publicly owned in order to be considered tax-exempt. Ms. Stepan explained that as long as hospitals are open to the public that makes them tax-exempt.

A member asked if there were such things as private hospitals, and Ms. Stepan said she was not familiar with private hospitals and said she would be hard pressed to find one. Ms. Stepan continued by discussing urgent care clinics and standalone surgery centers. She pointed out that none of them had filed for tax-exempt status, but if they did, she wondered aloud what the outcome would be.

A member wondered what makes a hospital public, and Ms. Stepan explained it must be open to the public. Another member introduced his perspective and explained that a public hospital has duties to the public, and would provide emergency care to the public regardless of their ability to pay.

A staff member was curious what would happen if the committee decided that tax-exempt entities should be required to pay. He wanted to know if the constitution would have to be changed. Ms. Stepan said he was correct.

A member asked for clarification about something being classified as public. She asked if it had anything to do with who owned it, or if it was just about who accessed it or was able to use the service. Ms. Stepan said it was mostly about who used it, however, in the case of public property, the owner mattered.

A member was curious about religiously owned cemeteries. She brought up that if the religious organization controlled who was buried there, was the cemetery really public? Ms. Stepan answered that although she's never encountered a cemetery case, she thought it would fall under the church category, maybe as a part of their mission, and therefore count as exempt.

Ms. Stepan continued by explaining institutions of purely public charity. She explained that the property had to be owned by an exempt entity and be used for an exempt purpose. It also had to be reasonably necessary for that exempt purpose. She continued about leasing property. If a portion of tax-exempt property were leased, the lessee would also have to be tax-exempt in order for that portion of property to be tax-exempt.

A member asked if that meant there could be tax-exempt properties where certain portions are not exempt. Ms. Stepan confirmed and said there is case law that recognizes this principle. She also mentioned that if the portion of exempt property was extremely small, it would not defeat the exemption of the whole.

A member wanted to know if the property tax statement would go to the property owner if a part of the property was leased. Chris Samuel answered that the property taxes would go to the lessee.

Ms. Stepan said that if exempt property is leased, loaned, or publicly made available and it is used in connection with a for-profit business, a tax is imposed.



A member wondered if there was anything about this legally at the federal level. Ms. Stepan answered no, tax-exemption is a state power.

A member asked if government property could not be taxed or if it was tax-exempt. Ms. Stepan said that was an interesting distinction. She explained that there is a difference between immunity from tax and being tax-exempt. Tax-exemption, she explained, is an exemption granted by law, however, government property is immune from tax and cannot be taxed.

Co-Chair Reid thanked Ms. Stepan for her time and introduced Chris Samuel and what he would be talking about.

Fundamentals of property taxes in Minnesota and types of tax-exempt properties in Saint Paul (Chris Samuel, Ramsey County, 8:20 – 9:10)

Chris Samuel gave a quick overview of what he would be talking about. He pointed out that Minnesota has one of the most complex property tax systems in the nation, and his goal was to increase the group's understanding of property tax, but not to make them experts.

A member asked if all tax programs were statewide, or if there were certain programs by county. Mr. Samuel explained that generally, programs available locally would also apply statewide to other communities meeting that program's criteria. The member clarified that she meant if a City wanted to have a program, could they run it independently or would it have to be recognized at the state level. Mr. Samuel answered that usually, programs were not determined or run by area, but they could be done. There are examples of programs developed to benefit a particular area or even a particular parcel.

He began his presentation by talking about seven myths about property taxes: property taxes always go up; market value increases generate more revenue; property taxes paid are directly tied to services received; property taxes are based on ability to pay; there is a limit on how much property taxes on a given (residential) property can go up in a year; local taxing authorities have more than a marginal ability to change property taxes; and property taxes for homes are low in Minnesota compared to other states. He went on to explain who determines property tax.

A member clarified that there are multiple taxing jurisdictions, not just one. Mr. Samuel confirmed, and moved on to state-imposed levy limits. He also explained state aids and credits.

A member asked if the state provided any aid in TIF districts that suffered a loss of revenue because of the class rate changed in 2001. Mr. Samuel responded that they did not. The state also did not provide aid when it took over a larger share of k-12 general education financing which reduced TIF revenue. He explained that relief came in the form of being more lax in terms of enforcement as opposed to aid or credit.

He continued by explaining disaster credit and short term property tax refund relief for homesteads with huge property tax increases in a short amount of time. A member wanted to know if the relief applied only to residential properties, and Mr. Samuel clarified it applied only to homestead residential properties. He continued with homestead market value exclusion and state general property tax. He went over a table showing Saint Paul exempt values by type of property.



A member asked for clarification on page 13 of the presentation about public and private hospitals. He wanted to know if the 3 public hospitals were the big public hospitals in Saint Paul and the 44 private were clinics and other private healthcare providers. Mr. Samuel said he would need to check with an attorney about the distinction, but he assumed it was just the difference between public hospitals, and for-profit hospitals. The numbers shown are not a reflection of the number of hospitals but rather the number of distinct parcels identified with that usage.

He continued by introducing a table of 2010 Ramsey County exempt values by City. It included 8 million dollars of market value associated with PILOTs from Saint Paul and \$800,000 from the State Fairgrounds. Mr. Samuel also provided a table of large cities in Minnesota and nationwide and the total percentage of exempt property in those cities. He went over the difference between estimated market value and taxable market value.

Mr. Samuel moved on to residential and commercial property, and explained the differences between them and how they're assessed. He reviewed graphs about Saint Paul property tax revenue and property taxes generated by type of property. He brought information about fiscal disparities but only spoke about it briefly. He quickly pointed out that Saint Paul does well under the fiscal disparity program, in part, because under the needs based portion of the formula St Paul has a smaller fiscal capacity (average market value per capita) and that Saint Paul has relatively low market value for its population size. One of the members mentioned a report that showed if the fiscal disparities program was not in place, the average homestead would pay 8-12% more in property taxes

A committee member asked a question about slide 10 of Mr. Samuel's presentation (homestead market value exclusion). He wanted to know if it was a mandatory shift from the state to the counties. Mr. Samuel confirmed that it was. He also asked about the State Fairgrounds paying PILOTs based on the information on page 15, and pointed out it may be something the group would want to learn about.

When asked what he thought the committee should be getting at, Mr. Samuel said he'd heard it had to do with the Right of Way assessments. He believed there should be some non-voluntary contribution for specific services by organizations that are exempt and that the list of exempt organizations can't be limited to charitable organizations. Otherwise you are not generating a reliable funding source or sufficient revenues to make a significant difference in funding local government services.

A committee member asked about a report done by the Saint Paul Port Authority and its focus on the difference between services delivered to different types of property and payments. She thought it would be beneficial to look into services delivered to properties and Mr. Samuel agreed.

A committee member wondered how use of emergency services are measured. Mr. Samuel answered that it's not measured by services received by a specific property, but rather by a group of properties.

Co-Chair Reid thanked Mr. Samuel for his time and Co-Chair Rakow moved on to discussion and the agenda for June 1st.

Discussion and June 1 agenda (Co-chairs, 9:10 – 9:25)

Co-Chair Rakow brought up a few of the main things the committee spoke about, including services, fiscal disparities, and TIF. She opened up the floor for any suggestions for the June 1st meeting.



A committee member who is involved with an organization that pays PILOTs offered to give a presentation about his organization's PILOT contribution.

A committee member asked for more information, specifically about the Port Authority study and the case law around “lessening the burden of government.” Several committee members agreed.

A member wanted information about other existing PILOTs in the City of Saint Paul. A member offered insight into “institutions of purely public charity.”

A member expressed his interest in PILOT payments in other cities. A member wondered about the scope of the project.

A member wanted to know about what ends up in a levy and what ends up as a special service, and how that decision is influenced politically.

A member pointed out that it was important to find out why PILOT-paying organization pay PILOTs, how they were approached, how they reached a decision, etc.

A member brought up that on the flipside, it would be interesting to talk to organizations who are challenging PILOTs and why they do that.

A member also wanted to know how PILOTs are suggested to organizations.

Evaluation (Co-Chairs, 9:25 – 9:30)

Sean Kershaw reviewed the Citizens League evaluation process. He explained that they were interested in how well the meetings are going, and that they take the evaluations very seriously. It is on a 1-5 scale, 5 being we met or exceeded objectives, 1 being it was not productive at all.

The members evaluated the meeting as follows: 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, and 4 for an average of 4.94

Co-Chair Rakow adjourned the meeting at 9:29am.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday June 1st, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Mike Day, Niles Deneen, Jon Gutzmann, Kit Hadley, Doug Hennes, Bror Herrick, Matt Hill, Heather Johnston, Jay Kiedrowski, Susan Kimberly, Barb McCormick, Joan McCusker, James Moeller, Kaye Rakow, Rinal Ray, Joe Reid, Pa Der Vang, John Regal

Members not present: Jake Hamlin, Greg Mellas

Staff & staff support present: Sean Kershaw and Lincoln Bacal

Guests: John Kavanagh, Amy McDonough, Sam Walseth, James Mclean, Mary Gilbert, Melenie Soucheray, Amy Filice, John Mannillo, Kristen McHenry, Denise Rodriguez, Curt Kline, Lyle Nelson,



Patrick Burke

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 1st meeting:

- ☐ Discuss May 18th meeting and identify additional data/questions that need to be brought/discussed at subsequent meetings in order to achieve committee outcomes in the project’s timeline;
- ☐ Continue the conversation on legal issues related to ROW decision and the project scope;
- ☐ Provide additional information on tax increment financing (TIF) impacts in Saint Paul
- ☐ Learn more about current PILOT program from public housing agency; and
- ☐ Discuss agenda for June 15 meeting and additional speakers/data/questions.

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe Reid, 7:30 – 7:40)
 - a. Approve minutes from 5/18 meeting (attached).
 - b. Note: Minutes from 5/11 meeting are forthcoming.
2. Feedback and discussion on May 18th meeting (Joe Reid, 7:40 – 7:50)
3. Legal perspective on the recent Supreme Court ROW case (Kaye Rakow, 7:50 – 8:15)
 - a. Presentation by Todd Guerrero
 - b. Supreme Court decision attached
4. Additional context on TIF in Saint Paul (Kaye Rakow, Staff, 8:15 – 8:30)
 - a. See attachment
5. PHA’s PILOT program (Kaye Rakow, 8:30 – 9:00)
 - a. Presentation by Jon Gutzmann
6. Discussion and next steps for 6/15 meeting (Joe Reid, 9:00 – 9:25)
7. Evaluation (Joe Reid, 9:25 – 9:30)

Co-Chair Reid called the meeting to order at 7:31 am.

Review/approve agenda, outcomes, and minutes (Joe Reid, 7:30 – 7:40)

Co-Chair Reid welcomed the committee members and the guests, and made sure everyone was aware of the two committee members who were attending the meeting via conference call. He began by asking the committee for input on the agenda. There were no questions or comments so he reviewed the project scope and the proposed committee outcomes. Then, he introduced the minutes from May 18th and asked for comments and feedback. A staff member pointed out that the minutes were missing



the name of a guest and explained why the minutes from May 11th weren't available yet. The group approved the minutes from May 18th.

Feedback and discussion on May 18th meeting (Joe Reid, 7:40 – 7:50)

Co-Chair Reid assured the group that their unanswered questions from the 18th would be answered as soon as he, Co-Chair Rakow, and the staff members found the relevant information. He also made sure to say the 8 million dollar PILOT from page 15 of Chris Samuels's presentation was an error. It was the estimated market value of government property rather than PILOT payment.

Co-Chair Rakow asked if the percentage of properties that are tax-exempt in Saint Paul was referring to tax capacity value, number of parcels, or something else entirely. A staff member answered that the number the group used the most was percentage of value of the City's tax base. He referred to pages 13 and 14 in Chris Samuel's presentation.

A member pointed out that the State Fair's PILOT went mainly to the county or to Falcon Heights rather than the City. Co-Chair Reid asked if the group wanted further information. A committee member asked about the sustainability and legality of PILOT agreements. A member asked if other cities in Minnesota had ROW-type programs.

Legal perspective on the recent Supreme Court ROW case (Kaye Rakow, 7:50 – 8:15)

Co-Chair Rakow introduced Todd Guerrero and explained his relevance to the PILOT issue. Mr. Guerrero began with the issue of when a municipal fee or assessment is a tax. He reviewed municipalities' taxing authority; specifically that taxes raise revenue to support public purposes, that the power to levy special assessments comes from the taxing authority, and the state constitutional limits to taxation. He continued by explaining that police power authorizes municipalities to collect regulatory service fees. Mr. Guerrero explained the purposes and characteristics of fees and that there are generally fewer safeguards against the abuse of municipal fees. Municipalities are not allowed to raise general revenue under the police power. He also gave examples of how other jurisdictions had addressed the issue. In addition to the ROW assessment, he gave examples of other municipal fees.

The second half of Mr. Guerrero's presentation was dedicated to a summary of the ROW court case, *First Baptist Church v. City of Saint Paul*. He introduced the facts of the court case, including the types of services provided and the amount of revenue collected. He provided an overview of the arguments of the churches and of the City, and reviewed the court's decision. He also summarized the differences between taxes and fees before opening the floor to questions.

A member asked if the City was making a point not to raise taxes. Mr. Guerrero said that in his opinion, the City knew the distinction between fees and taxes but were likely under pressure not to raise taxes.

A member asked if there was a distinction between the Saint Paul case and other smaller, less expensive programs. Mr. Guerrero said that it really depends on the facts of each fee/assessment, including how it's charged, who it's charged against, and most importantly what is the purposes of the charge.

A member said that Saint Paul does yet have a downtown improvement district but that some people are looking to support adopting one. He said that downtown was unique because of things like its public skyway system, and asked if Mr. Guerrero agreed. Mr. Guerrero couldn't agree or disagree. While Saint



Paul may have some unique features, it really would depend on how the program was adopted and what its stated purpose would be.

A staff member asked if there were questions the committee should think about when thinking about a voluntary PILOT program. Mr. Guerrero said he believed that if there was a PILOT program, it should be very transparent.

Additional context on Tax Increment Financing (TIF) in Saint Paul (Kaye Rakow, Staff, 8:15 – 8:30)

Co-Chair Rakow thanked Mr. Guerrero for his presentation and introduced a staff member who gave a quick presentation on TIF districts. He explained that properties in a TIF district pay property taxes based on the value of the property when the district was formed. As the property is improved and its value goes up, the increment (the difference between property taxes paid before the improvements and the property taxes paid after the improvements) is used to pay for part of the improvements. He clarified that the property owner should be paying the same amount of property taxes as they did when they bought it. In other words, no extra money is going to the City or county.

