

**J.F. Ryan Associates, Inc.**

*Appraisal & Consulting Services*

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Springfield Financial Control Board

**Project Plan**

**Establishment of a Payment in Lieu of Tax Program  
(PILOT)**

City of Springfield, Massachusetts

September 16, 2005

# **J.F. Ryan Associates, Inc.**

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*Appraisal & Consulting Services*

September 16, 2005

Philip Puccia, Executive Director  
SFCB, Room 300  
436 Dwight Street  
Springfield, MA 01103

Dear Mr. Puccia:

Enclosed is our report that sets forth a plan of action for the City of Springfield to investigate and ultimately implement a successful PILOT program.

As we detail in the report, the establishment of a PILOT program for the City of Springfield is an effective solution to obtain financial support from nonprofit institutions which are exempt from property taxes by Massachusetts law.

There are a number of factors to weigh in structuring a successful PILOT program and a number of different types of programs to consider. This Project Plan will first review the overall types of programs, the factors to consider in the establishment of a PILOT Program, and then set forth the steps to Implementation.

We appreciate the support and assistance provided by your staff as well as the City of Springfield Assessor and his staff.

We are committed to assisting the SFCB and the City in the development and successful implementation of this program and we look forward to providing any support necessary to support your efforts.

Very truly yours,

John F. Ryan, CAE  
Lead Consultant  
SFCB Property Tax Policy Project

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## Part I: PILOTs and Program Options

### PILOTs Defined

PILOTs are usually voluntary or negotiated payments made by tax-exempt organizations or in some cases legislated payments by another governmental entity to local governments. The payment terms of PILOTs — as well as the types of payers and recipients — vary widely from case to case.

The most significant PILOTs are voluntary payments made by larger nonprofit organizations. These payments can be largely symbolic donations by a nonprofit organization to a jurisdiction from which the nonprofit is exempt from taxes, or payments to cover the cost of police, fire, snow removal or other local services the nonprofit receives, or even major contributions that approximate or exceed what the jurisdiction would collect from taxing the property to promote the fiscal security of the jurisdiction or to fund a specific public initiative. Most of the time, the payments do not equal what the jurisdiction would collect if the property were taxed, but do provide at least some relief to the local government.

Some regionally well-known PILOTs include Harvard University's payments to Cambridge and Boston, Massachusetts and Yale University's annual payment to New Haven, Connecticut. Harvard paid Cambridge \$1.7 million in fiscal year 2004 on tax-exempt property, and agreed in 1999 to pay Boston \$40 million over 20 years for property it owns in that city. Yale contributes more than \$2 million per year to New Haven on tax-exempt property for fire services, in addition to paying taxes on non-educational property.

### State Programs

Some PILOT programs are sponsored by state governments. Connecticut's PILOT Program is considered by local officials as a model for the nation. Connecticut's program is one of only a handful. In every other state program, while there may be a partial payment for lost tax revenues for state owned property, there is no state payment to municipalities for the revenue that would have otherwise come in from private tax exempt institutions. Additionally, it is the only PILOT program that mandates reimbursement at a high level.

In Connecticut, the state government makes direct payments to local governments based on the amount of property owned by the state or by nonprofit colleges and hospitals. The state program pays a percentage of the taxes that would be paid if the property were not tax-exempt: for example, up to 100 percent of the lost value for correctional facilities; up to 65 percent for state hospital property; and up to 77 percent of the lost value for property owned by private, nonprofit colleges and hospitals.

Massachusetts makes small partial payments to local communities for some categories of state-owned park and conservation land, and for some privately held land that is held for conservation purposes. The Department of Revenue values the state owned land every five years and communities receive small partial reimbursements each year with the annual distribution of state aid. Under Chapter 61 communities also receive a partial reimbursement for land privately owned and maintained for forest purposes after the owners agree to keep the land in active forest use of 10 year intervals.

Additionally the Massachusetts Water Resources Authority (MWRA), through the MDC Division of Watershed Management pays communities directly for MWRA property held for drinking water protection purposes. However in Massachusetts, unlike Connecticut there is no state reimbursement for large state institutions like colleges, or for private tax exempt institutions. The reimbursement is essentially limited to a partial payment for land. In 1997 the Massachusetts legislature rejected a Connecticut style reimbursement program.

