



City of Cambridge

O-8.

IN CITY COUNCIL

February 26, 2001

COUNCILLOR DAVIS
COUNCILLOR BRAUDE
COUNCILLOR BORN
COUNCILLOR DECKER
MAYOR GALLUCCIO
VICE MAYOR MAHER
COUNCILLOR REEVES
COUNCILLOR SULLIVAN
COUNCILLOR TOOMEY

ORDERED: That the City Manager be and hereby is requested to report to the City Council on town-gown agreements in other university cities across the country that deal with long-term planning and payments in-lieu-of-taxes; and be it further

ORDERED: That said report should present examples that may help Cambridge produce a town-gown relationship that protects the future of Cambridge neighborhoods and the fiscal security of the city.

In City Council February 26, 2001.

Adopted by the affirmative vote of nine members.

Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in black ink that reads "D. Margaret Drury".

D. Margaret Drury
City Clerk

REFERRED TO COMMITTEE REPORT #3

O-8.

February 26, 2001

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City of Cambridge

COMMUNICATIONS AND REPORTS FROM CITY OFFICERS - FOR THE CITY COUNCIL MEETING OF MONDAY, FEBRUARY 26, 2001

1. A communication was received from Mayor Anthony Galluccio, transmitting a communication from Tomas Guillermo, President, Friends of the Community Learning Center regarding the urgent space needs of the Community Learning Center.



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Order #8

Report on town-gown agreements in other university cities across the country that deal with long-term planning and in-lieu-of-taxes.

Councillors Davis, Braude and entire membership

In City Council February 26, 2001

ORDER ADOPTED

*Referred to
Committee Report #3*



City of Cambridge

O-8.

IN CITY COUNCIL

February 26, 2001

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REFERRED TO COMMITTEE REPORT #3

City of Cambridge

FINANCE COMMITTEE MEMBERS

Councillor Michael A. Sullivan, Chair
Councillor Kathleen L. Born
Councillor Jim Braude
Councillor Henrietta Davis,
Councillor Marjorie C. Decker
Vice Mayor David P. Maher
Councillor Kenneth E. Reeves
Councillor Timothy J. Toomey, Jr.
Mayor Anthony D. Galluccio

In City Council February 26, 2001

The Finance Committee held a public meeting on February 13, 2001 beginning at 6:24 p.m. in the Sullivan Chamber for the purpose of discussing the in-lieu-of-property tax payments that the City receives from tax exempt institutions, particularly Harvard and M.I.T.

Present at the meeting were Councillor Michael A. Sullivan, Chair of the Committee, Vice Mayor David P. Maher, Councillor Kathleen L. Born, Councillor Jim Braude, Councillor Henrietta Davis, Councillor Marjorie Decker, Councillor Michael A. Sullivan, Councillor Timothy J. Toomey, Jr. and City Clerk D. Margaret Drury.

Also present were Robert W. Healy, City Manager; James P. Maloney, Assistant City Manager for Finance; Sally Powers, Executive Director of Assessing; John Curry, MIT Executive Vice President; Steve Marsh, MIT Real Estate Managing Director; Catherine Donaher, MIT; Sarah Gallop and Paul Parravano, Co-Directors of Government and Community Affairs, MIT; David Cohen, MIT; Kathy Spiegelman, Associate Vice President for Planning and Real Estate, Harvard University; Paul Grogan, Vice President of Community and Public Affairs, Harvard University; Mary Powers, Senior Director of Community and Public Affairs, Harvard University; and Jane Corlette, Associate Vice President for Government and Community Affairs, Harvard University.

Councillor Sullivan convened the hearing and explained the purpose. He requested that all present introduce themselves.

Councillor Sullivan then explained the genesis of this meeting in a Finance Committee meeting held for the purpose of preliminary budget discussions. He invited Robert W. Healy to begin the discussion.

Mr. Healy distributed a memorandum on the Cambridge In Lieu of Tax Program (Attachment A) and outlined the current agreement.

