June 2025

Office of Internal Audit

Why We Did This Audit

We performed this audit in accordance with our approved annual audit plan.

What We Recommend

We made the following recommendations:

- The Assessor's Department develop and implement a formal billing system for PILOT.
- The Assessor's Department resolve past PILOT payment discrepancies.
- Confer with the Law Department to determine if the existing contracts where gross rent is referenced could be amended to include a definition of the period in which gross rent is earned.
- The City management draft a formal PILOT policy which includes the following:
  - City's objectives.
  - Criteria for tax exempt entities eligible for PILOT agreements.
  - Standard application process, including required documentation.
  - Consistent and transparent methodology for determining PILOT, which considers factors such as property value, cost of municipal services consumed, and community benefits provided by the tax exempt entity.
  - Formalize terms and conditions of PILOT agreements, including payment terms, duration, and provisions for renewal and renegotiations.

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Review of Payment in Lieu of Taxes (PILOT)
Executive Summary

Background

Tax exempt organizations in Massachusetts are not subject to real estate taxes for their real estate holdings. Tax-exempt organizations may voluntarily make payments to a municipality as substitute payments in lieu of taxes (PILOT).

The City of Springfield has various voluntary PILOTs with tax exempt property owners. These PILOTs are based on negotiated agreements with varying terms. The City's Assessor's Department administers these PILOTs.

Objectives and Scope

The primary objective of this audit was to assess the internal controls over the administration of PILOT.

The review covered Fiscal Year 2024 and the period from July 1, 2024, through May 2025. Government entities and companies participating in the MGL Chapter 121A program were excluded from this review.

What We Found

- The Assessor's Department does not generate formal invoices for PILOTs, relying instead on entities to remit accurate and timely PILOT payments. We noted discrepancies in contractual payments.
- Existing PILOT arrangements are inconsistent and certain key terms are undefined.
- The City has no formal PILOT policy.

INTRODUCTION

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit (OIA). The following review aligns the authority and goals of the OIA with those of the City. Specifically, this audit addresses the City's values related to accountability such as integrity, fiscal responsibility and transparent practices. The audit also supports the City's strategic priorities ensuring operational excellence, fiscal health and sustainability in all divisions, departments, programs and activities.

This report is not intended to be an adverse reflection of the City or of its vendors. The intent is for City management to utilize these findings and recommendations to help in making future well-informed strategic decisions while ultimately meeting City objectives.

BACKGROUND

Tax exempt organizations in Massachusetts are not subject to real estate taxes for their real estate holdings. Tax-exempt organizations may voluntarily make payments to a municipality as substitute payments in lieu of taxes (PILOT)[1]. In additional there are mandatory PILOTs included with those properties owned by the Commonwealth for various purposes, including education, corrections, open space, and recreation[2].

The City of Springfield has various voluntary PILOTs with tax exempt property owners. These PILOTs are based on negotiated agreements with varying terms. The City's Assessor's Department administers these PILOTs.

The table below ranks the top 15 Massachusetts municipalities by the percentage of their tax-exempt property values for FY2024. The City of Springfield is 6th on this list, with 26.42% of its total assessed property value being tax-exempt.

[1] MGL, Chapter 59, section 5
[2] PILOTs: An Introduction | Mass.gov

Exhibit 1: Value of Exempt Properties by Municipalities

DOR Code	Municipality	County	Fiscal Year	Exempt Parcel Count & Value	Total Value (Assessed and Exempt)	% of Exempt
143	Huntington	HAMPSHIRE	2024	155,057,700	458,398,866	33.83%
106	Gill	FRANKLIN	2024	101,564,200	332,239,426	30.57%
008	Amherst	HAMPSHIRE	2024	1,613,864,758	5,391,230,275	29.93%
341	Williamstown	BERKSHIRE	2024	564,826,600	2,058,111,545	27.44%
074	Deerfield	FRANKLIN	2024	414,243,423	1,511,604,352	27.40%
281	Springfield	HAMPDEN	2024	4,854,405,700	18,373,756,893	26.42%
115	Groton	MIDDLESEX	2024	961,008,645	3,770,417,543	25.49%
124	Hardwick	WORCESTER	2024	124,098,015	495,320,873	25.05%
195	Mount Washington	BERKSHIRE	2024	38,348,800	159,473,086	24.05%
049	Cambridge	MIDDLESEX	2024	23,701,675,373	99,942,275,023	23.72%
348	Worcester	WORCESTER	2024	7,223,697,506	31,552,450,114	22.89%
035	Boston	SUFFOLK	2024	66,287,132,328	292,662,026,907	22.65%
234	Petersham	WORCESTER	2024	69,687,000	321,237,079	21.69%
319	Wendell	FRANKLIN	2024	39,678,800	189,223,267	20.97%
209	North Adams	BERKSHIRE	2024	287,302,848	1,380,380,606	20.81%