### Federal Programs

The federal government makes contributions to counties in 49 states and the District of Columbia for tax-exempt, federally managed land. Those payments (known as PILT payments) consider the amount of federally managed land in the county (not including office buildings, military facilities or correctional facilities), the county's population and other revenue shared with the county. These government-sponsored payments face criticism, however, for being insufficiently funded. Since these programs are subject to annual appropriation, the total amount of funds available to local governments is determined each year. Funding rarely if ever approaches authorized levels, and local government groups argue the payments are insufficient compensation for the loss of taxable property.

Other types of PILOT programs: In some cases PILOTs are used for other purposes, such as economic development tax incentives. In this case, PILOTs can provide for a negotiated reduction in property taxes for a business. However, these arrangements involve private, for-profit businesses that are not normally exempt from taxes, are typically established by local industrial or economic development agencies and result in lost revenue, not additional revenue. The Cities of Memphis and Knoxville, Tennessee are well known for utilizing PILOTs to encourage investment into their downtowns. These types of PILOTs are similar to the Chapter 121A concept utilized in Massachusetts.

No statistics are kept nationally on the number of PILOTs in local jurisdictions, or on the amounts collected. There are occasional regional studies conducted on the subject, but surprisingly no national municipal or state organizations (International City Managers Association, Government Finance Officers Association, U.S. Conference of Mayors, National League of State Legislators, etc.) or academic institution or association collects the information on a regular basis. However, there is ample evidence that some jurisdictions have been more aggressive in soliciting PILOTs from local nonprofit organizations over the past 20 years – particularly as the fiscal plight of many urban communities has worsened.

## Benefits of a PILOT Program

The reason local governments solicit PILOT payments is simple — they generate revenue. The rationales jurisdictions cite when soliciting contributions include the loss of revenue from tax-exempt property, the cost of providing municipal services to the organization, budget shortfalls, and a civic duty to be a "good neighbor" to the community. In certain jurisdictions, the large amount and high value of tax-exempt property eliminates a large share of the tax base, adding to the burden on other residents and businesses. PILOT proponents argue that it is not fair for residents to pay higher property taxes so that relatively wealthy organizations can pay no taxes whatsoever, especially when they receive costly services.

The motivation for tax-exempt organizations to pay PILOTs is more complicated. Some organizations recognize the value of services they receive from the local government and are willing to pay their fair share of those costs. These organizations also may wish to generate good will in the community by contributing to local revenues. In many cases, however, a nonprofit only negotiates a PILOT or some other voluntary contribution after being approached by the local jurisdiction, or even faced with the prospect of some other, mandatory tax or payment levied by the local government.

In fact, a tension often exists between local jurisdictions and the nonprofit organizations based there — even among nonprofits already paying PILOTs. Differences over what is the appropriate amount to contribute arise when PILOT agreements are renegotiated, when the jurisdiction is experiencing new fiscal difficulties, or when the nonprofit organization purchases additional property that subsequently becomes tax-exempt.

Cities such as Washington, D.C., Boston and Cambridge, Mass., have found it difficult to cope with the fact that over half of all property within their city limits is tax-exempt. And smaller cities such as Worcester, Mass., and Urbana, Ill., have faced the erosion of their tax bases when colleges and other nonprofits purchase additional property.

Harvard University's recent 20-year PILOT agreement with the City of Boston was negotiated only after City officials were surprised and alarmed by the university's quiet purchase of 52 acres of property within the City. Harvard University now owns more land in Boston than in Cambridge.

For their part, tax exempt entities generally resist calls to begin or increase their contributions to local jurisdictions. They often respond by enumerating the positive beneficial impact they have on the locality, including creating jobs, making local purchases and paying miscellaneous taxes and fees. They also may cite their accomplishments in serving community needs and warn that increased financial contributions to local government will result in a reduction of whatever community services they may provide.