He noted that the memo lists other smaller in-lieu-of-tax payments made by other nonprofit entities, for example, Whitehead Institute pays \$362,213. Mr. Healy also mentioned that the memo includes information about taxes paid by tax exempt entities in other jurisdictions. Most are significantly less than the amount Cambridge received from M.I.T. or Harvard University.

Councillor Sullivan asked if there would be a written agreement with M.I.T. John Curry answered in the affirmative. A letter from President Charles Vest to that effect is attached to this report. (Attachment B)

Councillor Sullivan asked about the yearly increases in the payments Harvard makes. Ms. Powers said that it has approximated the percentage amount of the levy increases.

Councillor Sullivan requested that the universities verbalize their perception of their role with respect to the city. He noted that New Haven receives \$19 million per year to account for Yale's tax exempt status. Mr. Curry responded that the payment comes from the State of Connecticut.

Mr. Grogan noted a study done by a student for Frank Duehay several years ago that concluded that the assessed value of all of the real property in Cambridge is two times what one would expect if the universities were not here. He said that payment in-lieu-of-taxes (pilot) payments from Harvard relate to two items and related agreements: affiliate housing and some kind of "balance" or tipping payment with regards to use. The horizontal expansion of Harvard in Cambridge has been virtually nil in the last thirty years. The trigger for Harvard to consider increasing the pilot would be whether Harvard was eroding the city's tax base or increasing affiliate housing. Since neither of these are occurring, Harvard sees no basis for change.

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Councillor Sullivan said that Mr. Grogan's predecessor made the same statements with regard to an education partnership six years ago and it still has not happened.

Mr. Grogan stated that he was "unmoved by that statement."

Councillor Braude asked for more information about the history of in-lieu-of-tax payments. He noted that the problem with the targeted programs is that the university ultimately makes the decision about how the money is spent, instead of the body elected by the citizens to make policy decisions. That is a major difference with regard to the City Council's responsibility.

Councillor Decker said that Harvard and M.I.T. should contribute more. Residents and businesses have to increase their payments. All have to pay their fair share. Harvard's endowment is approximately \$18.3 billion. M.I.T.'s endowment is \$6.6 billion. Harvard's pilot represents 1/1000th of one percent of its endowment. She also noted M.I.T.'s recent purchase of Tech Square. She cautioned that threats are futile; they only increase tension.

Councillor Decker noted that only six million dollars of housing funds went directly to Cambridge. Mr. Grogan said that the other four million dollars will be made up by the intermediaries on Cambridge projects. Also the imputed value of the twenty-year loan at 2% is very significant. Mr. Grogan stated that the housing loan represents a spirit of consultation and cooperation between the city and the university.

Councillor Decker said that while the housing program is a commendable contribution by Harvard, it is not the equal of a pilot payment.

Councillor Decker then asked why M.I.T. doesn't have a written pilot agreement. Mr. Curry stated that he does not know the history. He has only been here for 2 1/2 years. However, going forward, MIT has agreed to have a written agreement.

Mr. Marsh said that M.I.T. takes a somewhat different approach when deciding on its investments. To M.I.T., it makes sense to invest in Cambridge.

Mr. Curry said that for the human genomes project, there are two centers, one is commercial; one is M.I.T. Eric Lander of the Whitehead Institute, who is central to the entire undertaking, is a member of the M.I.T. faculty. All the Whitehead principles are M.I.T. faculty. Thus, M.I.T. sees the Cambridge investment expenditures as one of their best investments.

Mr. Curry said that the model of the research university was developed after the war as a federally supported institution. Over the years, the federal funds have declined and the research is private. The capital to build research capabilities came from the federal government. Now it comes through gifts and/or debt. M.I.T. is using its present strength for debt financing. This is a dramatic change in financial structure.