A member asked why a TIF district would ever be renewed. The staff member said it was because a TIF district is a source of revenue and after renewal the revenue can be redirected for other uses, subject to legislative approval. He also mentioned that the revenue can be used on different properties within a district. A committee member asked if the extra money left over was transferred to the general fund and the staff member clarified that it was not. Another committee member clarified that there are legal documents created that state specifically what can or cannot be done with the money.

PHA's PILOT program (Kaye Rakow, 8:30 – 9:00)

Jon Gutzmann began his presentation with an overview of the PHA. He discussed their history and organizational structure. He also mentioned their "Officer In Residence" program with the Saint Paul Police Department. Refer to page 31 of the presentation for the payments to the City and SSPD since 1991 as well as page 40 for the PHA's PILOT formula. He explained that the reasons the PHA pays PILOT are a sense of civic duty and pride, their payment helps offset the cost of services that are important to their residents, and it helps fulfill their mission.

A committee member asked if the PHA reached an agreement with the City about their PILOTs. Mr. Gutzmann clarified that they did it without an agreement or even any prompting from the City. The member asked if the PHA had ever tried to apply property tax rates to their buildings. Mr. Gutzmann said they had not because they use the formula that is mandated.

A committee member asked if the total was half PILOT half assessment. Mr. Gutzmann affirmed that it was.

A member asked about the Officer In Residence (OIR) program and if the officers worked exclusively in the buildings and if there was any compensation that was not included on the documents. Mr. Gutzmann clarified that the officers work in the building, and that the 75,000 per year calculation is just the rent the PHA loses over the course of the year since the officers pay no rent.

A member asked about the role of the federal government in the PHA's PILOTs. Since the PILOT formula was dictated by the federal government, she wanted to know what power the City of Saint Paul had. Mr. Gutzmann explained that the county assessor they worked with was fine going along with the guidelines the federal government provided. A member asked if the whole idea of PILOTs started with the federal



government. Mr. Gutzmann said that he is unaware if the entire PILOT concept began with the federal government. However, PHA's have had this obligation for decades. Co-Chair Rakow thanked Mr. Gutzmann for his presentation.

Discussion and next steps for 6/15 meeting (Joe Reid, 9:00 – 9:25)

Co-Chair Reid explained that before the Lincoln Institute of Land Policy and a representative from the City of Boston presented to the group on the 22nd, he wanted to make sure the group had all the information they wanted and he invited them to ask questions.

A member asked about the role of public information and its contribution to the success of PILOT programs. A member said she was interested in hearing from tax-exempt properties about their opinions on PILOTs. A member expressed her interest in learning about SILOTs.

A member brought up the differences between the amount of money Boston is collecting and the scope of the committee. A member asked if the group had to wait until the 22nd to hear about Boston. The co-chairs assured that although the committee would have to wait until the 22nd to hear about Boston from an expert, the staff members and the co-chairs had a considerable amount of information about Boston that they could make available to the group.

A member expressed his curiosity about the history of the increase in revenue from ROW over time. A member asked for information about the increases in property taxes over the same period of time. A member pointed out the importance in finding information about the other cities in Minnesota and PILOT programs they might have.

Evaluation (Joe Reid, 9:25 – 9:30)

A staff member reviewed the Citizens League evaluation process. He explained that they were interested in how well the meetings are going, and that they take the evaluations very seriously. It is on a 1-5 scale, 5 being we met or exceeded objectives, 1 being it was not productive at all.

The members evaluated the meeting as follows: 5, 4, 4, 5, 4, 4, 4, 4, 4, 5, 5, 5, 5, 5, and 5 for an average of 4.5

Co-Chair Reid adjourned the meeting at 9:32am.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday June 15, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Mike Day, Niles Deneen, Jon Gutzmann, Kit Hadley, 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, Pa Der Vang

Members not present: Matt Hill, Bror Herrick



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

Guests: Melanie Soucheray, James McClean, Mary Krinkie, Jordan Ash, Kristen McHenry, John Mannillo, Amy Filice, Emi Bennett, Sam Walseth, David Dominick, Elizabeth Dickinson, Mary D. Gilbert, Amy McDonough, Paul Cerkenik

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 – 7:40)
 - a. Approve minutes from 5/11 (attached) and 6/1 (forthcoming) meetings.
2. Feedback and discussion on June 1st meeting (Joe Reid, 7:40 – 7:50)
 - a. See attached questions/answers from previous meetings.
 - i. May 11th (p.3)
 - ii. May 18th (pp. 4, 5)
3. Panel conversation with representatives from property tax-exempt organizations (Kaye Rakow, 7:50 – 8.35)
 - a. Proposed representatives from post-secondary (St. Thomas and Metro State), health care (Allina and nonprofits (Council of Nonprofits).
4. Discussion and preparation for June 22 meeting with Lincoln Land Institute (Kaye Rakow, 8:35 – 9.15)
 - a. Reports from LLI attached
 - b. Summary presentation about Boston attached
5. Discussion and next steps for 6/22 meeting with Lincoln Land Institute (Joe Reid, 9:15 – 9:25)
6. Evaluation (Joe Reid, 9:25 – 9.30)

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 minute to make a couple of adjustments to the agenda by providing more time to the panel discussion and shortening the discussion for the June 22 meeting. He also spoke briefly about the logistics and outlined the scope and the importance that the Citizens League places on giving each group impacted by a problem their chance to help define and solve the problem. Furthermore, he outlined the plans for the June 22 meeting and June 29 meeting.

After asking for the opinion of the committee about the minutes of May 11 and June 1st and not having any suggestions, he and the rest of the committee approved the minutes for both meetings. Lastly, Co-Chair Reid took the time to acknowledge the tireless work that Lincoln Bacal, former intern at the Citizens League, has put into this project and introduced the two newest interns that will carry over the project work.

Co-Chair Reid pointed out the fact that questions can always be addressed to the chairs and/or staff, and if they are not able to answer them immediately, they will follow up later with email. He also pointed out that questions from previous meetings were answered and attached to the agenda. Co-Chair Reid mentioned that he has asked the City for additional information about raised questions and will follow up as soon as he receives information.

Panel Conversation (Kaye Rakow, 7:50 – 8:15)

Co-Chair Rakow took the lead in introducing the panelists, who are members of different groups of property tax-exempt organizations in the City of Saint Paul. Namely, one was a representative of a healthcare organization; another was the representative of a public higher education institution; another represented a private nonprofit higher education institution; and the last one was a representative of a nonprofit trade association.

Co-Chair Rakow encouraged the panelists to be as candid as possible as their candor would help the committee to have a more educated idea about the sustainability of a PILOT program. She was curious about the factors that the nonprofits would consider on whether they would be part of a PILOT program. Two factors that particularly drove her questions were the importance of public recognition for PILOT payments, and the impact that the program might have on donations coming into these organizations.

The representative of the public higher education institution pointed out that as an institution they have a commitment to the City and they care about the financial well-being of the City. For them, the study is in alignment with the mission of the institution. When it comes to the PILOT program, the institution is concerned for the financial burdens such a program would bring along, particularly because the public institution has satellite campuses all over the state and is worried that other cities in Minnesota will follow Saint Paul's example. In addition, the representative pointed out that the relationship with the City is a complicated one, particularly because there is so much collaboration in multiple levels so there needs to be a decision where one draws the line.

The representative of the private nonprofit higher education institution spoke about the importance that their institution places on having an active student and alumni populations that feel part of the fabric of the City, and that the City be a healthy and vibrant place where students/staff and their families want to live. One concern that the representative highlighted was the idea of leveling the playing field between public and private nonprofit institutions. Some institutions feel that in the past the City has



treated similar institutions differently when it comes down to paying their ‘fair share’ in any project.

The representative of the health care organization echoed the sentiment that there are concerns for repercussive effects if other cities would follow Saint Paul’s lead. In addition, the representative suggested the task force recommendation and the City should take into account the other numerous services that the organizations provide to the City ranging from jobs to uncompensated care and services for very low income people in Saint Paul.

The representative of the nonprofits trade association pointed out that getting the status of property tax-exempt is not an easy process, as the organization has to fulfill numerous standards related to providing a public benefit before receiving approval. The representative spoke about the reasons why donors give to nonprofit organizations, namely, to further the mission of the nonprofit and not to pay for other services for the City.

In addition, all members of the panel acknowledged the burdens that the individual organizations can impose for the City ranging from traffic to heightened police and fire calls.

Questions from the committee (Kaye Rakow, 8:15 - 8:45)

A committee member asked about the features of the property tax that most benefit the nonprofit organizations and the differences of the property tax compared to a payroll or sales tax. The panelists offered their insights for their respective institutions.

A committee member asked how, with all of services tax-exempt organizations provide, one should grapple with the question of what service has more value than another.

The panelist from a nonprofit health care organization expressed that in the healthcare field there are fairly sophisticated tracking mechanisms currently in place to value their services, which is not always the same for small nonprofits. The panelist also urged the committee to consider the time and administration infrastructure it takes to track these services provided to the community and the potential burden you would place on smaller nonprofits without these systems in place.

The public higher education institution panelist identified the important role of the legislature in this discussion and how the legislature contributed to the current budget conditions in Saint Paul via cutting Local Government Aid (LGA). The panelist went on to say that there is a good working relationship with the City, but that the City has a lot of vested authority. Overall, the point was to see if there is an adequate level of reciprocity and mutuality between the City and the tax-exempt organizations.

The representative from a private nonprofit higher education institution added information about this important dynamic. He explained that the City required a ‘special conditions use permit’ for all higher education institutions in the mid-1980’s, including regulations on how big (enrollment) the institution could be, parking spaces, and parameters for future development. The point raised could relate to coercion. The City has the say over many construction and regulation issues based on these conditional use permits. There was a question among panelists that if educational institutions did not ‘play ball’ in terms of PILOT payments, would this hurt them in the future when it came to issues related to the special condition use permits?



Co-Chair Rakow asked if there were some hard feelings between the City and the tax-exempt community over the recent Supreme Court ruling on Right of Way. The panelist from a nonprofit association referred to the Supreme Court decision saying the City got away with growing these assessments over the years and without the funding stream the City is in a difficult situation. However, the panelist expressed that the PILOT Program is a 2% solution to a much bigger problem and that nonprofits and the City can be strong partners in service to community and disagree on this issue.

A member wanted to know how different cities around the state of Minnesota impose legitimate fees for right of way and other direct services. The member also wanted to know how a potential PILOT Program would create a precedent in other cities and if there were any cities that already had a similar program.

A panelist expressed that he had not heard of any other program of this nature, but as a representative of a private nonprofit higher education institution he was concerned about the precedent that a program such as this would set across the state.

A member identified that issues raised thus far by panelists are serious qualms. She then asked what the purpose of the committee really should be. A staff member then readdressed the idea of political reality and emphasized the ability for this committee to redefine the terms and scope of the project. The public higher education panelist explains that this issue is about reciprocity and that this has to be about improving the relationships between the City and its constituent organizations including commercial. It is not just financial.

Co-Chair Reid expressed that the overarching idea of PILOT Programs based on the literature is due to cities having financial difficulties. It is not a good idea necessarily for tax-exempt organizations to pay PILOTS, but it may be a need of the City of Saint Paul. The PILOT Program is a response to the financial condition of the City. A panelist said he had concerns about flaws in the Boston PILOT program and identified a Boston Globe article saying that out of 19 organizations in Boston 14 paid less than what was requested to pay in 2016.

The representative of a public higher education institution also wanted to know the unintended outcomes of a PILOT Program. The panelist pushed the committee to think more deeply about the expenses these organizations are already covering for the City.

A member expressed that the PILOT program is not about fixing the City's budget problem, but rather a question of what every person, organization, and entity in Saint Paul contribute to Saint Paul for the betterment of the City. She framed the discussion as one of fairness for service received. The private nonprofit higher education institution mentioned that this is a valid argument, but that he did not have an answer.

On another question, a member expressed that he does not buy into all the aspects of the City budget presentation. He explains that this is a budget crisis and that when a City is in crisis it reaches out in multiple ways. He then explained that in the Boston model the total revenue has been increasing every year.

The representative from the public higher education institution identified problems with parking, permits, and conditional use permits. Co-Chair Rakow mentioned that all property owners complain about the process of interacting with the City over permits. Additionally, Co-Chair Reid agreed that the



City should consider their budget and not assume that they will receive more revenue.

Advice and additional information from the panel (Kaye Rakow, 8:45 – 9:05)

Co-Chair Rakow asked panelists to share advice, recommendations, or additional information reflecting on the discussion.

The representative from the nonprofit healthcare organization outlined the current and future implications in the healthcare field, the pressures currently felt, and the future pressures if specific healthcare coverage plans such as Medicaid change in the near future, which would cause billions in deficits across Minnesota (See Allina PowerPoint). She urged the committee to be mindful in future discussions about the situations nonprofits find themselves in today. She also expressed that in order to sell a voluntary program to leadership the contribution has to be relatively close to what the organization gives currently and cannot be expected to go up dramatically year after year because everyone's financial pressures remain.

The representative from a public higher education institution added that permitting and the process of dealing with the City in a streamlined manner could go a long way in setting the stage for a voluntary contribution.

The representative from a private nonprofit higher education institution mentioned that if a voluntary program were implemented this cost would most likely be passed along to the students as a tuition increase because most private colleges and universities are heavily tuition dependent and already have relatively lean expense budgets. Also, nonprofits must be treated fairly whether it is healthcare and other nonprofits. The panelist made a key point about how to make the PILOT program more palatable and he asked if voluntary funds be could earmarked for specific purposes, such as contributions to community councils, which already receive some City funds. A member clarified that earmarking sounds great, but the City will simply use general funds in other ways with this contribution.

The panelist from the nonprofit organization reinforced the idea that nonprofits contribute greatly to the vitality of the City, sometimes to a degree that cannot be labeled with a dollar amount. In addition, the panelist spoke about the voluntary aspect of the PILOT program, highlighting that there is this idea of coercion or "public shaming" of the organizations if they do not participate. A member of the committee spoke about the fact that the City should have made the difficult decision to manage their finances.

Another member asked about the degree to which the payment policy could spread to other cities. The majority of the panelists were in agreement when they said that they expect the other cities to follow Saint Paul's example.

Another member spoke about the administrative burden that could potentially be created if different cities had different PILOT payments.

Co-Chair Rakow thanked the panelists for their candid answers and passed the discussion to Co-Chair Reid.

June 22 Meeting (Joe Reid, 9:15 – 9:25)

Co-Chair Reid introduced Mark Haveman who spoke about the presentation that the Lincoln Land Institute will give in front of the committee next week. Mark briefly described the role of the institution



and its scope of operation. One of the people that will be present with be Daphne Kenyon, whose research article can be found on The Citizens League website. A Citizens League staff member provided the logistics for the meeting on June 22; the information can be found on the Citizens League website.