Local officials sometimes force the issue with nonprofits that have not contributed by halting or slowing building permits or zoning approvals (however, this can raise significant legal liabilities), by proposing to levy some alternate tax on nonprofits or even by challenging the organization's tax-exempt status. The result is usually a negotiated settlement that allows the jurisdiction to collect some revenue, while at the same time letting the tax-exempt organization project a positive image in the community and avoid a less desirable alternative.

This was the case in Baltimore, Maryland three years ago, where 16 of the City's largest nonprofit organizations agreed to contribute \$20 million to the city over 4 years, after the mayor dropped a proposed energy use tax on nonprofit organizations in the City. Several Pennsylvania cities and counties mounted legal challenges to local nonprofit organizations' tax-exempt status in the early 1990s. The result was that some were successful in collecting PILOT payments even after they lost initial challenges in court.

Local governments are not universally successful in collecting PILOT payments from nonprofits, however. The City of Evanston, Illinois has been unable to get Northwestern University to agree to a PILOT arrangement, despite years and years of effort including a prior threat to enact a tax on student tuition. Nevertheless, PILOTs remain a popular tool in communities with significant concentrations of large tax exempt institutions.

It is important to note that virtually every successful PILOT program focuses exclusively on only the large, private, tax exempt institutions – primarily hospitals and universities. Churches, social service agencies, social clubs, etc. are generally excluded from these efforts due to social and political opposition.

## New England Cities with PILOT Programs

While national examples are useful in understanding the challenges in establishing a PILOT program, variances in tax and revenue bases, as well as demographic differences make effective comparisons difficult in the design of a PILOT program that may work for Springfield. However, there are four cities and two towns in New England that have very successful programs, and one more municipality that is currently starting an effort.

### Boston, Massachusetts

Boston has the most proactive PILOT Program in the country. Started in 1985 it has primarily focused on those tax-exempt institutions that are expanding – either through new construction, rehabilitation, or acquisition. The rationale is that if they can afford to build or expand they can afford to financially contribute for the many municipal services that they receive. The program is run by the Assessing Department but there is very close coordination with the city's planning, permitting, and public safety agencies.

The City initiates PILOT requests based on a formula that includes the cost of a proposed development project, the assessed value of the property, and a comparison with comparable buildings. In most cases though, the formula is used only as a basis for beginning discussions, and PILOT payments are arrived at through negotiations with the individual nonprofit institution.

Boston has \$18 billion in tax-exempt property which – if taxed at the FY05 rate (\$32.68 per thousand) would generate over \$500 million in tax revenue. Through the pilot Boston receives \$22 million annually. Some of the largest contributors are the Massachusetts Port Authority (i.e. Massport, an independent public authority), \$10 million; Boston University, \$3 million; Harvard University, \$2 million; Massachusetts General Hospital, \$1.9 million. Each agreement is also tied into an annual inflation index.

### Cambridge, Massachusetts

Cambridge had the first PILOT program in the country. In 1928 the Massachusetts Institute of Technology (MIT) sought to purchase valuable land on the Charles River including a hotel. The City was unhappy with the impending loss of property tax revenue. The City and the university came to an agreement to compensate Cambridge for the loss of taxes through a PILOT agreement.

Today, Cambridge does not have a formal program but negotiates agreements on a case by case basis. The program is managed through the City Manager's Office in coordination with other City agencies on an "as needed" basis.

Cambridge is unique because it is home to two of the world's most prestigious institutions of higher education. Harvard University contributes \$1.7 million; MIT, \$1.1 million; and Cambridge receives another \$500,000 annually from other colleges and hospitals for an annual total of \$3.3 million. If all of Cambridge's \$8.5 billion in tax-exempt property were taxed at the fiscal year 2005 tax rate (\$18.28 per thousand) then the City would receive \$163 million in revenue.

### Providence, Rhode Island

Providence's PILOT program is relatively new and was driven in large part by the decision of the Rhode Island School of Design (RISD) to relocate its library facility to a previously tax-paying downtown bank 4 years ago. Just like Cambridge in 1928, Providence wanted to protect its tax base. Also like Cambridge, Providence is home to a well-endowed educational institution in Brown University with an endowment of over \$1 billion.