Councillor Decker said that for her, it is an issue of fairness. An increased payment says to the community that the universities understand that costs are rising and are willing to do their fair share.

Councillor Sullivan said that he is less concerned about universities owning property for investments. He sees the advantages of local investors, with local maintenance of property. In the short term, Tech Square will increase in value while still on the tax rolls. But the flip side is the question of when enough is too much and the city can no longer afford additional non-tax paying properties in the city.

Councillor Sullivan asked whether M.I.T. has taken property off the tax rolls recently. Mr. Marsh said yes, but it has been more in the line of under-improved property.

Councillor Sullivan said the major properties MIT most recently purchased have been 1 Broadway, the TKT building (28 Osborn Street) and Tech Square. John Curry noted the benefits of M.I.T.'s investment and asked what is happening to the rest of the tax levy. Mr. Maloney said that they are going up at this time and the city is benefiting from M.I.T.'s investment but his most important question is what this will mean twenty years in the future. The city must continue to look at the long-term effects.

Mr. Healy noted M.I.T. and Harvard payments for sewer separation projects. He said that the Cambridgeport roadway project includes a two million-dollar investment by M.I.T. He also noted the Nora Theater project. Mr. Healy said that it is important to keep in mind that there are cash payments made by both institutions in addition to the in-lieu-of-tax payments.

Councillor Born said that these discussions reoccur every couple of years. The City Council is always trying to get more. The universities always claim that the Council does not appreciate how much the universities are contributing. Neither the City Council nor the City Manager gets to a particular figure or requested increase. The discussions are defensive and not very focused.

Mr. Healy said that the important part of the 1990 agreement with Harvard is the future protection. Now that the city has a defined course with M.I.T. and with Harvard, we are looking at partnerships in areas of City Council priority.

Mr. Grogan said that there is a focus to Harvard's part of the discussion with the City Council. That focus is affiliate housing and taking property off the tax rolls. Harvard does not see another basis for calculation of the pilot. Harvard is much more interested in partnership in particular projects. Harvard restraint in not expanding in thirty years and the red line agreement is implicit recognition of the basis of the pilot. No university in the country has made the kind of commitment to affordable housing that Harvard has made.

Councillor Born stated that the city should be trying to define a goal instead of having these conversations. She then added that with M.I.T., the question is somewhat different - is M.I.T.'s appetite for real estate insatiable? How much does M.I.T. plan to buy. All of East Cambridge?

Mr. Curry stated that there is a new emphasis on the quality of campus life for undergraduates, and M.I.T. has an interest in making these areas, such as along Massachusetts Avenue, more appealing.

Councillor Born asked whether M.I.T. believes it has to buy that area to accomplish this goal.

Councillor Born then asked Mr. Maloney how much the Lesley Ellis Preschool, Buckingham Browne and Nichols and Shady Hill pay the City in-lieu-of-taxes. Mr. Maloney said that they pay nothing.

Councillor Sullivan said he believes there is a need to reach an optimum number.

Councillor Braude said that it is important to pursue a fair payment from all of the tax-exempt institutions. He said that he believes the City Council should continue to explore increases in pilot payments both internally and with the universities. He suggested that the universities look at what the City Council has established as its priorities and talk to the City Council about whether and how they feel they can make some contribution.

Vice Mayor Maher said that if the tone of the conversation is going to change, all involved have to look forward, not back to history. He added that while Mr. Grogan mentioned that Harvard would prefer to invest in other ways, we are not really hearing what these other ways are.

Vice Mayor Maher noted the participation of the companies like Stride Rite, Lotus and Polaroid. They used to play a very significant role of not only generous support but also a role of modeling good corporate behavior. The city does not have that relationship with new companies. M.I.T. can help with this. Help bring other people to the table. Additionally, there is a need to educate communities about these new companies. He pointed to public toilets as another point for contribution. Also, the Office for Tourism and athletic facilities for Cambridge youth.

