PILOTs and SILOTs Revisited
by Whitney Work, Director of Legislative Affairs
and Jefferson Burnett, Vice President of Government and Community Relations

Making Headlines

As more and more states and municipalities continue suffering from significant budget deficits, they are actively seeking additional sources of revenue, and one of the areas they’re targeting is nonprofits, including independent private schools.

Witness these headlines from newspaper articles over the past few years:

- “State Tells Pittsburgh to Renew Talks on Nonprofit Payments,” Philanthropy Today October 17, 2012 (Pittsburgh, Pennsylvania)
- “City seeks plan to talk revenue with nonprofits,” Portland Press Herald October 12, 2012 (Portland, Maine)
- “PILOT Proposals Spreading to More Affluent Suburbs,” Nonprofit Quarterly August 1, 2012
- “PILOTs Take off in Several Cash-strapped Municipalities,” Nonprofit Quarterly April 15, 2012
- “Brown Will Pay Providence $31 Million in Lieu of Taxes,” Inside Higher Ed May 2nd, 2012 (Providence, Rhode Island)
- “Trinity College Worth Watching in PILOTs Debate,” Nonprofit Quarterly March 5, 2012

Background

The long-term economic downturn resulting from the 2008 recession has not only shaken the national economy, but it has also left states and local governments suffering the strain of decreased revenues and increased demands for services. Across the country, the sustained budget pressures have left municipalities actively searching for new or additional revenue sources in order to avoid or reduce deficits and generally fill their budget holes. This has once again lead to an increase in requests for property-tax-exempt nonprofits, including schools, to make payments in lieu of taxes (PILOTs) and services in lieu of taxes (SILOTs).
Many municipalities rely heavily on property taxes to fund essential services (including police, fire and rescue, and schools) and the recession, with its negative impact on home values and surge in foreclosures, was particularly devastating to local and city governments. This has left these budgeters exploring creative approaches to address the associated fiscal shortfalls (many of which run into the millions and billions).

At the same time as the budget pressures, there has been an increased scrutiny of nonprofit organizations at both the federal and local level, attracting even more unwanted attention on the perceived well-heeled exempt entities. Just over a decade ago, NAIS examined this issue in *PILOTs and SILOTs: When Local Government Comes Knocking!* In 1998, NAIS surveyed member schools and noted 9 percent of schools responding reported a request for payment or service in lieu of taxes from their local government. By 2011, this number increased to 13 percent of schools reporting having ever been asked to make any contribution of money or services to the local tax district. According to the 2011 survey, PILOT or SILOT requests have been received by NAIS member schools in Massachusetts, California, New York, Connecticut, Pennsylvania, Texas, Florida, New Jersey, Minnesota, Ohio, Colorado, Indiana, Maine, and Rhode Island, a slightly larger footprint than seen previously.

At first glance, the minimal percentage increase in requests to schools over the past decade does not appear particularly significant; however, the length of the recent recession, coupled with the slow recovery, indicate the long-term effects will continue to be felt for some time. This could mean that as local governments run out of other budget fixes, they may be inclined to turn to more requests for support—financial or in-kind—of tax-exempt organizations.

With this in mind, more schools are aware and concerned about communities eyeing them and other nonprofits as potential sources of new revenues, and becoming de facto ATMs. Therefore, it is important for independent schools to be informed and prepared in the event that government does come knocking (again).

**Preempting a Challenge**

Though the majority of independents schools have never faced a request for payments or services in lieu of tax, it is always a good idea to take actions today to maintain a positive relationship within the community and establish a strong foundation in the event that situation changes.

**Getting to know your neighbors**

Establishing and maintaining open communications with local government officials is a simple first step schools should take. If trustees or others within the school community have existing relationships with community leaders, they can be called on to facilitate these conversations. Regardless of existing relationships, hosting or arranging a get-acquainted meeting with local government representatives is an important first step for all schools, which can then be followed up with periodic calls or invitations to visit the campus. Cultivating and maintaining
relationships with policymakers and citizen influencers is essential. While this constituency will be looking at how you are working with their community, they in turn need to be gently reminded as to your public purpose, outreach, contributions, etc.

**Developing a community relations plan**

It is imperative that schools acknowledge their *public context*, their place and role within their external community and then be able to proactively articulate their public purpose. Developing a community relations plan aids a school in addressing the question of the school’s role in the community. What does the school already do that provides benefits to local residents and taxpayers? How is the school perceived in the community, and what can it do to improve that perception? Do the school’s relations with the community embody and reflect the basic values the school seeks to inculcate in its students?

**Be attentive to local needs and look for ways to meet them**

Especially in tight economic times, independent schools should be attuned to financial challenges faced within their community. Actively pursuing ways to reduce those strains help the community and build goodwill.

The public school system is generally one of the largest budget items for a locality, and in many areas, public school systems are feeling the pinch financially. Independent day schools can make a persuasive case that their existence reduces the strain on the local public school system. Demonstrating a strong financial assistance program that makes the school accessible to children from less affluent families can aid this argument.

This argument is not quite as strong for boarding schools, as generally their enrollment of local residents is relatively low. These schools, therefore, need to make an extra effort to find other ways to meet community needs.

By considering their broader public context and the external constituencies with whom they can connect and engage, schools will better position themselves to be able to articulate their community role. NAIS encourages schools to reflect on five key public sector constituencies that provide opportunities for schools to create programs or partnerships within their local communities:

- **Teachers**: Consider professional development or training opportunities for teachers, including public school teachers.
- **Parents**: Special presentations, speaker series or opportunities may be open to parents and those in the community whose children are not enrolled in the independent school.
- **Students**: As public school systems are strained for resources, independent schools may explore developing partnerships with local public schools or creating summer or afterschool enrichment programs.
• **Neighbors**: Supporting community events and programs is one option to directly involve the school in neighborhood activities.