Co-Chair Reid asked that if there are particular topics that the committee members are curious about from the Lincoln Land Institute's perspective, they should reach out to the chairs so they send the questions to the speakers in advance. Members of the committee mentioned different topics ranging from the sustainability of PILOT programs to engaging with different nonprofits equitably.

Evaluation (Joe Reid, 9:25 – 9.30)

The members evaluated the meeting as follows: 5, 5, 5, 4, 5, 5, 5, 5, 4, 5, 4, 4, 5, 5, and 4, for an average of 4.68 (2 members did not get a chance to vote, as they left early due to other commitments).

Chair Reid adjourned the meeting at 9:30 a.m.

**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 Cerkvenik, 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 Saint 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 nonprofits as a substitute for property taxes. She explained the Lincoln Institute of Land Policy excludes payments from public institutions. Ms. Kenyon 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 nonprofit 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 nonprofits pay for public services, and the counterpoint of reducing the mission of nonprofits by cutting into already constricted budgets. Horizontal inequity refers to the inability to have very similar nonprofits 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 nonprofits.

She mentioned that in certain circumstances, when nonprofits 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 nonprofits 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 of 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 Saint 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 nonprofits 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 nonprofits 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 Saint 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. Nonprofits 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.

Evaluation (Co-Chair Reid, 9:25-9:30)

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.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday June 29, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Niles Deneen, Jon Gutzmann, Kit Hadley, 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, Bror Herrick, Matt Hill, Pa Der Vang, Mike Day



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

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 29 meeting:

- ☐ Discuss June 22nd meeting and approve minutes from 6/15 and 6/22
- ☐ Straw poll to gauge committee feelings on a potential PILOT or SILOT program
- ☐ Offer a time for open group discussion following weeks of presentations from key stakeholders. Start the transition from information to synthesis, findings, and conclusions.
- ☐ Discuss plan for future committee meetings with next meeting on July 13th.

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe Reid, 7:30 – 7:35)
 - a. Approve agenda
 - b. Approve minutes from 6/15 and 6/22 meeting.
2. Discuss 6/22 presentations from Boston and Lincoln Land Institute representatives (Joe, 7:35 – 7.50)
3. Open discussion on PILOT/SILOT (Kaye 7:50 – 9.00)
 - a. Straw poll
 - b. Discussion
 - c. Potential impact on scope
4. Findings (Joe, Sean, 9:00 – 9.20)
 - a. Discussion
 - b. Note
 - i. Summary of potential findings forthcoming
 - ii. Capture “conclusions” for further discussion
5. Next steps and Evaluations (Jo, 9:20 – 9.30)

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

Introductions (Joe Reid, 7:30 – 7:45)

Co-Chair Reid welcomed the committee members. He acknowledged that there were some materials distributed to the members present (materials were offered at the door for all participants and can be found at the Citizens League website). He moved for the approval of the agenda, which was unanimously approved. He thanked the committee members for their stellar participation and attendance. He also encouraged the committee members to share their ideas, as the committee is



reaching a point where the work will soon become more concrete and ready to be presented. In addition, Co-Chair Reid urged the committee members to be open minded about different ideas and to consider not only their particular needs as organizational representatives but also the City's needs, which are aimed at serving the citizenry.

Then, Co-Chair Reid moved for the approval of the meetings from the June 15 and June 22 meeting and the minutes were approved by the committee. Co-Chair Reid thanked also Mark Haveman for arranging the panelists from the last meeting and opened the floor for comments from the committee members about the experience.

A member of the committee pointed out that Boston was unique in that it has a centralized government, meaning that the City, state and county government were under one umbrella. A member was curious about other cities who have chosen not to pursue a PILOT program, and what led them to this decision. The member also pointed out the differences between Boston and Saint Paul and cautioned the committee not to rush into any decision. Another member spoke about the importance that Boston placed on the relationship between the City and the organizations and wondered whether the City of Saint Paul was ready to deal with the administration of such a program. Many members echoed the same sentiment, emphasizing the fact that the new mayor should make the potential program a priority.

Another member stated that the City would prefer a PILOT program (cash) rather than a SILOT, but the reality is that SILOT may be more attainable.

Individual member perspectives conversation (Kaye Rakow, 7.45 – 8.30)

Co-Chair Rakow expressed that the committee finds themselves in a transition from presentations, data, and information collection to one of findings, recommendations, conclusions. She explained the goal of understanding peoples' perspectives on the topic of PILOT and SILOT through a straw ballot and subsequently an open conversation.

A staff member explained the logistics for the TurningPoint technology clickers and articulated the goal of the nonbinding and anonymous survey, which was to gauge feelings from the committee. Committee members voted on the question of assuming the details mattered would they vote for a PILOT program today. There were 57% in favor of a PILOT program and 43% against – 23 votes with the staff member abstaining. The same wording was used for a SILOT program. 55% were in favor of a SILOT program and 45% were against a SILOT program with 22 votes collected.

Co-Chair Rakow asked members to go around the room and express their thoughts about PILOT and SILOT without a topic limitation.

A member started by saying that the committee has focused primarily on the City of Saint Paul, but perhaps the committee should broaden the conversation to cities in the state of Minnesota. The member thought it would be wise to think about all cities in MN more broadly as many cities have tax-exempt properties and would potentially be interested in a PILOT program. The member's second point was that the conversation should be on cities and not on school districts or counties or other property tax jurisdictions because of the main topic of fire and police services.



A member wondered if a PILOT or SILOT program would be truly voluntary. The member mentioned that a PILOT program deals with pressure on an organizational or individual basis that is often not uniform across all entities. If a program becomes involuntary, then there are problems with coercion.

A member thought that if you asked many major nonprofits if they should pay something for the services they are receiving they would say yes. However, the ROW case expressed that these organizations do not have to pay – only if they want to. The member said the entire discussion is with the school district and the county and the tax-exempt organizations. The member thought it may be more manageable with only large entities. In addition, the member said it is important not to give the City the impression that a PILOT program is simple; it is a complicated negotiation that will take some time among a significant number of stakeholders. The member concluded saying that this committee could introduce a lot of information about a possible program but that this committee should not say yes or no on a program.

A member highlighted that PILOT is only one way to bring in revenue for the City and it is not the committee's job to solve a revenue stream problem.

A member explained that the member was stuck trying to understand the inception of the tax-exemption for nonprofits in terms of land ownership. The member thought the system offered perverse incentives for tax-exempt organizations to own real estate. The member expressed that the idea is to lower costs for organizations that add to the common good, but many of the organizations which need the assistance end up leasing land from for profit organizations and therefore end up paying property taxes in this manner. Conversely, large nonprofits are able to raise capital campaign funds and outbid for profit entities when a new piece of land becomes available especially without a real estate tax down the line. When tax-exempt organizations own land it is “easy” because there is no incentive for the land to be put to productive use by the organization. Also, if a tax-exempt entity buys a piece of property it may build a brand new building, which will raise the property tax for businesses and property in the vicinity. Ultimately, when there is not a cost for the accumulation of land by a nonprofit this can pose a problem as it causes a reduction of taxable land in the City.

A member highlighted that we are here in the best interest of the City of Saint Paul. The member quoted a few individuals from previous meetings regarding this committee looking to plug a hole. The member quoted there is real pressure on municipalities to provide services and yet not raise taxes. The member accented another member and agreed that the committee is convened to try to help a budget problem. He also mentioned there are many capital projects in this City and a massive financial gap to address issues. He does not want the public discourse about a PILOT program to supersede the challenges of such a program. The member expressed that this committee would certainly not get to an end game but perhaps point towards what needs to be done next. He thought it would be interesting to engage in scenario planning by looking at what a PILOT program looks like and what a SILOT program looks like. The key to moving forward is to get the next group of stakeholders at the table.

A member talked about the success of a PILOT program being built on relationships. In order for a PILOT program to be successful, it would take a reorganization of many of the City departments that interact with tax-exempt organizations towards a framework of customer service and mutuality. She emphasized there is potential for a PILOT program, but that the 5 year “ramp up” that the City of Boston did is not enough because Saint Paul has a different starting point than Boston. Even if successful, a PILOT program is not going to solve Saint Paul's budget problem.



Another member spoke about the importance of balance. Balancing equity with fairness and social responsibility, along with similar and adequate engagement from all the stakeholders in a PILOT program is essential to a sustainable program. The member also pointed out that the City of Saint Paul has a “relationship” problem, meaning that the City has not maintained good working relationships with the business community or the nonprofit sector.

Another member stated that this is an opportunity to try to find a solution to address some very tangible realities that affect all that are sitting at the table and it would be important for the City to come to the table with the idea of looking forward and being willing to negotiate. Another member mentioned that it is important to look at this issue as a statewide issue because the actors pretty much remain the same in different locations of the state. The member also expressed concern about the time left to come up with a solid recommendation that encompasses all the findings and conclusions.

Another member echoed the idea that a PILOT program cannot make up for all the shortcomings in the City budget and that the City should take better care of its finances. In addition, the member highlighted the major contributions that nonprofits offer to the community and how many of the services provided might be diminished because the organizations would have to rearrange their finances to accommodate for a PILOT program. The member said it would be useful to find out the amount of money that nonprofits already pay towards the respective government. As per the SILOT program, the member stated that nonprofits are better suited to serve the underserved and a SILOT program might lead to an interference by the City into the missions of nonprofits.

Another member echoed the same sentiments. The member also urged the committee to approach the problem through a specific lens and to be empathetic to the idea that not all the services that the City offers are welcomed throughout all communities, particularly given the recent developments with the police force in Saint Paul. In addition, the member echoed the sentiment expressed earlier that the committee needs to look at cities that considered PILOT programs but ended up not implementing them in order to create a better idea of the benefits and drawbacks of the program.

Another member questioned the idea that the PILOT program should be looked as a City of Saint Paul issue. Indeed, the member stated that the committee should look at the issue at the state level rather than a City issue. In addition, the member stated that the committee is not here to solve the City’s financial problems and hoped that the City was having a similar process in place regarding its budget expenses.

Another member acknowledged that public policy tends to be very complex, but the fact that the stakeholders are trying to do something here, then the committee can come up with a recommendation by the time desired.

However, the member was curious to know where the City is in this process and how much the City would be willing to negotiate and be flexible. The member spoke of the difficulties that members of the for profit community have with the City, when it comes to getting permits or other services. Another member of the committee stated that commercial businesses get the feeling that sometimes the City does not care about their flourishing.

Another member stated that there is a consensus that organizations have a stake and desire to see the City do well because of the services they attain from the City. However, the member was also a bit skeptical about a PILOT program, particularly because nonprofits worry about the consequences of not



participating in it down the line, considering that such organizations have a constant working relationship with the City. The member also stressed the idea that the City should come with a structure/bluesheet of the potential program in order to help the nonprofits understand what is expected from them. Lastly, the member stated that the fact that Saint Paul has a lame duck mayor is also a potential issue as no one can predict how receptive the new administration will be to a specific recommendation.

Another member stated that the City has a tendency to throw random and open ended policies to the business community with the unrealistic expectation that the business community can address any potential issue. Another member mentioned that the business community was there with Randy Kelly back in 2005 and they supported a minor increase in ROW so there was an equitable amount for tax-exempt organizations but they warned the administration that things could quickly get out of control and that is what happened. In that sense, this administration owns this budget problem and it can only address it in the long run by creating a stable and growing commercial and mid-level industrialized paying base.

Another member highlighted the escalation in the burden from the City, which has systematically taxed businesses at increasingly higher rates. Another member stated that there are huge customer service issues in the City but was still surprised to know how negatively some members of the committee feel towards the City. The member also backed the idea of earmarking as a very appealing solution for a PILOT program. The member stated that a SILOT program would be harder to implement even though it could help the City reduce some of its spending.

Another member spoke of the difficulty to come to one single recommendation, particularly due to the scope and the unpredictability of knowing how the City will react. The member also stated that the PILOT program might drag some nonprofits out of the City which currently benefit the City and that there needs to be more information about the stakeholders that will be most damaged by a program. Lastly, the member stated that the issue demands that the state to be engaged and this cannot be a City level discussion.

Another member also echoed the idea that this should be a state issue and hoped that the findings and the conclusions were in that tune. In addition, the member stressed that the idea that municipal services are important is broadly acknowledged but it can also lead to some backlash towards the organizations that do not contribute to a PILOT program.

A Citizens League staff member stated that the organization is trying to schedule a meeting with the City Council President in order to update them about the progress. In addition, the member stated that it could be possible to bring some representatives to come speak with the committee. Lastly, the member urged the committee to come up with a recommendation despite the fact that there is a fast timeline because the most important part would be to set a direction.

A member sustained the idea that there should be a meeting where representatives from government were present. Another member spoke of the importance of doing more clicking exercises to test the waters within the committee. Another member wanted to know what is the standard or end game about reaching consensus. A Citizens League staff stated that the majority recommendation can be from 51 – 100 % of the committee but in the final report the voices of those who are against the recommendation (minority report) are included as well in order to let the City know how all participants feel and to ensure full transparency.



Co-Chair Reid referenced the State constitution expressing that churches, places of worship, and solely academic buildings institutions, universities, and seminaries cannot be regulated in terms of tax-exemption.

Co-Chair Rakow mentioned getting the City involved and also identified the numerous people, organizations, and interests that want to influence and express their opinions on the work of the committee. She said many people have ideas and that the committee would like to hear from them. She explained that a special meeting is being held at Wilder on July 12th from 8:00 – 9:30am for the community and other interests. She said there are many individuals who have not been a part of the formal process. Co-Chair Rakow said an email would go out to all groups and urged observers to share and alert all people that may be interested.

Findings (Co-Chair Reid, 9:00)

Co-Chair Joe explained a worksheet documenting how nonprofit properties are affected by ROW.

He had everyone turn to the fundamentals of City budget and finances and revenue (see website). He explained that these are very rough numbers and statements, but that they wanted to extend findings to everyone. He identified that many others had offered findings submissions as well. He said that if anyone has comments about the findings or additional findings to please share with the committee.

A member identified that much of the finding data is focused on Saint Paul and his question was whether the committee should focus primarily on Saint Paul. He said you could use Saint Paul as an example, but that this committee should factor in all cities in the state of MN.

Co-Chair Rakow mentioned in the findings she would like to acknowledge the commercial and industrial sector by expressing what they pay in taxes to Saint Paul. She expressed the notion that some people believe commercial institutions subsidize all property tax in an area, but in citing an article she said in 2016 commercial business had 12% of statewide market value and yet paid 31% of all property taxes made payable.

A member mentioned she wanted more information on the inequity between rented versus owned property for non- profits.