Councillor Decker asked how to get beyond egos and posturing to focus on substance. The onus is on both universities and the city government to commit to finding and focusing on the goals.

Councillor Toomey said these meeting each year are a waste of everyone's time. The pilot money is woefully inadequate. One day's interest on the endowment would be a fair and equitable agreement. If the universities agree to that, the parties won't have to see each other again.

Councillor Sullivan then invited public comment.

Elie Yarden, 143 Pleasant Street, said that the presence of Harvard and M.I.T. in this city is very important to him. This is not simply a town-gown conflict. The population of Cambridge is changing. Universities are talking in terms of very limited self-interest. Harvard has distanced itself from the city. The universities need to understand the causes of neighbor's frustration, for example, limited public access to our river. Also, the presence of Harvard and M.I.T. makes it difficult for the city to be a beneficiary of philanthropy. The universities are direct competition. He suggested the universities move to a broader definition of self-interest.

John Pitkin, Fayette Street, expressed disappointment in the universities focusing on their own self-interest instead of providing community leaders. Harvard and M.I.T. set the tone and their actions are key to getting other corporate citizens to act responsibly.

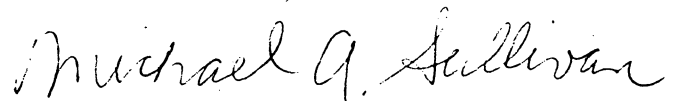
Councillor Sullivan said that the meetings are not a waste of time, but they always raise the question of whether it is worth the effort. The biggest issue is the future economic security of the city.

Councillor Sullivan invited closing comments from the universities. John Curry said that he looks forward to working with the city government.

Councillor Sullivan then thanked all those present for their attendance.

The meeting was adjourned at 8:25 p.m.

For the Committee,



Councillor Michael A. Sullivan
Chair





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CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager Richard C. Rossi, Deputy City Manager

February 13, 2001

TO: The Honorable Michael Sullivan, Chair, Finance Committee of the
 Cambridge City Council

FROM: Robert W. Healy, City Manager

SUBJECT: Cambridge In Lieu of Tax Program

The Current In Lieu of Tax Program

Each year, in January or February, the City Manager and the Director of Assessment jointly send a letter to each owner of property that is exempt from the property tax because of the owner's charitable status. This letter (copy attached to this report) asks the charitable owner for a contribution that is related to the area of land occupied by the organization. For FY2000 the requested amount was \$0.163 per square foot of land.

There are a number of exempt institutions that do not receive the request letter because they have an agreement with the City for a specified contribution amount or a particular formula contribution.

The Payment in Lieu of Tax Agreement between the City and Harvard, in effect since 1990, has four major components:

1. A payment tied to the gross income produced by Harvard's "Affiliated Housing" developments, specifically
 - Peabody Terraces
 - Haskins Hall
 - Holden Green
 - Shaler Lane
 - 29 Garden St.
 - 34-41 Kirkland St. and 18 Sumner Road
 - 8-10 Mt. Auburn St.
 - 10-20 DeWolfe St.

For FY2001, the amount of this component was \$889,234.



2. Voluntary payment less lodging house license fees (Harvard contends that it should be exempt from lodging house license fees.) The FY2001 net amount was \$361,028.
3. Continued payment of most recent tax amount of properties taken off the tax rolls since 1990. This payment was \$282,491 for FY2001.

At the present time, there is no agreement in place between the City and M.I.T. Like Harvard, M.I.T. has several affiliated housing buildings. The land area of these buildings' parcels is included in the total that is the basis for the annual in lieu request. In 2000, we sent the standard in lieu request letter to M.I.T. asking for \$1,099,146.16. The amount remitted by M.I.T. was \$1,046,974.05.

The chart below lists the in lieu of tax collections for 2000.