• **Service/Community Organizations**: Connecting with and contributing to local or national service organizations is often a very visible way of demonstrating a school’s commitment to the broader community.

**Ideas to think about**

The following are examples schools may wish to consider as opportunities to strengthen their community ties:

• **Invest in the local community**. Buy locally when possible and keep track of your expenditures. One school reports that it makes a point of posting prominent signs when local businesses perform services on campus.

• **Let local schools and nonprofits use your facilities when not in use**. Consider inviting local soccer or Little League teams use your fields, allowing the local public high school to use your track or cross-country course, permitting a local arts group to use your theater, making your classrooms available after hours to local groups in search of meeting space. The small risk and expense will be far outweighed by the goodwill you generate. (Be sure, however, to consult with legal counsel and your insurance broker before initiating any of these suggestions.)

• **Lend equipment**. Your school may have specialized equipment that it could use to benefit the local area, e.g., using school mowers to care for a nearby park or playground.

• **Invite the community to participate in educational activities**. Sponsor a lecture series featuring your faculty, put up notices about visiting arts performances, etc.

• **Partner with other nonprofits to offer programs for public school students**. Some schools offer Saturday and summer programs for gifted and talented students or pre-college experiences for disadvantaged youth.

• **Keep track of the volunteer services of students, faculty, and staff and make sure local officials are aware of them**. You could offer awards and invite local dignitaries to the ceremony.

• **Join the Chamber of Commerce, Rotary, or similar organizations of local business leaders**. This is a good way to keep up with local developments that may affect the school.

• **Meet with local leaders engaged in economic development** to make sure that your school and its resources are part of the sales package used to attract new businesses to the area.

• **Invite policymakers and community influencers to campus**—ask them to present to students and participate in school special occasions.

• **Conduct an economic impact analysis and update it periodically**. Your school is already making positive contributions to its community: it is a larger employer and
purchaser of goods from local businesses; it makes its facilities available to the locality, etc. Quantify these contributions and communicate them.

- **Stay in touch with the local media.** Reporters are always looking for good and positive stories, especially those involving students. Share news from your campus with local media outlets.
- **Review your school website and other publications.** Use these vehicles to publicize your community relationships.

**What to Do When You’re Asked for a PILOT or SILOT**

In an ideal situation, a school’s preemptive actions and positive community relations will help to avoid the request of PILOTs or SILOTs. But even if you have done everything “right,” circumstances could change to make your local government consider a request for payments from nonprofits, including schools. Then what?

Even if your school has not had a request for payments, and never expects to have such a request, it is recommended that the school consider how it would respond in such a case. The principle of tax exemption is an important board-level discussion, regardless of whether your school ever ends up in a situation where the discussion stops being hypothetical.

Legitimate arguments exist both for and against paying a request from local government. There is no formula to decide whether or not to make the requested payment, therefore, each school must weigh these arguments as they apply to their own situation.

**Considerations**

If your core team and board have not formed a position prior to a request for a PILOT or SILOT, it is important to assemble this group as soon as possible to carefully consider what is being requested and the appropriate response.

Areas of consideration:

- The current political and economic climate in the area. Are these changing and are you sharing the information and possible implications with your board and senior staff?
- Past, current and future contributions to the community. A simple starting point for this may be the five key constituencies outlined previously.
- Direct and indirect implications of making or withholding payments or providing services.
- How have other schools responded?
  - **Agreeing:** In limited instances, schools have chosen to comply with local government requests for PILOTs or SILOTs. For some, it may simply be an issue of good citizenship or result from a longstanding relationship or ongoing request, thus requiring little debate or consideration. For others, it may be easier than
facing negative media or publicity. One respondent to the 2011 survey reported simply that “We look non-supportive if we ignore the fire department request.” Other schools face concerns that nonpayment will lead to other repercussions, including delays to building projects or reassessments of property or nonprofit status review. In a few instances, the requests have been mandated rather than optional and while the schools have attempted to fight the payment, they have been unsuccessful in doing so.

- **Compromising:** Instead of simply agreeing to the initial request, some schools offer alternative contributions, either a reduced payment or perhaps some combination of services, such as use of facilities, instead of a direct payment.

- **Refusing:** Some independent schools have made the decision to simply refuse to make the requested payment. In NAIS’s 2011 survey, schools cite three primary reasons for refusing a request:
  - A conviction that the school’s current contributions are “fair and sufficient.”
  - An unwillingness to set a precedent that could lead to further requests.
  - A strict adherence to the principle that their school is tax-exempt.

In these instances, it is helpful to have considered the various community and economic impacts made by the school, its students, its faculty, and its parent community. These contributions can then be articulated both to the local government as well as to the media and the school community. Several schools responding to the survey pointed out that while they declined payment for a specific PILOT request, they did provide a number of unrequested SILOTs, such as use of sports fields, as well as other unsolicited financial contributions to specific projects-- for example, contributing $100,000 to buy a new ladder truck for the fire department.

**Additional Resources**

- Community Relations Part I: Making the Case for a Community Impact Report at Your Independent School
- Community Relations Part II: Creating a Community Impact Statement at Your Independent School
- [“In Lieu of Taxes”](http://www.nais.org/resources/article.cfm?ItemNumber=147828) (Peter Gow, Spring 2002 *Independent School Magazine*)
- Questions, please contact Whitney Work ([wwwork@nais.org](mailto:wwwork@nais.org)) or Jefferson Burnett ([burnett@nais.org](mailto:burnett@nais.org))