A member identified a subsidy paid by commercial businesses in Saint Paul citing an article used by the Port Authority (see webpage). He explained that this was crucial when seeking to grow the commercial and land industrial tax base because it offers a reduction for the residential tax base.

A member mentioned that many of the higher education institutions and hospitals are part of the Central Corridor Anchor Partnership. He explained the group has committed to examine addressable spending that is going outside the central corridor to try to bring spending back to local vendors. He went on to say that the committee has not talked about the collective economic impact of tax-exempt organizations and some of the other ways they can drive revenue to the City through purchasing power. When you look at hospitals and the University of Minnesota you are talking about hundreds of millions of dollars each year on non-personnel spending. Many of these purchases are going outside the State of Minnesota, but many of these are addressable and could be moved back into the state to businesses in the community.



Co-Chair Reid mentioned that when speaking about the costs of fire and police it is often hard to assign costs and one of the only examples is in fire emergency transport services. In general, other fire and police services are challenging to assign. A member responded by saying that paying as an entity, however, is like an insurance policy such that the police and fire will arrive when you need them.

Another member wanted to know the amount of City property that falls under tax-exempt and what amount is under state property. The member argued that the percentages can be used to show the impact that the state or the City itself has on the current situation.

Co-Chair Reid stated that this is how the information was provided to him and he will look for additional information to provide to the committee. A member referenced another hand out that was given to the committee at an earlier meeting (the handout can be found on the Citizens League website).

Another member stated that the committee needs to be specific with the language it uses when it provides a recommendation because words matter and it can be detrimental to specific groups in the long run. Another member stated that the discussion keeps pointing to the idea that the committee should limit its scope and focus on specific aspect to the problem rather than try to solve any inequity or issue that faces the City of Saint Paul.

Co-Chair Reid thanked the members for a terrific discussion and opened the floor for evaluations.

Evaluations (Co-Chair Reid, 9:25)

The evaluations were as following: 4, 5, 5, 3, 4, 4, 5, 5, 5, 5, 4, 4, 5, 3, 5, 4, 5, 4, 4, 4, and 5 for an average of 4.38.

Co-Chair Reid adjourned the meeting at 9:30 am.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday July 13, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Zach Crain, Niles Deneen, Jon Gutzmann, Kit Hadley, 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, Bror Herrick, Matt Hill, Pa Der Vang, Mike Day

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

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 July 13 meeting:

- ☐ Approve minutes from 6/29 meeting
- ☐ Review feedback from July 12 meeting
- ☐ Discuss, edit and prioritize Findings as they relate to the project scope and outcomes.
- ☐ Identify next steps/questions, and prepare for July 20 meeting.

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe, 7:30 – 7:35)
 - a. Approve agenda
 - b. Approve minutes from 6/29 meeting (attached)
2. Discuss 7/12 meeting and feedback from attendees (Joe, 7:35 – 7:50)
3. Findings (Kaye 7:50 – 9:10)
 - a. Discussion, editing and polling on attached Findings
 - b. Prioritization of Findings
4. Next steps and Evaluation (Joe, 9:10 – 9:30)
 - a. Conclusions and recommendations process
 - b. Next steps
 - c. Evaluation

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

Introductions (Joe Reid, 7:30 – 7:50)

Co-Chair Reid called the meeting into opening at 7.30 am. He moved for the approval of the agenda, which was approved unanimously. Next, he moved for the approval of the minutes of June 29 and asked if any of the committee members had any feedback on them. One member asked for a clarification on a sentence, which was clarified by Co-Chair Reid. Then, the committee approved the minutes. Co-Chair Reid acknowledged that today's meeting had a busy and demanding agenda and he thanked the committee in advance for their feedback and collaboration.

Next, Co-Chair Reid spoke about the July 12th meeting. He mentioned that he was happy with the logistics and stated that around 20 people spoke at the meeting and he thanked the Citizen League's staff for organizing and facilitating the discussion. He also thanked the six members of the committee who were present at the July 12th meeting, Co-Chair Reid stated that the group of attendees that was present represented health care organizations, religious organizations, educational organizations, the business community, City hall, and citizens. He mentioned that the representatives of tax-exempt nonprofit organizations emphasized the services and contributions that they bring to the City of Saint Paul. He also mentioned that many of the representatives raised concerns about the implications that



the new policies being passed in DC would affect their services and ability to contribute in a PILOT program.

Many stated that they would have to reduce their services if they would have to contribute to a PILOT program. Others mentioned the discrepancies with the TIF districts and the strained relationships that the City has built over the years. A committee member, who was present at the meeting, stated that the meeting was useful as it provided some insights on how the organizations felt. Another committee member echoed that sentiment particularly when it came to the voluntary aspect of the PILOT program and how many organizations did not sense that the program would be entirely voluntary.

A Citizens League staff pointed out that Council member Jane Prince was present at the meeting and listened throughout. She spoke at the end of the meeting about a potential cut in fire medic units due to the financial burdens of the City. She expressed that the ROW assessments gap could decrease some City services, which could have widespread effects. She thought the work of this committee was important with this context.

Co-Chair Reid also mentioned the views that individual members raised at the meeting. A Citizens League staff member stated that all the members at the meeting who will send something to Citizens League will have their statements/documents posted on the Citizens League website.

Discussion, comments, and voting on findings (Kaye Rakow, 7.50 – 9.10)

Co-Chair Rakow took the lead in the finding section of the meeting stating the plan to review each finding one-by-one, hear clarifying questions, and then use an anonymous clicker survey to vote “yes”, “maybe”, or “no” as a committee. She stated there will be a time to make substantive changes to the findings, aimed at consensus. She highlighted the ability for the committee to park any finding for future research.

A staff member clarified that this voting is different than that of recommendation voting as ideally there would be near 100 percent consensus on a set of findings. In addition, the percentages are rounded to the highest number, which would mean sometimes that there can be a total over 100%.

Co-Chair Rakow said at the end there will be time for committee members to add findings if they choose.

A member asked if the manner in which the findings are worded with bolded text followed by parenthetical information was going to be reflected in the final report. A staff member assured the member that for any finding there will be cited data and that all information will be included in the final report. The staff member went on to say that more finesse is needed with many of these findings and that the technical support will keep track of the percentages and the discussion surrounding the findings. The Citizens League staff member assured the committee member that the committee would not be asked to finalize anything at this meeting.

A committee member asked a process question about how the findings were created. A staff member expressed that technical support staff, the co-chairs, and the staff created these findings as a starting point for further discussion. The findings are in three categories: general, Saint Paul specific, and far-reaching implications regarding a potential PILOT/SILOT program.



A member stated there should be a category of findings before these three categories such as stating the constitution is clear on tax-exemption laws. A staff member agreed but said that there are data points that are more factual that will precede this set of findings in the final report. There was some concern from the member about the delineation between fact and finding.

A member expressed that the first section of findings should be at the state level. A member asked if a vote “maybe” meant that she might want the finding or that she only agreed with part of the statement.

The committee voted on the first finding, which ultimately ended with “PILOTs have been used around the country as a supplementary source of income to support the delivery of local services.” 90% voted Yes, 10% voted Maybe. One member mentioned that PILOTs are not just to raise income but also to offset costs of City and governmental services.

The second finding eventually became parked to return to later and was not voted upon, “PILOTs help mitigate inequities that exist among certain tax-exempt nonprofit organizations in providing support for local services and inequities in having City residents subsidize broadly dispersed benefits provided by nonprofits.” Co-Chair Rakow expressed that she was concerned about the clarity of this finding and which inequities the finding was referencing. She was curious if this could be broken into two sections. She expressed that benefits of tax-exempt organizations also extend beyond the bounds of the City of Saint Paul. A staff member explained that there are horizontal, vertical, and geographic inequities. A member mentioned the potential downfall of trying to add everything to one finding.

The third finding was also parked after a vote, “PILOTs can help mitigate the economic distortions created by property tax-exemptions to own rather than lease real property which can exacerbate inequities among nonprofits while also distorting real estate markets and reducing the local tax base.” 55% voted Yes, 23% voted Maybe, and 23% voted No. A member expressed that the committee should acknowledge that there is an inequity among ownership and leasing as she referenced finding number two.

The member said that organizations that are paying property taxes when they are leasing land should be thanked by the City. Another member echoed the same point and said that this finding is a point of conversation but that it is not a major reason the committee was formed. The member offered that perhaps this is a fact rather than a finding. A member stated that the member has not seen any data supporting the inequity created by tax-exempt organizations. Another member expressed that the finding was meant to capture that there is a motivation by tax-exempt organizations to own property rather than lease or rent. A member explained personal experience of tax-exempt organizations buying property and owning after having seen the tax break. Thus, some organizations ignore the value created by the property tax. Co-Chair Rakow asked if this perhaps could be a conclusion. Co-Chair Reid offered that this could be part of generic finding independent of the PILOT. A member worried about the strong language used in this finding and mentioned that some tax-exempt organizations are given these parcels of land as a gift.

The fourth finding was also parked, “PILOTs can have “service in lieu of taxes” (SILOTs) offsets in recognition of the contributions tax-exempt organizations make to the community which reduce City governmental obligations and financial burdens.” 71% voted Yes, 24% voted Maybe, and 5% voted No. A member was wondering if a finding would speak to governmental obligations. A member expressed that when a SILOT is made he assumed that a corresponding reduction is made by the City in spending on that particular service.



A member worried that if some of a tax-exempt's services were SILOT worthy, which the City's spending would decrease in these areas even though this is a service that had been provided before the implementation of a PILOT/SILOT program. The member went on to say that a SILOT reduces the amount of money a government entity pays but that this reduction could come from the City, the county, or the schools. A member offered the word 'City' to the finding to differentiate these jurisdictions. Another member expressed that the committee has not stated that this was only a City issue and did not apply to the county or schools.

A member mentioned that parenthetical information could help clarify these findings in the final report. Another member mentioned that the committee has not really teased out the details of SILOT or how to implement such a program and thus it is challenging to vote on the topic.

The fifth finding eventually became, "PILOTs can take on many forms but successful ones are voluntary and employ a collaborative approach that serve mutual interests, offer a systemic framework so that they are fair, are relatively predictable and offer consistent treatment." 85% voted Yes, 15% voted Maybe, and 5% voted No. The wording was changed to include voluntary. The finding was voted on again and 91% voted yes and 9% voted maybe.

The sixth finding remained, "A PILOT program requires a strong partnership between a community and its tax-exempt organizations and that relationship takes considerable time, effort and commitment to build." 95% voted Yes and 5% voted Maybe.

A member commented that the word voluntary should be included anytime the term PILOT is used. A staff member responded saying that this is given with the term. Co-Chair Reid mentioned he asked the Lincoln Institute of Land Policy about the PILOT payments that are currently occurring in the Minnesota area because these are negotiated contractual payments.

A PILOT has to be voluntary otherwise it is not a PILOT within the scope of this committee. A member asked how the committee would define voluntary and asked if it was a negotiated contract or a gift. Another member expressed that the committee should define voluntary.

A member reminded the committee that tax-exempt organizations have a Minnesota Supreme Court decision on their side and that if any point this becomes coercive it is no longer a PILOT payment. A staff member explained that the committee should assume that a PILOT program is voluntary and that this will be defined in the final report.

The seventh finding was discussed and voted upon, "The considerable amount of uncertainty surrounding federal and state tax and fiscal policies adds some complications for establishing new PILOT programs." 77% voted Yes, 14% voted Maybe, 9% voted No. A member mentioned that this statement is always a finding under any administration. A member mentioned that many organizations may appreciate this findings, but that it could easily be discussed in the body of the report. A member mentioned -voting No, and that if this was a finding it should include City.

A member stated that the member did not think that the uncertainty created 'complications' for a PILOT program. A PILOT program would put tax-exempts in a tough place potentially, but does not complicate the establishing of a program.

The eighth finding was voted upon, "Saint Paul faces a challenging budgetary environment now and in



the future.” 76% voted Yes, 14% voted Maybe, and 10% voted No. A member expressed that the committee should try to divorce itself from the Saint Paul budget problem.

Co-Chair Reid mentioned that another finding he offered may address this, which states that Saint Paul is not much different than other Minnesota cities. A member disagreed saying that -Saint Paul -has more tax-exempt market value than other cities referencing Ramsey County’s 2010 estimated market value data (see website). A staff member expressed that the current value of tax-exempt property in the City of Saint Paul had changed in recent years, but that more data would be helpful in the critical discussion over whether or not Saint Paul is in a unique position in terms of tax-exempt property. Another member mentioned -an understanding - that there are only a few cities in Minnesota that have a significant amount of tax-exempt property. Co-Chair Reid also mentioned that it matters what you consider a major difference.

A member mentioned that there are multiple findings and that perhaps not all findings need to be included, but that a smaller number of unanimous findings could be included.

A member mentioned that the word ‘challenging’ was not appropriate because in the past members of the committee made tough choices and created a budget for the City of Saint Paul. The member did not like that there was no mention of the past and that the finding only referred the present and future.

A member mentioned that the budget problem in the beginning of the committee coming from the City was around \$30 million, yet the committee had only talked about the \$1.8 million gap. A staff member clarified the point saying that the \$32 million was a source problem but that the \$1.8 was a gap where the City was not able to get revenue back from other sources such as the street maintenance program.

The ninth finding was voted upon quickly, “A Saint Paul PILOT/SILOT cannot -- and should not -- be viewed as a “solution” to Saint Paul’s significant budget gaps or long term financial challenges.” 91% voted Yes and 9% voted Maybe. A member mentioned that- - this was a conclusion not a finding.

The tenth finding “A PILOT offers the potential for a more equitable and rationale sharing of municipal burden among tax-exempt organization than the former ROW system design” was -eliminated - as members of the committee did not find it useful because there was no comparative data to sustain the statement.

The eleventh finding eventually became “ The Saint Paul property tax-exempt community offers considerable contribution- (not sure if this is plural or not) to the health and welfare of the City that citizens do not know about, that is not quantified in dollars, and can be rather difficult to quantify. The results from the vote were 91 % Yes, 5% Maybe and 5 % No.

The -twelfth finding “The division of local service delivery across multiple different units of government creates some additional complications for establishing a Saint Paul PILOT/SILOT program” was discussed by the committee but ultimately the committee members decided to keep the same language on it. The final result was 81% Yes, 5% Maybe and 14% No.

The thirteenth finding “The degree of collaboration and partnership essential to a successful PILOT/ SILOT program may be lacking in Saint Paul and needs attention”, yielded a final result that was 95% voting Yes and 5% voting Maybe. Members of the committee agreed that this finding is supported by qualitative data.



The fourteenth finding “Greater transparency on cost of City services, cost trends and reasons for change is important to gain broad acceptance of a PILOT program,” yielded a result that was 85% Yes and 15% Maybe. Some members stated that transparency would not be enough if there was not a better management of the City’s finances.