The Providence Mayor's Office aggressively and successfully pursued PILOT agreements with four of its local universities. The City proposed and lobbied for legislation that would change state tax-exemption law. Ultimately, the City finalized PILOT agreements that will pay it \$3.8 million annually. The largest contributors are Brown University, \$2 million; and RISD, \$798,000.

### New Haven, Connecticut

As previously mentioned, Connecticut has a very generous program for compensating local communities for a portion of their tax-exempt property. However, beyond the state-funded PILOT New Haven receives direct financial support from another well endowed educational institution, Yale University. Yale not only hires its own very substantial police force, but also contributes over \$2 million dollars annually to New Haven's Fire Department.



## Watertown, Massachusetts

Watertown is a small community geographically (only 4 square miles) just west of Boston.

In 1992, Harvard University was attempting to buy a large shopping center, as well as a very large amount of surrounding property available for development. Watertown demanded compensation for the loss of taxes for the shopping center and for the lost potential of the surrounding property. In return for permission to develop the property without zoning interference from the Town, Harvard agreed to pay Watertown \$3.8 million annually starting in 2002 for 50 years with a 3% annual increase.

## Hanover, New Hampshire

Hanover, located in northwestern New Hampshire, is home to another large well-endowed educational institution, Dartmouth College. Dartmouth does not have a formal PILOT agreement with the City but instead voluntarily pays taxes on large portions of commercial property that it owns that would be eligible for tax exemption.

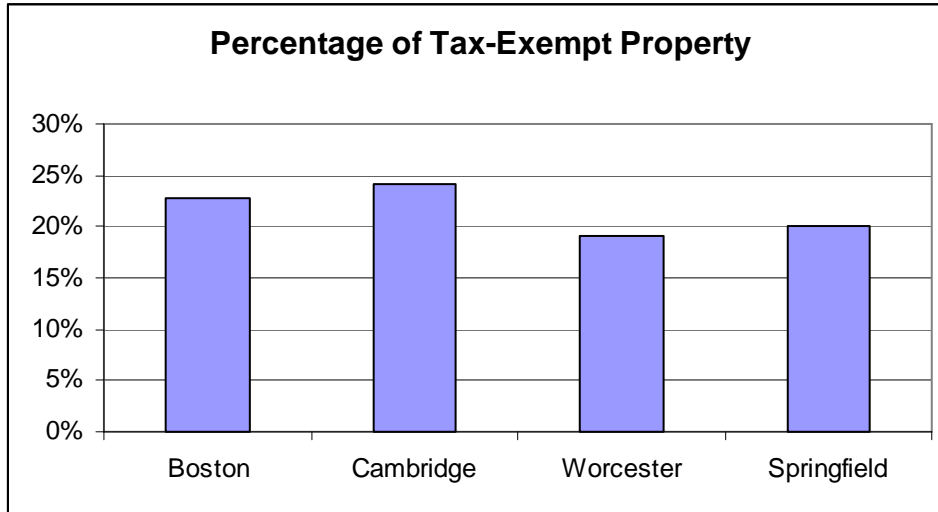
Dartmouth has invested heavily throughout Hanover in commercial property and occupies significant portions itself, but has agreed to voluntarily pay taxes on those portions anyway. In addition, in New Hampshire dormitories and dining halls of private colleges are taxable (however the first \$150,000 in value is treated as an exemption). Dartmouth pays \$3.5 million annually in taxes to Hanover.