Cambridge Nursury School	\$ 756.48
CASCAP	\$ 5,293.26
CCAE	\$ 1,500.00
Harvard Crimson	\$ 1,400.17
Harvard University	\$1,632,491.00
Lincoln Institute	\$ 5,526.84
M.I.T.	\$1,046,974.05
Real Colegio Complutense	\$ 992.67
Rowland Institute	\$ 50,000.00
Shelter, Inc.	\$ 635.37
Vinfin	\$ 5,385.52
Weston College	\$ 5,794.00
Whitehead Institute	<u>\$ 362,213.09</u>
TOTAL IN LIEU PAYMENTS	\$3,486,519.47

Hypothetical Tax Amount if Harvard and M.I.T. Were Taxable

The question has been asked, what taxes would Harvard and M.I.T. be paying if they were not exempt? The question is not easily answered for a number of reasons; however, an attempt will be made as discussed below.

The Board of Assessors values exempt real estate by first applying the taxable land valuation tables to the land data (size, location, and zoning). Building values of tax exempt properties are updated every three years by comparing the assessed building values to the insurance values provided by the larger exempt organizations. For FY2001, the total assessed value of Harvard properties is \$2,335,289,995. The M.I.T. total value is \$1,089,865,100. It should be noted that these values have never been tested against the

market because there is no market. The properties are never made available for market transaction.

After acknowledging the uncertain accuracy of the values, another couple of issues should be identified. First, an unknown amount of building space owned by both institutions is dedicated to residential use and would be taxed at the residential rate, while the rest would be taxed at the commercial rate. For the purposes of this report, the City's equalized tax rate for FY2001, \$14.05 per thousand of valuation, will be used to estimate tax liability of the institutions. The equalized tax rate is what the tax rate would be if the City Council did not vote for classification and for two tax rates.

Second, buildings dedicated to religious activities and certain other charitable activities at both institutions would presumably continue to be exempt even if the educational or scientific exemption were to be revoked. This is probably a relatively small part of the portfolio of each institution. No adjustment will be made to account for these properties.

Hypothetical tax liability of Harvard and of M.I.T.:

Institution	Assessed Value	Tax Rate	Tax amount
Harvard University	2,335,289,995	\$14.05	\$32,810,810
M.I.T.	1,089,865,100	\$14.05	\$15,312,605

Historical Payments by Harvard and M.I.T.

The chart below shows Harvard's and M.I.T.'s payments in lieu of taxes for the five years prior to FY2000.

Fiscal Year	Harvard	M.I.T.
1995	\$ 1,287,783	\$ 872,896
1996	\$ 1,289,100	\$ 943,192
1997	\$ 1,361,565	\$ 969,974
1998	\$ 1,395,028	\$ 995,974
1999	\$ 1,488,597	\$ 1,020,099

In Lieu of Tax Programs in other Jurisdictions

A telephone survey was conducted of numerous other communities known as hosts to major universities. In general, State educational institutions do not contribute to their host communities. In New Hampshire, the local burden is alleviated somewhat by the non-exemption of dormitories. Connecticut actually makes a PILOT payment to all communities where educational institutions and nonprofit hospitals are located (New Haven receives a State PILOT of \$19,516,228 attributable to Yale). North Carolina also

has a reimbursement program that pays Chapel Hill \$850,000 for fire services to the University and to a State hospital in Chapel Hill.

Amherst, Massachusetts does not receive payments in lieu of taxes either from UMASS or from Amherst College. Likewise, Northampton is not the recipient of any contributions from Smith College. Medford and Somerville, Massachusetts have called the Cambridge assessors on numerous occasions seeking advice on how to initiate an in lieu of tax program with Tufts University, which does not make a contribution. Boston College makes a PILOT of \$100,000 annually to the City of Newton, Massachusetts. The Universities of Michigan, California, and North Carolina do not make payments in lieu of taxes. However, as noted above, the State of North Carolina contributes to fire services.

Cornell University entered into a thirteen year agreement with the town of Ithaca, New York in 1994 whereby a \$650,000 payment is made to the city annually. Ithaca is a city of 30,000 population, a city town budget of \$39 million, and a tax levy of \$7 million.