The fifteenth finding “Administrative costs for managing a program in Saint Paul have to be part of the cost-benefit analysis for establishing a program”, was voted 95% Yes and 5% Maybe. The committee members acknowledged that this is a pretty standard issue that is used for any other program.

Next the committee moved on the Findings Regarding Long Term Implications.

The sixteenth finding “The implementation of a PILOT/SILOT for Saint Paul has implications for local governments and property tax-exempt organizations across the state”, was voted 100% Yes.

Co-Chair Rakow asked the committee members if they had any additional findings they liked to present. Co-Chair Reid presented one of his findings.

The seventeenth finding “Some cities around the country have considered or studied PILOTS, but did not establish them”, the final result was 100% Yes.

Co-Chair Rakow opened the floor for discussion-. A few members of the committee stated that they wanted to have a discussion about the difference between City and state, as well as, the voluntary component of the potential PILOT program. A Citizens League staff member told the committee to email any findings or facts to the Citizens League staff as it makes the work easier for the rest of the committee. In addition, the staff member acknowledged that some of the data that is attained thus far is not the most up to date but additional research is being done to fill any -gaps in information.

The last finding “Property tax-exemption in Minnesota is spread unevenly in municipalities across the state,” was voted 79% Yes, 16% Maybe, and 5% No.

Evaluations (Co-Chair Reid, 9:27)

Co-Chair Rakow and Co-Chair Reid thanked the committee members for their participation and concluded with evaluation. The evaluations were as following: 5, 5, 4, 4, 4, 5, 5, 5, 5, 4, 5, 5, 4, 4, 5, 5, 4, 4 and 5 for an average of 4.55.

Co-Chair Reid adjourned the meeting at 9:30 am.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday July 20, 2017
7:30 am – 9:30 am**

Committee Members Present: Tanya Bell, Ellen T. Brown, Niles Deneen, Jon Gutzmann, Kit Hadley, 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, Bror Herrick, Matt Hill,



Mike Day

Committee Members Not Present: Zach Crain, Pa Der Vang,

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

Guests: Amy Filice, Fangzhou Chen, David Dominik, Frankie Johnson, Mary Karcz, Kirsten Kukowski, Mary Krinkie, Cindi Cooke, Melenie Soucheray, James McClean, John Mannillo, Jack Hoeschler, Rebecca Lucero

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 July 20 meeting:

- ☐ Approve minutes from 7/13 meeting
- ☐ Continue process on determining findings
- ☐ Discuss, edit and prioritize conclusions
- ☐ Identify next steps/questions, and prepare for final meetings and recommendations

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe, 7:30 – 7:35)
 - a. Approve agenda
 - b. Approve minutes from 7/13 meeting (attached)
2. Follow up from last meeting (Joe, 7:35 – 8:00)
 - a. Feedback on 7/13 meeting
 - b. Subsequent meetings, e.g. City staff
 - c. Discussion of data document (attached)
3. Findings (Kaye 8:00 – 8:25)
 - a. Address findings we 'parked' from last week
 - b. New findings
4. Conclusions (Kaye, 8:25 – 9:10)
5. Next steps and Evaluation (Joe, 9:10 – 9:30)
 - a. Recommendations process
 - b. Next steps
 - c. Evaluation

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



Introductions (Joe Reid, 7:30 – 7:50)

Co-Chair Reid called the meeting into opening at 7.30 am. He moved for the approval of the agenda, which was approved unanimously. Next, he moved for the approval of the minutes of June 29 and asked if any of the committee members had any feedback on them. The committee approved the minutes with an adjustment due to a grammatical error.

Then, Co-Chair Reid stated that he along with Sean Kershaw and Co-Chair Rakow met with Saint Paul City Council President Russ Stark and Kristin Beckmann, deputy mayor, to brief them on the progress of the committee. In addition, Co-Chair Reid notified the committee that Sean Kershaw will also meet with the rest of the councilmembers to also update them on the progress of the committee.

Co-Chair Reid turned the attention of the committee to the data document, which is attached at the Citizens League website. He spoke about the legality of the tax-exempt organizations and the potential legal implications of a PILOT program. A member of the committee suggested that it would be useful if the data document could show the data for all the cities in Minnesota. A Citizens League staff member stated that they would look into it but it can be rather difficult to find all the information. Then, Co-Chair Reid started going over the additional data on the other pages.

The discussion was centered between members over some of the data. In closing, Co-Chair Reid acknowledged that today's meeting had a busy and demanding agenda and he thanked the committee in advance for their feedback and collaboration.

Discussion, comments, and voting on findings (Kaye Rakow, 7.50 – 9.10)

Co-Chair Rakow took the lead in the finding section of the meeting stating the plan to review each new finding one- by-one, hear clarifying questions, and then use an anonymous clicker survey to vote “yes”, “maybe”, or “no” as a committee. She stated there will be a time to make substantive changes to the findings, aimed at consensus. She highlighted the ability for the committee to park any finding for future research just like they did at the previous meeting.

A staff member clarified that this voting is different than that of recommendation voting as ideally there would be near 100 percent consensus on a set of findings. In addition, the percentages are rounded to the highest number, which would mean sometimes that there can be a total over 100%. Co-Chair Rakow said at the end there will be time for committee members to add findings if they choose.

The first new finding “Tax-exempt organizations use many of the services provided by the City of Saint Paul” was voted 84% Yes, 11 % Maybe and 5% No.

The second revised finding “Horizontal inequities may exist among certain tax-exempt organizations in providing support for local services” was parked again as there was no consensus in the committee. A few members echoed that the finding needed to be stated better in order for them to cast a voting.

The third revised finding “Vertical inequities exist among certain tax-exempt organizations in providing support for the local services” was parked on similar grounds.

The fourth revised finding “Geographic inequities exist among certain tax-exempt organizations in providing support for local services and in having City taxpayers subsidize broadly dispersed benefits.



(Ex. An organization that uses services in the City but its benefits are spread broadly vs. an organization that uses services in the City but its benefits remain in the City.)” was voted 80% Yes, 10% Maybe, and 10% No.

The fifth finding “PILOTs can have “service in lieu of taxes” (SILOTs) offsets in recognition of the contributions tax- exempt organizations make to the community” was voted 84% Yes, 11% Maybe and 5% No.

The sixth finding “The voluntary nature of a PILOT/SILOT program means that it cannot create a constant and predictable revenue source” was voted 95% Yes and 5% No.

In order to finish the voting on findings, Co-Chair Rakow stated that she would like to “test the waters” again regarding the stance of the committee on a PILOT program.

In taking a straw vote that stated “As of now, my position on PILOT program for the City of Saint Paul is:” the result was 25% “Definitely in favor. They ought to be done,” 40% “In favor if specific criteria are established”, 20% “Likely to oppose unless many criteria are established”, and 15 % “Completely opposed under any circumstances.”

In taking an additional straw vote that stated “As of now, my position on SILOT program for the City of Saint Paul is:” the result was “15% “Definitely in favor. They ought to be done,” 50% “In favor if specific criteria are established”, 20% “Likely to oppose unless many criteria are established”, and 15 % “Completely opposed under any circumstances.”

After the voting on findings ended, Co-Chair Rakow turned the discussion and voting on conclusions that members of the committee had previously submitted. The conclusions were divided on four categories: conclusions relating to the merits, conclusions relating to the conditions necessary to establish a successful PILOT program, conclusions relating to PILOT/SILOT design, and conclusions relating to potential state actions.

The committee began with voting conclusions relating to the merits of a PILOT program. The first conclusion “A PILOT must be voluntary to avoid undermining the benefit of the charitable tax-exemption provided in statute and the state constitution” was voted 95% Yes and 5% No.

The second conclusion eventually became “Compared to other first class cities, Saint Paul doesn’t have a disproportionate amount of tax-exempt property by value” and was parked due to insufficiency of data. Members disagreed about the validity of the statement and wanted to have more data in order to make an informed vote

The third conclusion “Although PILOTs rarely account for more than very small percent of a locality’s total revenue, the absolute dollar values can play an important role in funding local public services” was voted 79% Yes, 5 % Maybe and 15% No.

The fourth conclusion eventually “There is a difference in tax treatment of nonprofits based on whether the organizations leases or owns real property” was voted 89% Yes and 11% Maybe. Prior to the changes the word “equity” was used instead of the word “difference” because some members felt that the word “equity” encompassed a strong language for the statement.



Co-Chair Rakow also stated that because there are findings, data, conclusions and they intertwine closely with each other, then odds are that some of the material that was voted today as conclusion might end up under the rubric of findings at the final presentation and vice versa.

Then, the committee started voting on conclusions relating to the conditions necessary to establish a successful PILOT program.

The first conclusion eventually became “A Saint Paul PILOT is not advisable until leadership of Saint Paul and tax-exempt organizations can develop a framework” and was voted 89% Yes, 5% Maybe and 5% No. The changes happened in order to reach consensus between the committee members and to make the statement as direct as possible.

The second conclusion “PILOTs require significant civic commitment and political leadership. City leadership must provide the momentum and energy to make this possible. Careful development and a strong public relations effort is needed prior to implementation” was voted 84% Yes and 15 % Maybe.

The third conclusion “City relationships with their tax-exempt nonprofit organizations are in need of repair. Saint Paul does not have an adequate level of buy-in from tax-exempt organizations required to make either a PILOT or SILOT voluntary program successful. Regulatory reform, service delivery, City use of alternative financing methods including TIF, and other related issues need to be part of an effort to create the type of collaborative and mutually beneficial relationship needed to support PILOTs” was parked as many members of the committee found it too complex and overwhelming. They recommended breaking the conclusion in multiple parts as many of the statements can be deemed to be separate conclusions. One member stated that the conclusion needs to be curtailed in a way that also shows some respect to the City leadership because after all they will be the audience of the suggestion of the task force. Another member echoed the same sentiment. A Citizens League staff member said that the committee will have some additional conclusions derived out of this because it is a topic of interest that goes hand to hand with the desire and willingness of some organizations to eventually participate in a PILOT program.

Next, the committee started voting on conclusions relating to PILOT/SILOT design. The first conclusion eventually became “PILOT should be limited to the provision of municipal services” and was voted 79% Yes, 5% Maybe and 16% No.

The second conclusion “A PILOT payment should be related to the City’s overall cost of property-related services (police, fire and public works) and be based on a consistent formula” was voted 84% Yes, 11% Maybe and 5% No.

The third conclusion eventually became “All tax-exempt nonprofit property owners should be asked to participate in a PILOT program” and was voted 53% Yes, 5% Maybe and 42% No. Members clarified that all nonprofits included the churches, hospitals and higher education institutions because there was some discussion on whether some organizations should be exempted. Co-Chair Reid noted that there are over 3000 tax-exempt organizations in Saint Paul.

The fourth conclusion “Transparency regarding requests for payment(s) and actual payment(s) received are essential PILOT program features” was voted 58% Yes, 21 % Maybe and 21% No. A member spoke about the fact that there is some concern about this idea of “public shaming” in case a specific institution does not commit money to the program but there are also obligations to disclose where



money goes so it's a fine line discussion for many organizations.

The fifth conclusion "Saint Paul has a responsibility as a PILOT partner to clearly identify and communicate reasons for cost increases associated with services for which voluntary payments are being received" was voted at 100% Yes. A member spoke about the need to represent this conclusion carefully to the general public and the City officials because it's deemed an attention grabber and might end up as a headline in newspapers, which would make the City, felt criticized and less likely to cooperate.

The sixth conclusion "A PILOT should address government held property as well as nonprofit tax-exempt ownership" was voted 78% Yes and 22% No.

The seventh conclusion "Any voluntary PILOT program considered should allow for earmarked funding" was voted 53% Yes, 16% Maybe and 32% No. There was a discussion about whether the idea was a good one or not. One member stated that it would give nonprofits too much control over the City budget. Another member disagreed on the grounding that various City department related foundations allow for individuals to earmark some of their donations so it should be the same here. A Citizens League staff member pointed out that none of the conclusions are final.

The eighth conclusion "If a SILOT component is implemented with a PILOT, the services for which the tax-exempt organization receives credit must be shown to lessen the burden of the City that grants the credit" was voted 42% Yes, 26% Maybe and 32% No.

The ninth conclusion "A SILOT program would need to offset City budget spending to be effective" was voted 37% Yes, 21% Maybe and 42% No.

Co-Chair Rakow decided to close the discussion on conclusions at this point due to time constraints. She stated that the committee would vote on them on the next meeting. Co-Chair Reid reminded the committee that the focus of the meeting next week would be on conclusions and stated that as homework, committee members should send to them some recommendations or conclusions that they would like to discuss. A Citizens League staff member echoed the same sentiment and encouraged all members present in the room to offer their insights, even those they were not committee members.

Evaluations (Co-Chair Reid, 9.28)

Co-Chair Rakow and Co-Chair Reid thanked the committee members for their participation and concluded with evaluation. The evaluations were as following: 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, 5, and 5 for an average of 5.

Co-Chair Reid called the meeting to an end at 9:30 am.



Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104 Thursday July 27, 2017
7:30 am – 9:30 am

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

Committee Members Not Present: Heather Johnston, Mike Day, Tanya Bell

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

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 July 27 meeting:

- ☐ Approve minutes from 7/20 meeting
- ☐ Discuss and vote on key factors related to final recommendations
- ☐ Review revised data/findings/conclusions
- ☐ Identify next steps/questions, and prepare for final meeting

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe, 7:30 – 7:35)
 - a. Approve agenda
 - b. Approve minutes from 7/20 meeting (attached)
2. Follow up from last meeting (Joe, 7:35 – 7:50)
 - a. New data and revised findings
 - b. Revised conclusions
3. Recommendations (Kaye 7:50 – 9:25)
 - a. Key decisions related to support for PILOT/SILOT
 - b. Jurisdiction
 - c. Threshold(s) for participation
 - d. Formula
 - e. Earmarks
 - f. State role
 - g. Related City development issues
 - h. Other
4. Key concerns about PILOT/SILOT



- a. Coercion
 - b. Community benefit
 - c. Administrative burden
 - d. Other
5. Next steps and Evaluation

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

Introductions (Joe Reid, 7:30 – 7:50)

Co-Chair Reid moved for the approval of the agenda, which was approved unanimously.

Co-Chair Reid notified the committee members about the meetings that the Citizens League along with the co-chair has had with councilmembers and the deputy mayor in order to keep all parties interested informed on what the committee is doing and where it is at different points in time. In addition, Co-Chair Reid stated that the meeting next Thursday will be the last one and that the committee members should expect to stay an additional hour. Next, he moved for the approval of the minutes of July 13 and asked if any of the committee members had any feedback on them. The committee approved the minutes with an adjustment due to a grammatical error and one suggestion from a committee member.

