

# Churches are targeted for ‘Payment in Lieu of Taxes’ fees

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by [Randy Bright](#)



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I received a call from someone in the St. Louis area alerting me to some commercials for a group that was in favor of imposing PILOT fees on churches. PILOT stands for Payment in Lieu of Taxes.

I was sent an article from the St. Louis Post-Dispatch entitled Exempt-Nonprofit Retirement Complexes Take a Bite Out of St. Louis County Tax Base. It explained how a couple of retirement centers were avoiding the payment of property taxes because they were owned and operated as nonprofits, and as such were exempt from taxation.

A Post-Dispatch reporter who was investigating the two entities – Lutheran Senior Services and Bethesda Orchard – claimed that the residents of the retirement centers lived lavish lifestyles, and had the entities not been granted tax exemptions, they would have paid \$3.1 million in property taxes in 2013.

Now some locals want the retirement centers to pay PILOT fees.

PILOT fees originated in 1976 when a federal law was enacted to grant relief to communities where use of tax-exempt federal land was impacting local governments.

An example of this would be when a college or university occupies federal land and does not have to pay property taxes, even though services such as fire and police protections are provided by the local government. Fees would be paid to the local government out of federal funds.

When the real estate bubble burst, triggering the current recession (the one economists claim ended in 2009), some local governments began to target universities, hospitals and other nonprofit organizations, including churches, and demanding PILOT fees. Many of these entities own large land parcels that are exempt from property taxes.

When tax revenues began to decline due to the recession and falling property values, local governments began to look for ways to make up for the shortfall.

They began to argue that tax-exempt entities receive the same services that others do – fire protection, police, water, sewer, public schools, parks, search and rescue – and therefore should contribute their fair share to offset the costs associated with those services.

The concept behind PILOT fees are that they are to be paid voluntarily. However, nonprofits see the aggressive efforts of local governments to “encourage” them to make large payments as extortion. At risk is their tax-exempt status (which might be challenged in court if payments are not made) or future building permits (which might be denied or delayed until payments are made).

Developing cities by creating urban growth boundaries and forcing dense development is seen as an important source of revenue by city government, not just by creating more taxpayers, but also by increasing the values of their properties. This leads to high property taxes, but it also creates animosity toward non-profits – like churches – who own large properties. This is why they speak in terms of how much they are “losing” in taxes due to the greed of nonprofits, but without taking into account the benefits the community receives from the nonprofits, especially churches.

Unfortunately, it is difficult to put a dollar value on the reduction in crime that churches bring to a community by teaching its members that crime is wrong; or that broken marriages put a huge financial burden on communities, but churches encourage their members to keep marriages intact; or the number of people that churches feed and clothe. Sadly, these are things that municipalities often ignore when they get desperate or greedy for money.

Despite arguments to the contrary, churches and other non-profits are rarely exempted from building permit fees, and they do not get their utilities for free. If the fire department fights a fire on their property, they get a bill just like anyone else would. When they build new facilities, they should pay for their fair share of the extension of utilities to their property, just like anyone else, and as far as I have seen, they do. I have only once seen the building permit fees waived for a church when their city recognized the value of the good that they would bring.

That all said, what should the position of churches be when faced with demands for PILOT fees are made? Or before the situation even arises?

To allow coercion to force payment of fees is wrong, and I believe that churches should resist it. To do the opposite would only encourage that kind of activity, making the myth that churches don't pay their fair share to be accepted as fact.

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