Princeton University is sandwiched between two New Jersey municipalities: Princeton Township and Princeton Borough. The University makes a \$30,734 annual contribution to Princeton Township. Princeton Township also receives \$100,000 annually from the Institute for Advanced Studies, an institution affiliated with Princeton University. Princeton Borough receives an annual PILOT of \$102,000. Additionally, Princeton contributed \$300,000 toward improvements made to the Borough Hall. The Princeton Borough annual budget is \$18 million.

By agreement, Yale University pays the City of New Haven 5.63% of that City's fire services budget. The FY01 payment amounted to \$2,102,100. As was mentioned above, New Haven also receives \$19.5 from the State of Connecticut for Yale's exempt property. New Haven is a City of 120,000 people, with an annual budget of \$338 million and a tax levy of \$152 million.



CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

FILE COPY

OFFICE OF THE ASSESSORS

January 24, 2000

LESLEY COLLEGE
PEAT MARWICK C/O P. BUSSE
1 BOSTON PL TAX DEPT 19TH FL
BOSTON MA 02108

Dear Tax Exempt Property Owner:

Beginning in 1972, every year the City of Cambridge has requested that owners of real estate which is exempt from local property taxes make an in lieu of tax payment. The amount requested is based on a formula which relates the costs of municipal services to land area. All Cambridge residents and businesses receive these services regardless of the taxable status of the property owner.

Fifty percent of the area of Cambridge is tax exempt. We believe that it is only fair to expect exempt property owners to make some contribution toward the costs of municipal services. All of us who reside, work, or study in Cambridge benefit either directly or indirectly from City services. The amount requested this year, \$0.163 per square foot of land area, is in no way comparable in magnitude to the payments made by taxable property owners; however, it is still a significant and appreciated contribution to the fiscal well-being of the City.

Your requested voluntary payment of \$64,517.68, based upon your occupancy of 395,814 square feet, should be made payable to the City of Cambridge, c/o Board of Assessors, City Hall, Cambridge, MA 02139.

To those who have made contributions in the past, we express our sincere appreciation and look forward to your continued participation as responsible members of the Cambridge community.

Very truly yours,

Robert W. Healy, City Manager

Sally Powers, Director of Assessment



CHARLES M. VEST, PRESIDENT

ROOM 3-208
77 MASSACHUSETTS AVENUE
CAMBRIDGE, MASSACHUSETTS 02139-4307
617-253-0148

February 7, 2001

Mr. Robert W. Healy
City Manager
City of Cambridge
795 Massachusetts Avenue
Cambridge, MA 02139-3201

Dear Mr. Healy:

Thank you for your January 23 letter expressing concerns about MIT's intention to purchase Technology Square, related matters of communication, PILOT, and real estate taxes. I am grateful that we had an opportunity to speak by phone on January 25 — the day that I received your letter — so that we could immediately begin to address the issues that you raised.

On January 30 you met with Assistant City Manager for Finance Jim Maloney, MIT Executive Vice President John Curry, and MIT Real Estate Managing Director Steve Marsh. I understand that this was helpful both in clarifying the circumstances surrounding MIT's interest in Technology Square and in defining the nature of the City's concerns about such a transaction.

The matter of communication with you and your office is of paramount importance to MIT and to me personally. Even though we were bound by a confidentiality agreement with the seller, we specifically negotiated an exception, allowing us to inform your office and Mayor Galluccio of the pending purchase within hours of the signing of the purchase and sales agreement and several weeks prior to a scheduled closing date.

For many years, we have been extremely fortunate to work with you in a relationship grounded in fairness and honesty and would never knowingly take an action that might jeopardize that relationship. I am greatly relieved that John and Steve were able to describe those components of the Technology Square transaction that led to the miscommunication cited in your letter. I sincerely hope that we can now put these matters behind us and move on to the financial issues that I know are important to you.