Source: Division of Local Services Municipal Databank

Of the total exempt property values in Springfield, approximately 40% are owned by the City of Springfield, 18% are owned by private educational institutions, including colleges, and 16% charitable organizations. The following table illustrates:

Exhibit 2: Exempt Category by Type

Tax Exempt Land in City of Springfield, MA - Type of Use		
	Fiscal Year 2024	
Type of Exempt Use	**Value of Exempt Use**	**% of Total Exempt Value**
Municipal - Springfield	$ 1,960,833,900	40.39%
Private Educational	$ 878,428,800	18.10%
Charitable	$ 785,204,300	16.18%
121A Corporation	$ 462,589,500	9.53%
Religious	$ 268,468,400	5.53%
Housing Authority	$ 199,233,400	4.10%
Other	$ 101,445,200	2.09%
State - Massachusetts	$ 84,221,900	1.73%
Transportation Authority	$ 65,185,600	1.34%
Federal	$ 44,617,600	0.92%
Utility	$ 4,177,100	0.09%
Total	$ 4,854,405,700	

Source: Patriot Database form the Assessor's Office.

Furthermore, out of the $1.7 billion in property values owned by colleges and charitable organizations, only $19.4 million (approximately 1%) represents the total value of tax-exempt entities participating in PILOT.

The following is a summary of the PILOT contracts with tax exempt entities for Fiscal Year 2024:

Exhibit 3: Summary of PILOT Contracts

Organization	Property	FY2024 Assessment	Start Date	Term of Contract	FY24 PILOT Amount	Payment Terms
Baystate Medical Center, Inc.	3400 Main St, 11 Wilbraham Road, 395 Colton, 396 Colton, 86 Main St	$ 10,668,900	Feb-16	10 Yrs, payments will be completed in February 2027	$ 243,279	Starting at $199,670 in 2014 (base year) and 2.5% increase annually.
Center for Ecological Technology Inc.	83 Warwick Street	$ 1,168,000	2024	10 Yrs	$ 10,000	Starting in 2024, payments made annually for 10 years. Building was sold in 2025 to another 501 (c) 3 organization.
Springfield Technical Community College	1447 - 1451 Worthington St.	$ 458,800	Jul-18	20 Yrs	$ 3,992	$111,250 times the current year's commerical/industrial mill rate.
Mental Health Assocation	15 Pratt St.	$ 269,900	Jul-95	Indefinte	$ 3,124	70% of amount of taxes which would have been payable.
Mental Health Assocation	30 High St.	$ 249,300	Jul-98	Indefinte	$ 1,320	70% of amount of taxes which would have been payable.
Mental Health Assocation	84 Woodmont St.	$ 291,100	Jun-04	Indefinte	$ 500	$500 annual payment.
Mental Health Assocation	157 Pine St.	$ 1,091,600	Jul-94	Indefinte	$ 8,738	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	52 Avon PL.	$ 304,200	Jul-94	Indefinte	$ 3,521	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	370 Parker St.	$ 321,500	Jul-99	Indefinte	$ 1,820	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	110 Lloyd Ave.	$ 342,800	Jul-95	Indefinte	$ 1,738	70% of amount of taxes which would have been payable.
Mental Health Assocation	208 Florida St.	$ 330,600	Jul-98	Indefinte	$ 2,195	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	65-67 Price St.	$ 233,600	Jul-94	Indefinte	$ 2,622	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	51 Forest Park Ave.	$ 224,200	Jul-94	Indefinte	$ 2,052	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	127 Mill St.	$ 424,600	Jul-98	Indefinte	$ 3,968	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.
Mental Health Assocation	143 Magazine St.	$ 2,632,200	May-14	Indefinte	$ 9,385	Lower of 4% of gross rents from tenants or 70% of amount of taxes which would have been payable.

From July 1, 2025 through April 30, 2025 and for Fiscal Year 2024, PILOT revenue, which was exclusive of MGL Chapter 121 revenue amounted to $297,817 and $307,395, respectively.

The Springfield City Council has established a PILOT Committee on New Revenue to study new sources of revenue, including PILOTs at the City of Springfield, MA.