Next, he turned the attention of committee members to the package of data and findings and explained some of the data, new findings, and conclusions and highlighted the points in the data that members of the committee had asked to be addressed. He asked the committee members to submit any additional information that they deemed important to be included. After a member asked, Co-Chair Reid also clarified that this package is not final but rather is an ongoing process of new research and confirmation of old data. (The package of data and findings can be found on the Citizens League website.) Then, a discussion of the data on whether or not the City of Saint Paul is an outlier followed. Members shared different opinions on which method would be the best to calculate the particular characteristics of the City of the Saint Paul. As indicated in the package, there are different graphs that compare the City of Saint Paul with other cities in Minnesota.

The conversation then stirred towards the voluntary nature of a potential PILOT program. A member of the committee stated that there was concern within the nonprofit community that the PILOT program would be coercive. The member mentioned that in the past certain organizations were asked to make what could be deemed “PILOT payments” in exchange for some City services. Members of the committee wanted to know more about the scenarios and they decided to follow up. A Citizens League staff noted that these instances are not part of a formal PILOT program and if the committee decides to recommend a PILOT program, then the committee would also stress out how pivotal it is for the program to be entirely voluntary and with no other strings attached.

Co-Chair Reid stated that he would be interested to know more about these scenarios and promised to follow up with additional information. He also thanked the committee members for their dedication and encouraged them to share any other thoughts with the committee.

Recommendations (Kaye Rakow, 7.50 – 9.10)

Co-Chair Rakow took the lead in discussing the recommendations that members of the committee had already submitted. She began by allowing the Saint Paul Teacher’s Federation to speak for five minutes



to the rest of the committee, as the organization had attended all the meetings and had expressed some concerns about the conclusions. Co-Chair Rakow also stated that, in order to ensure equity, the chairs had decided to allocate up to half an hour of time (to be divided between all the interested parties) at the final meeting for other parties to come raise their concerns before the committee takes a final vote.

A representative of the Saint Paul Teacher's Federation spoke about the importance of public education and that money matters a lot in education and that the committee should allow some of the potential PILOT funds to go towards public schools. The representative stated that PILOT funds can be a viable option for public schools and it would create a more inclusive Saint Paul because all members of the community would be paying their fair share. Co-Chair Rakow thanked the representative for their insights.

Then, Co-Chair Rakow moved on the key questions regarding conclusions and some of the details that were parked in the past. Co-Chair Rakow encouraged members of the committee to express their thoughts. In addition, she noted that members would be voting by raising their hand. The goal of each vote would be to get consensus in the committee. However, if the committee is split on an issue, there can be more discussion on it and there can always be a minority report that is submitted with the majority report. Co-Chair Rakow also reminded the committee members that their vote would not be binding and that they would have a final say in the last meeting.

The issues to be discussed were jurisdiction, threshold, formula, earmarks, state role and related City issues. The first issue to be discussed was jurisdiction. Co-Chair Rakow opened the discussion by asking whether the potential

PILOT payments should go to the City, county or schools. A member stated that the case with Saint Paul is a bit different from Boston because of the governmental structure. The member suggested that including the schools in the jurisdiction would be beneficial to the City. Another member pointed that it would be easier to vote simply by arranging the question in a statement and based on the vote, then there can be a discussion. Another member pointed out that when the member pays taxes, portions of the taxes go to the City, some to the county and others to the school districts. Another member pointed out that the task force came into existence to address City services. A Citizens League staff stated that the details of a PILOT program would have to be discussed and worked out eventually by all the stakeholders but given that there is a need for consensus and some members are hanged up on the idea on where the potential contributions would be spend, there is a need to address the question. Another member stated that the member was against the idea of including schools as recipients of the potential PILOT payments because the school aids that are provided by the state are equalized by property tax differences. Another member stated that if schools can be earmarked then there would be no point of having a PILOT program for the City. The committee voted in favor of a City-only program with an outcome of 14 yes, and 3 no, and 1 abstain.

The next point in the discussion was about threshold. Co-Chair Rakow stated that there are two differing views about whether there should be a financial number below which no organization is included or that it is fair game to include all tax-exempt organizations. One member suggested to that tax-exempt organizations with less than 15 million dollars in revenue should be exempted from a PILOT program. Another member stated that if the task force is recommending something totally voluntary, then there should be no need to differentiate tax-exempt organizations as each one can decide itself whether or not to participate. Many members echoed that sentiment. Members also agreed to include all the tax-exempt organizations given the voluntary nature of the program. The vote was 15 yes and 2 no. A



Citizens League staff member also reminded the committee members that the voting is not binding so the committee might change its stance again prior to the final report.

The next point in the discussion was about a PILOT formula that determines how much each tax-exempt organization can contribute in PILOT payments. One member said that the formula should match the ROW assessment. Another member said that there should be a specific formula for the issue of PILOT. A member of the committee, a representative of a private higher education institution, stated that private colleges do not prefer a formula if they choose to participate in the PILOT program. Another member stated that there should be some flexibility given that it's a voluntary program. Hence, some entities might like to use a formula, some might use the ROW assessments as estimate and some can choose to earmark the money they choose to contribute. Another member was somewhat skeptical of individual bargaining. The committee decided to vote on whether there should be a formula if a PILOT program is implemented and the result was 13 yes, 3 no, and 2 abstain.

The next point was about earmarking. A member of the committee stated that earmarking does not work in practice because it begs more work for it to be implemented. A member of the committee stated that the point of earmarking should not be discussed by this task force but rather be a state program that equalizes the distribution of payments around the state. The vote was whether the City should allow for earmarking. The vote was 12 yes and 6 no.

The next point in the discussion was about state-wide implications for a PILOT program. Co-Chair Rakow stated that there are differences about the role of the state in a program like this. A member stated that the state has a role to play because it can ensure the sustainability of the PILOT program by not allowing local government to have large financial burdens. A Citizens League staff member stated that the committee can vote on a statement that acknowledges the connection between the City and the state in this issue. Co-Chair Rakow stated that the committee can vote on whether to approve the suggestion of the Citizens League staff member. The vote was 15 yes and 3 no.

The next point was about developments on the City of Saint Paul on whether there are other things that the committee should highlight to the City council members when the committee presents the final recommendations. A Citizens League staff member stated that the bottom line here is about tax capacity, which raises a lot of questions about the City's ability to collect taxes. A member stated that this is a delicate issue because on one hand the City has a budget problem and yet it keeps making deals that give away tax opportunities such as giving the new soccer stadium tax-exempt status. Another member stated that there should be some mentioning of the issues that are related with the tax capacity of the City because it would be a good opportunity for the City to mend its strained relationships and to improve some of its services. Co-Chair Rakow called the vote on whether there should be a statement/preamble by acknowledging the issues that were raised. The vote was 14 yes and 4 no.

The discussion turned to the nature of the PILOT program particularly its ability to have a coercive nature. Co-Chair Rakow acknowledged that this topic had been discussed a lot in all the meetings and that this would be included in the final report if the committee ends up recommending against the PILOT. A committee member stated that there should be a strong statement against coercion regardless what the committee ends up recommending. Some members echoed the same sentiment. Co-Chair Rakow stated that the rest of the points on the agenda will be discussed in detail at the next meeting as well as discussing some of the points that were parked or need revisions.



Other (Kaye Rakow, 7:30 – 7:45)

A member of the committee representing private higher education spoke about where he and a number of other private institutions are in the PILOT discussions. He expressed that he had met 4 times in recent weeks with the private college council. He expressed for transparency that these organizations met twice yesterday- one of the times with a staff member and the co-chairs. The member explained the collective benefit of these large higher education institutions for Saint Paul and the region. He also told the committee about the changes occurring in higher education and the difficulties for institutions now and in the future. Yet, he mentioned that this collective group recognizes their position and their desire 'to be good citizens'.

He carefully expressed that a formalized PILOT program, such as Boston, is problematic for private higher education. However, a purely voluntary program, which mimics the ROW would be possible. He went on to say that any language should include all nonprofits and tax-exempt property owners to insure a level playing field. The member concluded by saying that the institutions were planning on meeting to come to consensus on language and propose a formal platform by early next week.

A member asked a clarifying question saying would a PILOT be more attractive if it were tied directly to police, fire, and streets compared to an arbitrary number such as ROW as long as the value was not higher than ROW. The higher education member expressed that he was not sure at the moment. However, he also expressed his support for earmarking. Another member recognized the higher education member's effort and urged the hospitals and large churches to have similar conversations. She mentioned that in Boston the model was created in part by the organizations that would be paying instead of the jurisdiction. The organizations agreed to the formula and did not begrudgingly accept something.

Conclusion (Joe Reid 9:20-9:25)

Co-Chair Reid mentioned a memo given to the committee by Jack Hoeschler (see website) and gave him a moment to express its significance. Jack explained that the memo has two parts with the first being about how 'we are all in this together'. He expressed again that the ROW was very unfair and that the downtown properties were paying nothing compared to their value. His point was that any PILOT program created should be established on value rather than linear foot or otherwise. He explained that the ROW was a shift, which benefited the larger high rises. Co-Chair Reid asked if he meant the City should remove the street maintenance program. Jack ultimately said yes, but that his real point was that if a program was based upon value rather than linear front footage then this would offer a much more equitable program for all organizations. His last point was that the new system was still unfair even if it is a third of the revenue created by the old system.

Co-Chair Reid again expressed that if anyone else in the audience or otherwise wished to speak that the committee would reserve time at the next meeting to hear testimony or feedback such as occurred in this meeting. He explained that the committee has pretty much wrapped up findings and data and that there will be follow-up on the comments made today about these documents. He explained that the staff will quickly get out the findings, data, and conclusions, so people are able to weigh in on these items before they are finalized. A staff member said that they will look into drafting a recommendations document from the written feedback given by committee members and with respect to the conversation held in the meeting.



A member brought up the idea that the committee could potential vote on a process point recommendation regarding how the private higher education institutions have met and come to some agreement. This could be a recommendation to the City on how a formula or program should be done with buy-in from the groups that may be paying. Co-Chair Reid explained that recommendations could still be added and will be discussed at the last meeting. A staff member highlighted the idea that on some of these topics the City may be hoping that the committee does some of the ‘heavy lifting’, but he also expressed that in some areas the committee cannot do the long term hard work.

Evaluations (Co-Chair Reid, 9:28)

Co-Chair Rakow and Co-Chair Reid thanked the committee members for their participation and concluded with evaluation. The evaluations were as follows: 4, 5, 5, 5, 5, 5, 5, 5, 5, 5, 4, 5, 5, and 5 for an average of 4.87.

Co-Chair Reid called the meeting to a close at 9:35 am.

**Meeting Minutes
Wilder Foundation
451 Lexington Parkway North, Saint Paul, 55104
Thursday August 03, 2017
7:30 am – 10:30 am**

Committee Members Present: Ellen T. Brown, Niles Deneen, Jon Gutzmann, Kit Hadley, Jake Hamlin, Doug Hennes, Jay Kiedrowski, Susan Kimberly, Barb McCormick, Joan McCusker, Kaye Rakow, Rinal Ray, John Regal, Joe Reid, Bror Herrick, Matt Hill, Zach Crain, Pa Der Vang, Tanya Bell, Heather Johnston, Mike Day

Committee Members Not Present: James Moeller, Greg Mellas,

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

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 August 03 meeting:

- ☐ Approve minutes from 7/27 meeting
- ☐ Gather additional community feedback



- ☐ Discuss issues related to SILOT Program
- ☐ Review, discuss and vote on final recommendations
- ☐ Discuss next steps

AGENDA

1. Review/approve agenda, outcomes, and minutes (Joe, 7:30 – 7:35)
 - a. Approve agenda
 - b. Approve minutes from 7/27 meeting (attached)
 - c. Community feedback (Joe, 7:35 – 8:05, unless completed earlier)
2. Recommendations (Kaye 8:05 – 10:10)
 - a. SILOT issues/questions
 - b. Final recommendations
3. Discussion
 - a. Edit/revisions
 - b. Final vote/approval
4. Next steps and Evaluation (Joe, 10:10 – 10:30)

Co-Chair Reid called the meeting into opening at 7.30 am.

Introductions (Joe Reid, 7:30 – 7:50)

Co-Chair Reid moved for the approval of the agenda, which was approved unanimously. Next, he moved for the approval of the minutes of July 27 and asked if any of the committee members had any feedback on them. The committee approved the minutes with an adjustment due to a grammatical error and one suggestion from a committee member. In addition, Co-Chair Reid explained the agenda and the logistics of the meeting.

Lastly Co-Chair Reid opened the floor for community feedback. Elizabeth Dickinson, a mayoral candidate for the City of Saint Paul, took the stand to express her thoughts about the work of the committee. Ms. Dickinson thanked the committee for the opportunity to speak to the committee. She spoke about the fact that she has attended all the meetings and how enlightening the meetings have been for her. Ms. Dickinson stated that the different opinions of members of the committee and the level of engagement between members of the committee should be a guiding principle for the City of Saint Paul. She thanked the committee for their commitment and stated that she can be reached for questions.

Co-Chair Reid asked if anyone in the room would like to state anything else. There was a general consensus that a lot of the observers present had spoken at the July 12th meeting so their points would be duplicative. Given that no one volunteered to present to the committee, Co-Chair Reid yielded the floor to Co-Chair Rakow to move on with the rest of the agenda.

Recommendations (Kaye Rakow, 7.50 – 10.10)

Co-Chair Rakow took the lead in discussing the recommendations that members of the committee had already submitted. She also mentioned the fact that the staff had worked hard to write the recommendations and working with the data and meeting up with different members of the community to make sure that everyone is heard.

Co-Chair Rakow opened the discussion with the question about SILOTs and its feasibility in the City of



Saint Paul. Co-Chair Rakow presented the committee with some of the questions that were raised in previous meetings and in the existing literature. Such questions were: What services should count? How should the services be valued? What are the administrative costs associated with a SILOT?

Co-Chair Reid stated that the topic is interesting and had some positive results in Boston, although he was somewhat reluctant to compare Saint Paul with Boston given the differences in government structure. He recalled the presentation from the representative from Boston who stated that a SILOT program was a good way for tax-exempt organizations to get involved in larger numbers than with a PILOT program.

A member of the committee opposed SILOT programs because the burden on tax-exempt organizations would be too much and it would obligate certain nonprofits to shift the focus of their services in order to meet the standards of the City, which should not be the case. Another issue with SILOTs is the difficulty of placing a value on specific services. Another member had concerns for a full-fledged SILOT program because it would not be fair to different organizations that do not offer the services that the City needs. Another member echoed the sentiment that it would be difficult to put a “price tag” to services. Another member stated that a voluntary program such as a SILOT would be a gateway to improve the overall relationships between the City and the tax-exempt community. Many members echoed the same sentiment. Another member stated that one of the negative aspects of a SILOT program would be its intrusion on nonprofit autonomy.