## Greenfield, Massachusetts

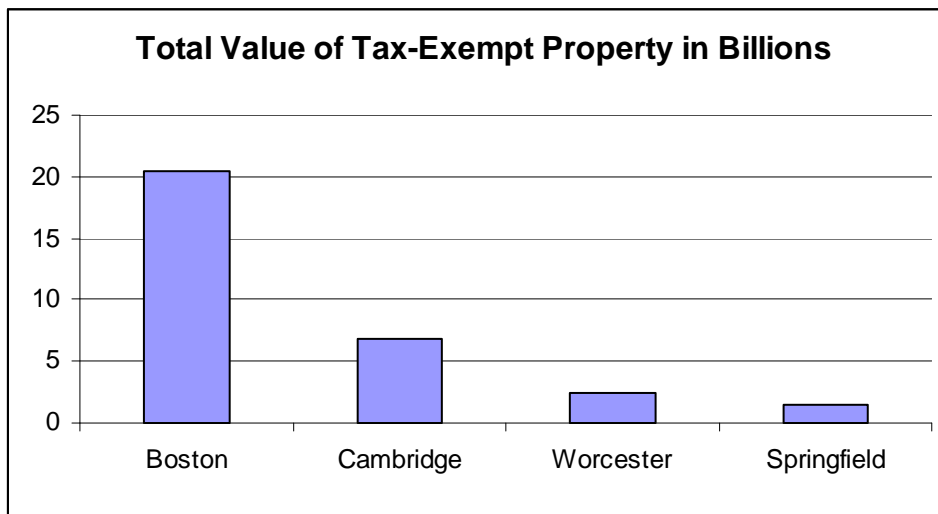
The Mayor of the City of Greenfield has just started an effort to obtain voluntary payments from 123 targeted tax exempt properties (there are 123 parcels but they do not yet have a count of how many owners there are, but they do know that some tax exempt owners own more than one parcel). The Finance Department estimates that the cost of police, fire, and public works services is 17% of the budget. The rationale is that the tax exempt properties should pay at least 17% of what they would pay if they were fully taxable because these are the barest of direct services. The Mayor intends to contact each tax exempt owner personally and they intend to do a targeted mailing in October as well.

## Springfield’s Potential for a PILOT Program

Similar to Boston, Cambridge and Worcester, a large portion of Springfield’s total valuation is tax- exempt. Springfield has the sixth highest percentage of tax-exempt property of all the cities in Massachusetts. Below is a chart comparing Springfield’s proportionate share of tax-exempt property to that of Boston, Cambridge, and Worcester.



Comparatively, it appears that a large percentage of Springfield’s total value is tax- exempt. However, in terms of revenue potential further examination is required. The chart below compares the same communities on the basis of the value of the tax-exempt property in billions of dollars.



Boston has by far the most at \$20.438 billion; Cambridge has \$6.832; Worcester \$2.225; and then Springfield at \$1.526 billion. Does that mean that if Boston can bring in \$22 million in PILOT revenues on a tax-exempt base of over \$20 billion that Springfield could bring in a proportionate amount of \$1.6 million?

Unfortunately, the question cannot be answered easily. The question of the revenue raising ability of a PILOT program is much more complex and requires consideration of many factors. The City must first decide just what type and kind of program it wants to implement - before the issue of financial benefit can be answered.

By way of example, the City of Worcester, after twice considering (in 1997 and again in 2003) a *revenue* dominated PILOT program, ultimately opted instead to enter into educational and economic development *partnerships* with its large health care and educational institutions. However, as seen by the bar chart above, of Springfield's total valuation base, there is a high percentage of tax exempt property. Therefore, it appears highly desirable to explore PILOT program options. Further, to insure that Springfield selects the best program to match its particular demographics, we recommend and include the feasibility steps that should be undertaken before deciding on an implementation plan.

## Part II. Steps to Implement a PILOT Program

### Project Commencement

First off, it is important to recognize that there is no single road to a successful PILOT program. There are relatively few PILOT programs nationally when you consider the large number of municipalities and almost every one is different. Each is dependent upon the unique demographics of the individual community – both in terms of the amount of tax exempt property, as well as the “quality” or the ability of certain institutions to participate in a successful PILOT program.

Operationally, PILOT programs are not necessarily the typical function of one municipal department. The highly successful Boston program is managed by the Assessor’s Office, but requires a great deal of interdepartmental cooperation among several departments. For instance the Inspectional Services Department and the Boston Redevelopment Authority work closely with the Assessor’s Office to notify them when an exempt institution intends to remodel or expand. The Law Department typically drafts the formal agreements; the Fire and Police Departments track and provides information on direct service calls to exempt institutions; the Budget Office provides the data on the costs of services; the Press Office assists with the public relations; and on occasion the Mayor’s Office lends its authority. However, one office in the City, the Assessor’s Office coordinates, manages and ultimately is responsible for effective implementation of the PILOT program.