In February 2025, Massachusetts House Bill H.3264, *An Act relative to payments in lieu of taxation by organizations exempt from the property tax,* was introduced. The bill aims to mandate PILOT payments for larger not for profits. It would allow municipalities to require certain tax-exempt entities with property valued at $15 million or more to make PILOT payments. These payment amounts would be equal to 25% of what they would normally pay if their property were taxable. Municipalities would have the option to implement this requirement through a local vote. There is an exemption for high public payment hospitals as defined by the Executive Office of Health and Human Services. The bill is currently referred to the Joint Committee on Revenue who will eventually hold hearings to gather testimony from various stakeholders, including municipalities, not for profit organizations, and the public.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The primary objective of this audit was to assess the internal controls over the administration of Payments in Lieu of Taxes.

Scope

The review covered Fiscal Year 2024 and the period from July 1, 2024 through May 2025. We excluded PILOT contacts with undefined gross rents, as well as government entities and companies participating in the M.G.L. Chapter 121A program were excluded from this review.

Methodology

To accomplish our objectives, we performed the following procedures:

- Reviewed the Department's policies and procedures for administering PILOT agreements.
- Reviewed PILOT contracts to understand payment requirements and other key terms.
- Test PILOT payments to determine compliance with contract terms and to ensure payment accuracy.
- Assessed tax-exempt entities' compliance with real estate tax exemptions.
- Researched other communities' practices regarding their PILOT programs.
- Performed other necessary procedures.

Our findings and related recommendations are in the following sections of the report. The Assessor's Department was given the opportunity to respond to the findings. The Department's responses are incorporated verbatim into the report following each finding and recommendation.

Finding/Recommendation Priority Ranking Definitions and Criteria

The OIA's assignment of a ranking to findings and recommendations is intended to provide guidance to management on how to prioritize corrective actions. We consider both the effect and the likelihood of unimplemented recommendations in our categories. The OIA classifies the priority levels to be considered by Management when addressing findings and implementing recommendations as follows:

High	Internal control weaknesses and compliance issues that that require immediate corrective action.
Moderate	Internal control weaknesses and compliance issues that require prompt corrective action. Short term action is appropriate, e.g., less than 90 days.
Low	Internal control weaknesses and compliance issues that warrant timely corrective actions. Action with 360 days is deemed appropriate.
Management Discussion	Opportunities to strengthen internal controls.

FINDINGS AND RECOMMENDATIONS

Finding Number	Finding	Finding Description	Recommendations	Priority Ranking	Management Response
1.	There are no formal invoices for PILOTs.	The Assessor's Department currently does not generate invoices for PILOT. Instead, the Assessors relies on participating entities to submit their agreed-upon PILOT payments. There is no systematic billing process in place to initiate and track these payments. According to the Assessor's Department this is due because certain information on which certain PILOT payments are based, like gross rent schedule, is not readily available to them. But we noted that such information is provided to the Assessor's Department when PILOT payments are made. Effective financial management and strong internal controls require that all revenue streams be formally billed, tracked, and reconciled. The Assessor's Department current approach to PILOT payments creates several significant risks, including: • Missed or delayed payments: Without a formal billing system, there's a higher chance that payments could be overlooked or submitted late. • Difficulty in reconciliation and audit trail: The absence of a systematic process makes it	We recommend that the Assessor's Department develop and implement a formal billing system, including: • Proactively generating and issuing formal invoices for all PILOT payments, clearly stating the amount due, due date, and payment instructions. • Establishing billing cycles based on the terms of the PILOT agreement. • Using assessed values or gross rent schedules provided by participating entities to incorporate into the billing calculations. If this information is not provided in advance, the	**High**	**<u>Assessor's Department</u>** We agree with the auditor's recommendation, and Board of Assessors will generate PILOT payment invoices via Munis. The Board has created a policy and plans on implementing it as soon as possible, with the goal of beginning invoicing for the FY26 3rd quarter payment. The Board is working on conducting an audit of payments and will meet with the affected entity to address discrepancies.