A Citizens League staff member stated that there have been some informal meetings with representatives of higher education, hospitals and City officials and there needs to be an emphasis on the report that the issue being faced here is not like other public policy issues because this is something totally voluntary. Many members echoed the sentiment. One member also added that the work of the committee is larger in a sense compared to public policy because it is trying to reboot the relationships between the City and the tax-exempt community.

Another member stated that there would be more unanimity within the committee if the issue of PILOT and SILOT were treated as a package rather than separate. A Citizens League staff member reminded the committee that what was going on with the task force was a process recommendation and not an ultimate solution. The committee was not tasked with finding a formula or the details of a potential program but rather more guidance to the City in a way that tells them the opportunities, strengths, concerns, and weaknesses of a potential program and how the larger Saint Paul community feels about it. At the end, the City should take ownership of the recommendations that it chooses to pursue.

Another member said that a potential statement to be included in the report could be “SILOTs is a tool by which a PILOT program can be successful”. Another member stated that it is important to include the pros and cons of both a PILOT and SILOT program. Another member was against the usage of a formula for a SILOT program as it would be too complicated. According to the member, a negotiation between the City and the stakeholders would be much more beneficial than establishing a formula because the formula would overcomplicate things and would take a long time to be developed and fully implemented.

Co-Chair Rakow thanked the committee for the feedback and suggested that the committee should move to go over the recommendations that the staff members at Citizens League have worked on based on the voting record of the committee. Co-Chair Rakow began with the memo issued by the Private College Council, a group of the higher educations in the Saint Paul area (statement can be found on the



Citizens League website). A member of the committee who is also a representative of a private higher education institution explained the memo and how the private higher education had met numerous times to come up with the language in the memo.

A member of the committee wanted to talk more about the concerns that nonprofit institutions have about a PILOT program. One of the main concerns was about the growth of PILOTs. The member reminded the committee that the ROW payments started low and then exponentially grew to a degree that became unaffordable by some nonprofits that eventually took the issue to court.

Another member stated that it should be made clear to the City that “A PILOT program cannot and should not be seen as a solution to the City’s budget problem.”

Another member stated that a full-fledged program seems to be more prescriptive rather than voluntary. The member, who also represents a private higher education, stated that the private colleges are not against voluntary payments on their part but do not like the idea of a formal PILOT program. The member explained to the committee that such accords between cities and private institutions exist in other places. For example, St. Olaf and Carleton College have paid to the City of Northfield what they call as “gifts” for as long as anybody in their administration can remember (roughly since 1920s). It is a truly voluntary system and it is a pure collegial collaboration without the need of a formal program. A Citizens League staff member stated that the staff talked to the person representing Carleton College and the person assured the staff that the program had been operational for decades and there had never been issues of coercion associated with it.

Co-Chair Rakow thanked the committee for the feedback and moved to show the committee the updated data document. Co-Chair Reid pointed out the changes that had been made from the last meeting and where the new data came from. Co-Chair Reid thanked the members of the committee who had provided the useful data and for their availability to help.

Co-Chair Rakow pointed the committee towards the recommendation portion of the report and explained the process for the continual editing and revising of the stated recommendations.

A committee member quickly added a conclusion statement to explicitly state that there is no legal basis for a PILOT program and therefore any program must be voluntary. The committee agreed that this should be added to the conclusions document to reiterate the voluntary nature of any potential program.

Co-Chair Rakow explained that the recommendations were created from the written and verbal submissions over the last few weeks. She went on to say the recommendations are aimed at the conditions to create a PILOT program- in other words a process the City should undertake if they decide to engage the idea of a PILOT project. She stated that if a PILOT program is going to work in Saint Paul it is essential that the City build relationships with tax-exempt organizations and sit down and negotiate the program details. Co-Chair Rakow expressed that the goal of this section of the meeting was to come to a consensus or some agreement on the individual recommendations. She assured the committee that any further additions or changes would be to the framework of recommendations not the intent of the committee. She stated that there is the possibility to vote electronically after the meeting, but that the goal was to get the work done today. A staff member echoed this sentiment saying that minority reports are always welcomed and that they will be included in the full report- always a package.



A member offered to start the dialogue saying that he thought the recommendations come across as the committee recommending a voluntary PILOT program to the City of Saint Paul, but that he was not there yet. He expressed his desire to wordsmith the first recommendation that then read, "Explore the development of a voluntary PILOT program for Saint Paul". Multiple committee members echoed the need to be clear in the language of the recommendation and identified the 'slippery slope' of not wanting a PILOT to become the same as the old Right of Way (ROW) program. A committee member conversely stated that the City will probably want some sort of a substantive recommendation on a PILOT. A staff member clarified the idea that unlike other policy issues the work of this committee is not clear as in drafting a bill and that the real honest hard work has to be between the City and the tax-exempt community. He went on to explain that if the recommendation is for a PILOT program and the City follows only the headline then the program will likely crash. His idea was to say to the City 'if you want one, you will have to build one and here are the guidelines to make it successful or not successful'. The staff member stated that it would be really helpful to have clarity from the committee in how to get the point across.

Multiple committee members offered minor edits with wording ranging from 'pursue', to 'explore', to 'develop', to 'should', and 'could'. A committee member mentioned that it was the committee's obligation to start to head down the 'slippery slope'. She said that the City may very well not listen to the nuances of a program and it may fail- this is entirely possible. Her point was aimed towards a stronger committee position towards recommending a PILOT program. Another member mentioned that the first recommendation feels like more than a process recommendation and that it may be ok to not be certain on a position because this is a complex matter. Another member said that Saint Paul had a responsibility to all its tax payers to recommend pursuing a PILOT program. A member mentioned she would want a minority report if the wording was not strong enough towards a PILOT program. Members of the committee went back and forth saying 'explore' sounds too weak and 'pursue' to aggressive. A member identified that there was a split on the committee between these two terms and asked for a vote. Other members echoed the call for a vote, but continued to wordsmith as well.

The committee continued to discuss the wording of the first line of the recommendations knowing well that this may be presented as a tag-line for the media. A staff member having heard a few recommendations stated the following recommendation, "Saint Paul should continue the exploration of a voluntary PILOT program with respect to the following considerations". A vote was taken on the above statement and the committee had 17 in favor and 3 opposed to the change. A member who was against the wording explained that she thought the committee should recommend that the City of Saint Paul pursue a PILOT program meaning getting the next key stakeholders around a table. Another member stated that she thought a program such as this could never be truly voluntary and thus voted against the change.

A few members mentioned the need for a vote towards the word pursue rather than explore. Another member urged the committee to express to the City that they should go on to meet with the constituents that would be affected by this program. Co-Chair Reid mentioned that in the second recommendation as it stood "The City of Saint Paul should begin discussions with the tax-exempt community now to establish the necessary foundation for some future PILOT program" the word program seemed to be giving committee members trouble. Another member explained that a PILOT program is a formal solicitation for a payment from tax-exempt organizations. Another member thought that the second recommendation is actually where the committee finds itself presently.

A member stated as an alternative headline, "If the City of Saint Paul wanted to pursue a PILOT program



it should do the following”. Another member offered an amended the second recommendation based on the committees dialogue to say, “The City of Saint Paul should pursue discussions with the tax-exempt community now to establish the necessary foundation for some future PILOT contributions”.

A member suggested not using the word PILOT at all and just simply saying voluntary. Another member rejected this saying that the topic was Payment in Lieu of taxes. The member representing a private higher education institution mentioned that he thought the private colleges would not like the descriptive and tax like wording ‘PILOT’.

A staff member explained the intent of the recommendations is to have the City begin discussions with the tax-exempt organizations- not that these entities have worked anything out but that more work needs to be done and these recommendations can offer items to think about when there are meetings. A member explained that he was in favor of giving the City direction on things it should consider, but that he was not in favor of the idea of a PILOT program in Saint Paul.

A member expressed his desire to remove the word PILOT from the recommendations because the discussion should really use the language such as a voluntary contribution from tax-exempt organizations for the benefit of the City. He said a dollar is a dollar and the City would like some help. He tried to capture the essence of the committee saying these would be voluntary gifts. Conversely, a member mentioned that the charge of the committee deals with PILOT and thus it is hard to disassociate with this term. For clarity, a staff member stated that the charge can always be changed at the committee’s discretion.

A member articulated that the goal of a program was not to ask all nonprofits for money but rather specifically those that own their own property. A staff member tried to formulate an acceptable recommendation explaining the need for a recommendation aimed at action but with certain checks in place for the City to contemplate. A member again identified that there was an impasse in the committee because individuals did not know where other members stood on the issue of a PILOT program and the recommendation to pursue a program or to simply explore a potential program. Another member agreed and stated that the committee needs to take a vote on if the committee should recommend the City pursue a program or not.

A member offered the following recommendation, “The City of Saint Paul should pursue discussions with the tax-exempt community now, to establish the necessary foundation for future voluntary contributions”. A member opposed this comment saying that the City should decide if it wants to pursue a PILOT program and that the committee should not recommend the City pursue a program. He stated that after looking through the memo (the memo can be found on Citizens League website) from the private higher education institutions in the City of Saint Paul they directly oppose a formal PILOT program. He emphasized that this is the group that would most likely be paying. Another member mentioned that you cannot reach any agreement until the City is in dialogue with these tax-exempt organizations. The private higher education representative reiterated the letter his cohort created saying they do not agree with a formalized program but are interested in voluntary contributions to the City of Saint Paul. Co-Chair Rakow called a vote on the statement, “the City of Saint Paul should pursue discussions with the tax-exempt community now, to establish the necessary foundation for future voluntary contributions”. 18 committee members voted yes and 2 voted no. The staff member expressed that this is the headline representing the committee. Multiple members were concerned where the headline would be placed in the text of the recommendations.



The City should explore a voluntary PILOT program, which is quite different than saying pursue having conversations with the tax-exempt organizations for voluntary contributions. The member explained this shift in the committee as a late amendment in thinking, but the correct place to begin. A member also added the change from 'pursue' to 'have discussions' as this is more action oriented.

A member requested that the first line of the report state, "the committee supports the basic principle that all consumers of essential City services, including tax-exempt property owners, should pay some share of the cost of delivering those services from which they benefit directly- public safety and streets". A few members disagreed stating that the committee does not support this line. There was a call for a vote on this statement. A staff member said that narrowing a PILOT to only including these aspect would potentially loose committee support as he offered that the committee had re-thought what a PILOT program could mean. A member expressed that he understood that higher education and healthcare organizations may be willing to help offset the costs of services provided by the City, but he did not think the City should say that all tax-exempt property owners owe them something for existing in the City. The above statement was voted on with 3 saying yes and 17 saying no.

A member also stated again that the wording PILOT seemed irrelevant in the circumstances where the City was trying to find dollars without a tax-like structure. A member rebuked the thought saying that everything the committee had done up and to this point dealt with PILOT programs and she did not understand the sudden aversion to the term. The member against the term PILOT stated that the City of Saint Paul was unique and that there did not necessarily need to be a term (PILOT) in place. One member mentioned that the committee might be presumptuous saying that the dialogue between the City and the tax-exempt organizations might not focus on PILOTs, but that it could extend to SILOTs, or gifts, or other collaborative topics. The member went on to say that there is a dialogue that needs to occur between the City and tax-exempt organizations saying what, if anything, would should occur for the betterment of the City.

Another member offered, to prevent the slippery slope, that the committee include a paragraph within the final report documenting that PILOT is the word that is commonly used but that the committee chooses different wording for the intention of not being prescriptive and not being a program. In concept, a PILOT is more commonly understood by the general public because it has precedent, but the member wanted to express the feeling of the committee and the desire to highlight the very voluntary nature of the program. Another member said that the committee was asked to explore PILOTs but that the committee has found that it did not like the term. She thought that the committee should come up with a term and an explanation and use this concept throughout the report. She mentioned to the laughs of the committee members that the committee needs to explain why they are not using the term they were meant to explore. Co-Chair Rakow asked the committee about the term PILOT and if anyone had any further thoughts on the wording. A member mentioned that the final report should explain the conversation of the committee and depict the marginal morphing of the term and idea of a PILOT program. She thought that there could be a different umbrella of language used that is more meaningful. A member mentioned she thought that cutting the word program was a step in the right direction. Co-Chair Reid offered the edit to not talk about the ROW program in the first section of the recommendations and there was general agreement among the committee members.

Co-Chair Rakow helped move along the conversation to the third recommendation with a member presenting where he saw the committee's standing currently. He thought the committee had said all tax-exempt organizations should be a part of the conversation, that there should not be a formula, and that there should be no earmarking. A staff member mentioned that the intent of the first sub point on



the third recommendation was to include everyone in the conversation. The intent on the second and third sub point was to lay out the pros and cons of both a formula and earmarking. A member explained that if the committee heads towards a lack of structure then this would endanger previous issues with fairness, equity, and pay-to-play. The staff member expressed that the third recommendation becomes important for the City so when they are sitting down with these organizations they should keep these ideas in mind.

On the formula issue, a member mentioned she thought the word 'framework' could replace formula. She was concerned about the equity of 'the ask' by the City and what contribution amounts are appropriate for various organizations. Another member did not like the word negotiation but was more comfortable with 'discussion' because negotiation did not feel like there was potential for relationship building. Other members added that negotiation sounds like coercion and that there is a legal basis for the conversation when there is not.

Another member said a formula based on anything such as linear foot, area, market value, did not seem to sing to tax-exempt organizations. Another member mentioned she thought that a framework developed out of the conversations between the City and tax-exempt organizations would allow payments to be fair, predictable, and transparent. A member clarified and agreed with the previous member adding that the formula/framework be about "the ask" but not the payment. In this way an objective stance could be taken to determine what each organization could contribute. Another member offered that a "data based" approach would be the best option. A staff member discussed that the City may not know what to do with a "data based approach". The member pushed for an adjective for framework to include either database or objective, which distinguishes it. A staff member expressed he thought it would still be non-objective. His example was that a conversation with Allina might be much different than a conversation with Regions hospital based on their context. The members point was that the suggested number be based on the same framework.

A member highlighted the previous vote by the committee in the recommendations stating that a formula would be the best option to keep a program fair, equitable, transparent, and predictable. A member mentioned that the scope of the committee has shifted in the past hour and he was concerned that the committee would not have a full chance to amend the recommendations with the current time frame. A staff member asked the committee if it would be helpful if in the next iteration of the recommendations that the staff work to be more explicit in the positive and negatives of these recommendations and less prescriptive. He went on to offer that perhaps this section should not be entirely voted upon but rather that the conversation comes through so the City council can glean the most from the process which has ensued. A member stated that if the recommendations were about positives and negatives and aware of the connotations associated with formula, the word formula itself could be used to offer clarity.