This functional form is not typical in other cities identified in this report. In Cambridge, the City Manager’s Office coordinates; in Providence it is the Mayor’s Office, and in the latest effort in Greenfield it is both the Mayor and the Finance Director. So in terms of a project plan it is more important to identify the basic information required to illustrate a clear need for a program, and then the steps to take to implement a plan. The City itself will have to decide which entity, or combination thereof, is best suited for coordinating this effort.

### Assemble Valuation and Land Area Data

The first step is to examine the composition of exempt property in Springfield. As of Fiscal Year 2005 the total value of all of the property in Springfield was \$1,522,989,490 according to the Massachusetts Department of Revenue (DOR). The DOR groups properties, including tax exempt properties by general class use codes.

The chart below shows the general class use categories of all of Springfield’s tax exempt property.

| Class          | Total Value | %   |
|----------------|-------------|-----|
| 903 Municipal  | 477,150,390 | 31% |
| 905 Charitable |             | 21% |

|                       |               |      |
|-----------------------|---------------|------|
|                       | 319,477,900   |      |
| 907 121A Corporations | 184,901,900   | 12%  |
| 906 Churches          | 169,187,100   | 11%  |
| 904 College           | 167,871,400   | 11%  |
| 908 Housing Authority | 68,433,400    | 4%   |
| 900 US Government     | 49,397,800    | 4%   |
| 901 State of Mass     | 47,937,700    | 3%   |
| 902 County            | 38,631,900    | 3%   |
|                       | 1,522,989,490 | 100% |

Note the largest owner of property in terms of value is the City itself, which is typical for urban communities. However, the other classes of tax exempt properties should be closely examined to ascertain the various types of institutions.

The Assessor's Office provided a listing of Class 904, College properties. These include Springfield College, Western New England College, and American International College. Their total value was \$170.3 million. If they were paying taxes at the full commercial tax rate of \$33.36 per thousand, their property tax obligation totals \$5.6 million annually. These three colleges together own over 432 acres of land in the City.

Code 905 Charitable properties include Baystate Medical Center which is valued at \$145.1 million and owns over 74 acres of land. If taxable their property tax obligation totals over \$4.8 million annually. Therefore, the first step is to assemble (typically from assessment records) all of this data by ownership size – both in terms of value and land area for all of the tax exempt class codes – with special attention to classes 904, 905, and 906. The data can then be reviewed and analyzed, and statistical comparisons developed.

## Map and Present the Data

The purpose for assembling the information is to demonstrate the extent of tax exempt property in the City and to show the burden it is placing on the city resources and taxpayers. Graphically showing – in color preferably by type or owner – the tax exempt land area on a map of the City is essential. Additional illustrative charts and graphs are also useful. Researching historical ownership data, it is useful to see if the amount of tax exempt land area (or proportionate share of value) has grown – say over 10 or 20 year intervals – and it probably has!

## Direct Service Cost for Public Safety

It is important to know how often police, fire, and ambulance services respond directly to particular institutions. Colleges in particular often have many such calls, as do other large tax exempt institutions. These types of calls clearly demonstrate the financial burden of a tax exempt institution on the community. It is important for these City Departments to capture this information and maintain a historical record, preferable in an automated format. All public safety software systems today should allow for this information to be retrieved. Historic information is again important; in particular if there has been an increased demand for services.

In conjunction with the Finance Department, these public safety departments should also estimate the cost per call and the total annual cost. Do not underestimate - the direct departmental costs of overtime, training, equipment, etc. are all part of the equation. Additional costs include the substantial interdepartmental costs of supporting and financing public service agencies.

## History of Building Permit Data

The PILOT program in Boston focuses on tax exempt institutions that are expanding through new construction, rehabilitation, or acquisition. The concept in the design of the program was that if the institution is financially healthy enough to grow it should also be healthy enough to financially contribute as well. Further, if the request for a PILOT payment is expected and is asked for at the beginning of the project, there is a greater likelihood that the cost of a long-term PILOT will be built into the financing of the project.