At this time I would like to advance three principles, which I believe might serve as a foundation for our joint good-faith efforts going forward. MIT will work diligently to develop:

- a mutually satisfactory PILOT agreement to be put in writing;

Mr. Robert W. Healy
February 7, 2001
Page 2

- mutually satisfactory terms for tax payments on Technology Square; and
- a mutually satisfactory methodology to help mitigate any material financial impacts incurred by MIT's legal removal of property from the tax rolls.

To move toward achieving these ends, I have asked John and Steve to work with you and your colleagues to arrive at specific agreements. I expect that they will act with deliberate speed, recognizing that they must secure the approval of the MIT Corporation before the agreements can be executed. In the meantime, we will have an opportunity for a thoughtful exchange with the City Council Finance Committee on February 13.

We at MIT care deeply about the health and future of this City and believe that our investment in Technology Square will be a very positive factor for the Cambridge economy. My staff and I are committed to working through these issues expeditiously to reach agreements acceptable to both parties.

Sincerely yours,



Charles M. Vest

CMV/smd

cc: Kathleen L. Born, City Councillor
Jim Braude, City Councillor
John R. Curry, Executive Vice President, MIT
Henrietta Davis, City Councillor
Marjorie C. Decker, City Councillor
Sarah E. Gallop, Co-Director, Government and Community Relations, MIT
Anthony D. Galluccio, Mayor
Thomas Lucey, Cambridge Chamber of Commerce
David P. Maher, Vice Mayor
James P. Maloney, Assistant City Manager/Finance
Steven Marsh, Managing Director, Real Estate, MIT
Sally Powers, Cambridge Director of Assessing
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Mr. Grogan stated that he was "unmoved by that statement."

Councillor Braude asked for more information about the history of in-lieu-of-tax payments. He noted that the problem with the targeted programs is that the university ultimately makes the decision about how the money is spent, instead of the body elected by the citizens to make policy decisions. That is a major difference with regard to the City Council's responsibility.

Councillor Decker said that Harvard and M.I.T. should contribute more. Residents and businesses have to increase their payments. All have to pay their fair share. Harvard's endowment is approximately \$18.3 billion. M.I.T.'s endowment is \$6.6 billion. Harvard's pilot represents 1/1000th of one percent of its endowment. She also noted M.I.T.'s recent purchase of Tech Square. She cautioned that threats are futile; they only increase tension.

Councillor Decker noted that only six million dollars of housing funds went directly to Cambridge. Mr. Grogan said that the other four million dollars will be made up by the intermediaries on Cambridge projects. Also the imputed value of the twenty-year loan at 2% is very significant. Mr. Grogan stated that the housing loan represents a spirit of consultation and cooperation between the city and the university.

Councillor Decker said that while the housing program is a commendable contribution by Harvard, it is not the equal of a pilot payment.

Councillor Decker then asked why M.I.T. doesn't have a written pilot agreement. Mr. Curry stated that he does not know the history. He has only been here for 2 1/2 years. However, going forward, MIT has agreed to have a written agreement.

Mr. Marsh said that M.I.T. takes a somewhat different approach when deciding on its investments. To M.I.T., it makes sense to invest in Cambridge.

Mr. Curry said that for the human genomes project, there are two centers, one is commercial; one is M.I.T. Eric Lander of the Whitehead Institute, who is central to the entire undertaking, is a member of the M.I.T. faculty. All the Whitehead principles are M.I.T. faculty. Thus, M.I.T. sees the Cambridge investment expenditures as one of their best investments.

Mr. Curry said that the model of the research university was developed after the war as a federally supported institution. Over the years, the federal funds have declined and the research is private. The capital to build research capabilities came from the federal government. Now it comes through gifts and/or debt. M.I.T. is using its present strength for debt financing. This is a dramatic change in financial structure.