The discussion turned towards earmarking and a member was against the idea, but recognized that there was a lot of support at the last meeting. A member offered that the minutes last week were helpful and a staff member assured the member that minutes would be included in the final report. A staff member offered two different options for the committee looking for next steps. The first option would be to vote on the general change of direction from a formal PILOT program to talking about voluntary contributions, and then a subsequent electronic vote when the next iteration of recommendations is presented. A member liked the new plan but thought members would still be caught up on the language of the document. The thought of another meeting was discussed. Many members agreed that the direction was fine but that the wording is crucial. A staff member mentioned that the meeting on the 23rd of August with the Saint Paul City Council could be moved. The option was



proposed to have another meeting next Thursday, but a staff member would not be able to attend. The committee agreed that at meeting time in two weeks, with as much of a majority as possible would be ideal. A doodle poll would be sent out to maximize attendance. A member stated that the committee should have the ability to see the document as a final draft report and a check-in meeting before it is presented to the City council.

A member was disappointed that the fifth recommendation was not stronger. She thought the recommendation should really be about state assistance in helping alleviate the burden on local government. She requested to email language to be incorporated. A staff member highlighted the idea any concerns with language should absolutely be emailed or otherwise sent to help inform the next version of recommendations. A member mentioned that the first sub point for the fifth recommendation about legislative re-visitation and reexamination of statutory language regarding property tax was not discussed at length by the committee and that it should be removed. Other members agreed that it was not voted upon. A request was made by a member to have the new document in hand by next week. A staff member explained that the committee would see a full document by next week with everything built in. A committee member acknowledged that the work was not quite complete but asked if happy hour was still on much to the laughter of the committee. A staff member stated that if anything in the fourth or fifth recommendation is a 'red flag' to please email him or the co-chairs.

Evaluations (Joe Reid 10:10 - 10:30 am)

Co-Chair Reid stated there will be a happy hour at O'Gara's at 4:30pm. He also thanked Co-Chair Rakow for her work today and in previous meetings. In the evaluations, one member mentioned she thought the committee took a monumental shift in direction on the last meeting without enough discussion. Another member stated that he really appreciated the change. Another member thanked everyone involved. Another thought Citizens League was a rarity in our present day and thanked those he connected with and the friends he made. The evaluations were as follows: 3, 4, 5, 5, 5, 5, 4, 4, 4, 4, 5, 4, 5, 5, 4, 5, and 3 with an average of 4.352.

Co-Chair Reid concluded the meeting at 10:30 am.



MEMO

TO: Members of the Citizens League Task Force on PILOTs

FROM: Presidents of five nonprofit private colleges in St. Paul

- Thomas Ries, Concordia University, St. Paul
- Fayneese Miller, Hamline University
- Brian Rosenberg, Macalester College
- ReBecca Koenig Roloff, St. Catherine University
- Julie Sullivan, University of St. Thomas

DATE: August 1, 2017

SUBJECT: PILOTs in St. Paul

As presidents of five, private nonprofit institutions in St. Paul, we write to express our joint concerns about establishing a Payment in Lieu of Taxes (PILOT) system in the City of St. Paul. For more than 100 years, we have recognized the need to be involved in the critical issues facing St. Paul and we value our long-standing partnerships with the city. St. Paul is an outstanding city and we have a strong stake in its continued vitality.

At the core of our mission is a dedication to advancing the greater good and educating students from all backgrounds who value service to others.

We enroll more than 30,000 students. Of our 18,000 undergraduate students, 1,500 grew up in St. Paul. The vast majority of our undergraduates receive grants and scholarships from our colleges.

We have 15,000 alumni and 1,400 faculty and staff who choose to live in St. Paul. Collectively, we are one of its 10 largest employers and we make significant contributions to the community. These include ongoing city and county assessments, taxes and fees as well as financial contributions and in-kind services to community and neighborhood groups. In addition, our institutions continuously improve the quality of life in the city through partnerships with schools, student-led community service projects and the open invitation we share with residents to enjoy the benefits of our campuses and attend events.

Higher education is going through seismic shifts because of technological, demographic and economic changes. These shifts create financial pressures that require us to strategically evaluate any new spending proposals so we can sustain our mission of providing access to a high-quality education for an increasingly diverse population. We will continue to be good citizens of St. Paul and we will continue to work collaboratively to make St. Paul, as the city likes to say, “the most livable city in America.”

Concerns about a Payment in Lieu of Taxes (PILOT) System

We oppose a formal Payment in Lieu of Taxes (PILOT) system in St. Paul for the following reasons:

1. A PILOT system is inconsistent with the fact that Minnesota has a constitutionally-protected tax exemption for non-profits that allows us to maximize our contributions to our city. An additional

explicit prohibition stated in the state constitution protects “churches, places of worship and educational institutions and seminaries of learning” from any limits to this exemption.

2. A PILOT system does not adequately recognize the significant financial and in-kind contributions that our private nonprofit institutions already make to the city.
3. A PILOT system is not a predictable or sustainable source of revenue for the city and is not a solution to budget problems created by the removal of the right of way assessment program.
4. A PILOT system, such as one that uses Boston as the model, disproportionately impacts private higher education institutions. Without a clear way to also include governmental units, public colleges and all nonprofits, this system by design would be inequitable.
5. Colleges regularly bring many matters before the city, including various permits and other necessary approvals. The nature of PILOTs introduces the very real risk of creating a “pay to play” environment. The potential favoritism or punishment that could result is a poor model for a well-run municipality. In addition, “voluntary payments” managed through a program of public shaming, as in the case of Boston’s PILOT, is concerning.
6. We invest substantial resources in campus public safety and security to minimize required involvement from the city on our campuses. This investment means that our campus interactions with police, fire and emergency services are significantly reduced and are usually for routine matters. It is also important to note that when there are police or emergency services for any student housing that is off-campus, those services are provided to residents or owners of tax-paying properties.

An Alternative Approach

Instead of a formalized PILOT system, our colleges are open to making voluntary financial contributions to the city.

Such voluntary payments would reflect our interest in contributing to the costs of providing city services over and above the substantial cash amounts that we already make annually and periodically to local governmental units and non-profits. Any such payment amount could mimic the historic right of way assessments reduced by the amount of the new 2017 street maintenance program fees that were implemented in response to the 2016 court decision and any additional related fees.

The amount of any voluntary payments would be determined solely by each individual tax-exempt entity. (Once a specific amount is suggested by a formula or by a governmental unit, it loses its voluntary character.)

We would note that our ability to make voluntary contributions may change over time and take various forms, given economic and financial conditions at our institutions.

We expect this approach would offer the widest possible voluntary participation from all tax-exempt properties (including governmental and nonprofit) affected by the state Supreme Court decision regarding right of way assessments.



Minnesota Hospital Association

*2550 University Ave. W., Suite 350-S
St. Paul, MN 55114-1900*

*phone: (651) 641-1121; fax: (651) 659-1477
toll-free: (800) 462-5393; www.mnhospitals.org*

August 25, 2017

Sean Kershaw
Executive Director
Citizens League
400 Robert Street, N.
Suite 1820
St. Paul, MN 55101

Dear Mr. Kershaw:

The Minnesota Hospital Association (MHA) represents 142 hospitals and health systems across Minnesota, including all six of those located in St. Paul: Bethesda, which is a long-term acute care hospital, Children's Minnesota, Gillette Children's Specialty Healthcare, Regions Hospital, St. Joseph's Hospital, and United Hospital. We offer the following comments regarding the final draft of the Citizens' League report to the St. Paul City Council in support of our members in St. Paul, as well as on behalf of our entire membership who might be impacted if St. Paul's decisions or approaches would become a precedent for other communities.

MHA is opposed to local units of government implementing Payment in Lieu of Taxes (PILOT) programs, which attempt to circumvent state and federal laws extending tax-exempt status to charitable, nonprofit hospitals and health systems. Accordingly, we are pleased that after thoughtful discussions and deliberations, the Task Force recognized and reiterated through multiple votes that pursuing a PILOT program approach is not in the City of St. Paul's best interests. Instead, we support the recommendations that a better approach would be for the City to consider beginning conversations with tax-exempt entities and exploring whether they might have interest in making voluntary contributions to supplement governmental spending.

All six of Minnesota's hospitals and health systems located in St. Paul are charitable, non-profit organizations with missions to serve their patients and communities. Our members take their community service missions seriously, including their commitment to public reporting of their community benefit activities and conducting Community Health Needs Assessments (CHNAs).

Through their community benefit efforts and investments, hospitals in St. Paul provided the following benefits to their community:

- More than \$20 million in charity care to uninsured or financially vulnerable patients;
- \$131.6 million in costs over and above government reimbursement rates for caring for patients covered by Medicaid;
- \$25.7 million in wellness and health improvement activities and services;
- \$24.5 million in helping teach and train the health care workforce and caregivers of the future; and
- \$28 million in subsidized health services, such as mental health care, emergency departments, and serving as a critical component, along with St. Paul's Fire and Police Departments, in disaster preparedness and training.

In total, St. Paul's hospitals' and health systems' community benefit activities, as defined by the IRS, totaled more than \$300 million in 2015 and represented over 11% of their total operating expenses. When accounting for the costs of services provided to older residents that exceed Medicare's reimbursement rates and in uncompensated care, such as when someone with insurance is unable to afford the high deductible costs of care under his/her health plan, our six hospitals' and health systems' community contributions jump to \$393 million representing about 14.5% of their operating expenses.

These contributions and activities, however, do not adequately reflect the lifesaving care and treatment our members provide to almost 65% of St. Paul residents who needed hospital care, and approximately 73% of St. Paul residents who needed emergency room services. Moreover, only 25% of St. Paul residents who received care in our hospitals' emergency rooms had private health insurance; the other 75% were uninsured or covered by Medicare or Medicaid which pay providers less than the actual cost of care.

In addition to operating emergency departments that offer 24/7 access to care for life threatening illness or injury, our members provide nation-leading, high-quality and low-cost care from neonatal intensive care units, to specialized pediatric orthopedic procedures, and from cutting-edge diagnostic and treatments for adults and seniors to long-term acute care for patients whose conditions require weeks or months of treatment and healing. St. Paul residents have quick access to top-notch medical care and the value of that should not be underestimated in terms of lives saved, convenience and economic development.

Of course, these community benefit activities and vital health care services come with accompanying economic benefits for St. Paul. For example, hospitals and health systems rely on highly educated and well-paid employees, all of whom engage in local commerce generating sales tax revenues and many of whom reside in the City and pay property taxes. Our members

purchase from and contract with a wide variety of St. Paul's businesses, partner with the City's anchor institutions, and support local charities with aligned missions and services. Because of our members' high-quality care, strong reputations and often specialized services, they draw people from the surrounding region and across the country to St. Paul to receive care or visit loved ones. Drawing patients and families to St. Paul has economic benefits for the City due to their hotel, parking, restaurant and other spending.

In short, St. Paul would not be as successful, healthy, economically secure or vital as it is today without charitable hospitals and health systems that are committed to fulfilling their community service missions.

As charitable organizations, St. Paul's hospitals and health systems are exempt from paying property and sales taxes under state statutory and constitutional law. This tax exemption helps hold down the costs of health care and keeps care accessible to residents across the income spectrum. Also, it serves to acknowledge the mission-driven nature of these organizations. Likewise, federal law also extends tax exempt status to charitable hospitals for similar reasons, requires them to demonstrate that they are meaningfully engaged in community benefit activities, and report on those activities as part of their annual IRS Form 990 submissions.

It is also important to note that St. Paul's hospitals and health systems *do* pay property taxes with respect to their non-hospital properties, such as medical office buildings, clinics, cafeteria space or other ancillary facilities. For example, in 2016 HealthPartners Inc. paid more than \$2.5 million in St. Paul property taxes, and that amount will increase in 2017 with completion of its new Neuroscience Center on Phalen Boulevard, which is not exempt from property taxes.

In addition to these taxes, our six members in St. Paul paid \$35.8 million to the state in MinnesotaCare taxes, and another \$25 million in Medicaid surcharges. The state uses funds from the provider tax and Medicaid surcharge to pay for state public program health coverage for low-income, elderly and disabled residents.

Because of the nature of charitable hospitals, their legal status as tax-exempt entities, and the potential precedent for hospitals or health systems in other cities, MHA opposes any recommendations or policy proposals that would impinge upon charitable hospitals' or health systems' tax-exemptions. MHA, therefore, agrees with the recommendations that engaging in dialogues with tax-exempt organizations in St. Paul could help the City and nonprofits, including our members, better understand one another's needs and challenges, potentially lead to better alignment of activities aimed at improving the health of St. Paul's residents, and further strengthen the relationships between the City and its health care providers.

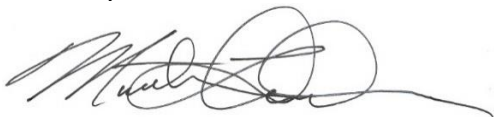
Moreover, if the City embarks on these conversations, MHA recommends that it invite hospitals and health systems to designate how any contributions they might choose to make will be used. Because of hospitals' and health systems' federal community benefit reporting requirements and their overarching charitable missions, their ability to direct the use of any

contributions for purposes of population health improvement, such as health screenings and vaccinations, expanding access to recreational activities, tobacco cessation initiatives, mental and behavioral health services, nutrition education, sustainable housing, food security, etc., will help demonstrate that such contributions are for supplementing, rather than replacing government spending, are intended to provide community health benefits, and advance their organizations' foundational charitable missions.

Health care remains in an extremely uncertain and rapidly fluctuating position. Each health care organization can experience a range of challenges, unpredictable changes in demand for health care, capital improvement needs, and other situation-specific issues from year to year. Accordingly, it will be important for the City to recognize that each organization will need to evaluate its own interest in and/or ability to contribute within a larger and shifting context. Thus, some organizations might be unwilling or unable to contribute at a given time, while others are better positioned to offer financial support. And the amount of any contribution from a particular entity is likely to vary from one year to the next. Thus, MHA encourages report recommendations that counsel against budgeting for or forecasting specific contribution amounts prior to obtaining a commitment from an organization.

Thank you, your staff and the Task Force members for considering these important issues and making recommendations that recognize the value our members bring to the City and its residents, as well as the merits of convening conversations centered around potential interest in voluntary activities or contributions that align with the charitable missions of tax-exempt organizations. If you have any questions or would like further clarification of these comments, please feel free to contact me anytime.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matthew L. Anderson', with a stylized, looping flourish extending from the end.

Matthew L. Anderson, J.D.
SVP of Policy and Chief Strategy Officer