		harder to reconcile payments received with expected amounts and to maintain a clear audit trail. • Potential for under or over-collection of revenue: Inaccurate payments can lead to either a loss of revenue for the City or an overpayment by tax-exempt organizations. Our review of PILOT payments in recent fiscal years highlights these risks. In FY25, out of 7 payments tested, we identified: • Three underpayments totaling $6,101. • One overpayment of $3,020. Similarly, in FY24, from 7 PILOT payments tested, there were: • Three underpayments totaling $3,652. • Two overpayments, totaling $2,961. These discrepancies underscore the need for a more structured and controlled process for managing PILOT payments.	Assessor's Department should request it before the billing cycle. • Using MUNIS Billing to generate bills and their tracking. • Reach out to the affected entities to address past discrepancies, specifically regarding the refunding of overpayments and the collections of underpayments.		
2.	Existing PILOT Arrangements are Inconsistent and Certain Key Terms are Undefined	During our review, we noted that existing PILOT agreements are inconsistent in their terms and conditions across various properties. Specifically, there is a lack of standardization in the calculation	We recommend the following: • Develop a PILOT policy – See		**<u>Assessor's Department</u>** We agree with the auditor's recommendation, and the assessors will work with the Law Department

		methodologies, payment schedules, and durations of these agreements. For example, one property has a fixed annual PILOT payment of $500, while others are set at 70% of their assessed value. Furthermore, some agreements stipulate the lower of 70% of assessed value or 4% of gross rents. The terms of these agreements also vary widely, ranging from 10 to 20 years, with some agreements lacking a defined termination date. We also noted that key terms, such as **"**gross rent**"** (used for PILOT calculations) and **"**fiscal year**,"** are undefined in several contracts, specifically regarding the period in which these rents are earned. Additionally, one entity failed to remit its schedule of rental income for the applicable fiscal year to the City within 30 days after the fiscal year end, as required by the contracts. Effective financial management requires clear, consistent, legally enforceable contractual terms. PILOT agreement should be based on transparent and uniformly applied methodologies. Furthermore, key financial terms should be precisely defined to ensure accurate calculation of payments and missing required documents should be obtained. Inconsistent PILOT arrangements could potentially lead to perceived favoritism or unfair treatment among different	Finding 3 for more details. • Confer with the Law Department to determine if the existing contracts where gross rent and fiscal year are referenced could be amended to define the period in which gross rent is earned. • Obtain the schedule of rental income for the respective fiscal year from the affected entity.	**Moderate**	to review current agreements and amend them, as needed. A full review of current calculation methodologies, payment schedules, agreement durations, and definition of key terms will ensure that the agreements are in line with a uniform approach moving forward.

		property owners, undermining public trust and transparency. Undefined contractual terms, like gross rent and fiscal year, increase the likelihood of disputes and unenforced requirement to submit gross rents for the fiscal year could lead to undetected inaccurate PILOT payments.			
3.	There is no formal PILOT policy	The City does not have a formally adopted and documented Payment in Lieu of Taxes policy. While certain tax exempt entities have agreements regarding PILOT, there is no comprehensive policy, standardized application process, eligibility criteria, or consistent methodology for calculating, approving, or monitoring PILOT agreements. Effective financial management requires transparent and consistently applied policies for significant revenue and tax abatements. The lack of a formal PILOT policies has the following adverse effects: • Potential loss of revenue: Without a structured approach, a municipality may be foregoing revenues from tax exempt properties. • Lack of Transparency: The absence of formal documentation reduces transparency, making it difficult for the public to understand how PILOT agreements are negotiated and administered.	We recommend the City take the following steps to adopt a PILOT policy: • Draft a formal PILOT policy outlining the City's objectives. • Establish criteria for tax-exempt entities eligible for PILOT agreements. • Define a standard application process, including required documentation. • Develop a consistent and transparent methodology for determining PILOT, which may consider factors such as property value, cost of municipal	**Low**	**<u>Office of Administration & Finance</u>** The City of Springfield acknowledges the voluntary nature of PILOT contributions from nonprofit organizations and recognizes the importance of improving consistency and transparency in this area. To that end, we are in the process of developing a formal PILOT policy and standardized agreement templates to guide future arrangements. These efforts aim to promote fairness and ensure a clear, uniform approach while respecting the voluntary status of participating institutions. As part of this initiative, we will also consider the framework outlined in the proposed Massachusetts House bill H.3264 and assess its relevance to Springfield's needs and goals.

			services consumed, and community benefits provided by the tax-exempt entity. • Formalize the terms and conditions of PILOT agreements, including payment terms, duration, and provisions for renewal and renegotiations. When developing the PILOT policy, we recommend that the City consider the proposed Massachusetts House Bill H.3264, *An Act relative to payments in lieu of taxation by organizations exempt from property tax*. The proposed legislation follows the PILOT policies adopted by the City of Boston and the City of Northampton.		