Therefore, in determining the most feasible plan, review the ten year building permit history of the major institutions, as well as the ten year history of acquisitions of additional properties. Additionally, it is important to note any new plans or major capital programs.

## Research the Tax Exempt Institutions

Utilizing the data collected, research the largest tax exempt institutions to learn more about their financial ability to participate in a PILOT program. One of the reasons that the PILOT programs in Cambridge, New Haven, and Hanover are so successful is because they are partnering with institutions with some of the largest educational endowments not only in America, but in the world. Endowment data on colleges is readily available. The National Association of College and Business Officers for instance, regularly conduct studies on endowments as do others. Careful analysis of the endowments of each college is important.

Long-term health care facilities that receive Medicaid assistance must file annual reports with the Commonwealth's Rate Setting Commission. These reports can provide a wealth of financial information from the level of profitability to the salary of the top administrator. Additionally, the annual filings of non-profit institutions are at the Division of Public Charities in the Attorney General's Office.

There are important questions to ask about other institutions. Did the hospital make or lose money? How much free care do they provide? Collecting information about the institutions will not only provide guidance in designing an effective program, but also provide valuable information to utilize in discussions with individual institutions.

Additionally, whenever PILOT programs are suggested the institutions themselves are almost always opposed, as one would expect. They will effectively and rightfully point out the economic contributions that their institutions make through employment and enrollments that bring people and spending to their municipality. The National Society of Fund Raising Executives is strongly opposed to any PILOT programs at the local or state level. In 1997 the state colleges and universities were very effective in stopping legislative attempts to require PILOTs in instances involving institutional expansion.

Therefore, comprehensive and high quality data is critical to make an effective case on the imbalance between what Springfield and its taxpayers receive from their tax exempt institutions versus the valuable services that Springfield provides to the tax exempt community.

## Hold a Conference

While proceeding with the above steps, we strongly recommend planning for a symposium or conference on a PILOT Program for the City of Springfield. This would provide the City with the opportunity to highlight the need for a PILOT program and to create a meaningful dialogue on its design. Invite a panel of individuals outside the City who have had experience with PILOT programs. Present and showcase your findings from the earlier steps. Listen as well to what the institutions themselves say. Ultimately, a PILOT Program is voluntary and the most successful ones find some “common ground”.

Worcester, for instance decided against a formal PILOT program, but instead has entered into meaningful economic development partnerships with some of its institutions. For instance, Worcester Polytechnic Institute and the Worcester Business Development Corporation have partnered on a \$22 million research park that will actually end up adding taxable property to the City’s tax base.

Conversely in Providence, while Brown University reluctantly made a new \$2 million PILOT payment to the City after a strong lobbying effort, Brown partially paid for it by cutting a \$600,000 contribution it had been making to an urban health and education initiative.

As cited earlier, every PILOT program is different and is based on the individual demographics and situations in that community. Springfield has to design a program that meets its demographic needs as well. The best way to do that, at least initially, is through a public, cooperative discussion.

## Conclusion

Springfield has the sixth highest concentration of tax exempt valued property of all of the cities in Massachusetts. Additionally it is facing difficult fiscal times which necessitate the enhancement of its revenue sources. Given these facts, now is an opportune time for Springfield to consider the implementation of a PILOT program.

We have reviewed the different types and kinds of PILOT programs that exist nationally. Further, in examining the most successful programs in New England it further illustrates the fact that every PILOT program is different. Each is designed to match the unique demographics of that individual community. Therefore, to successfully implement a PILOT program in Springfield it is critical to collect and analyze the local demographic information and utilize this data to make a compelling case for a program in Springfield.

Concurrently, we would recommend that the City proceed to hold a conference or symposium on the implementation of a PILOT program in Springfield. The conference would serve as a springboard not only to highlight the large financial burden that tax exempt property place on Springfield, but to also provide valuable feedback for the design of a final PILOT Program that best serves the needs of all City stakeholders.