Councillor Decker said that for her, it is an issue of fairness. An increased payment says to the community that the universities understand that costs are rising and are willing to do their fair share.

Councillor Sullivan said that he is less concerned about universities owning property for investments. He sees the advantages of local investors, with local maintenance of property. In the short term, Tech Square will increase in value while still on the tax rolls. But the flip side is the question of when enough is too much and the city can no longer afford additional non-tax paying properties in the city.

Councillor Sullivan asked whether M.I.T. has taken property off the tax rolls recently. Mr. Marsh said yes, but it has been more in the line of under-improved property.

Councillor Sullivan said the major properties MIT most recently purchased have been 1 Broadway, the TKT building (28 Osborn Street) and Tech Square. John Curry noted the benefits of M.I.T.'s investment and asked what is happening to the rest of the tax levy. Mr. Maloney said that they are going up at this time and the city is benefiting from M.I.T.'s investment but his most important question is what this will mean twenty years in the future. The city must continue to look at the long-term effects.

Mr. Healy noted M.I.T. and Harvard payments for sewer separation projects. He said that the Cambridgeport roadway project includes a two million-dollar investment by M.I.T. He also noted the Nora Theater project. Mr. Healy said that it is important to keep in mind that there are cash payments made by both institutions in addition to the in-lieu-of-tax payments.

Councillor Born said that these discussions reoccur every couple of years. The City Council is always trying to get more. The universities always claim that the Council does not appreciate how much the universities are contributing. Neither the City Council nor the City Manager gets to a particular figure or requested increase. The discussions are defensive and not very focused.

Mr. Healy said that the important part of the 1990 agreement with Harvard is the future protection. Now that the city has a defined course with M.I.T. and with Harvard, we are looking at partnerships in areas of City Council priority.

Mr. Grogan said that there is a focus to Harvard's part of the discussion with the City Council. That focus is affiliate housing and taking property off the tax rolls. Harvard does not see another basis for calculation of the pilot. Harvard is much more interested in partnership in particular projects. Harvard restraint in not expanding in thirty years and the red line agreement is implicit recognition of the basis of the pilot. No university in the country has made the kind of commitment to affordable housing that Harvard has made.

Councillor Born stated that the city should be trying to define a goal instead of having these conversations. She then added that with M.I.T., the question is somewhat different - is M.I.T.'s appetite for real estate insatiable? How much does M.I.T. plan to buy. All of East Cambridge?

Mr. Curry stated that there is a new emphasis on the quality of campus life for undergraduates, and M.I.T. has an interest in making these areas, such as along Massachusetts Avenue, more appealing.

Councillor Born asked whether M.I.T. believes it has to buy that area to accomplish this goal.

Councillor Born then asked Mr. Maloney how much the Lesley Ellis Preschool, Buckingham Browne and Nichols and Shady Hill pay the City in-lieu-of-taxes. Mr. Maloney said that they pay nothing.

Councillor Sullivan said he believes there is a need to reach an optimum number.

Councillor Braude said that it is important to pursue a fair payment from all of the tax-exempt institutions. He said that he believes the City Council should continue to explore increases in pilot payments both internally and with the universities. He suggested that the universities look at what the City Council has established as its priorities and talk to the City Council about whether and how they feel they can make some contribution.

Vice Mayor Maher said that if the tone of the conversation is going to change, all involved have to look forward, not back to history. He added that while Mr. Grogan mentioned that Harvard would prefer to invest in other ways, we are not really hearing what these other ways are.

Vice Mayor Maher noted the participation of the companies like Stride Rite, Lotus and Polaroid. They used to play a very significant role of not only generous support but also a role of modeling good corporate behavior. The city does not have that relationship with new companies. M.I.T. can help with this. Help bring other people to the table. Additionally, there is a need to educate communities about these new companies. He pointed to public toilets as another point for contribution. Also, the Office for Tourism and athletic facilities for Cambridge youth.

Councillor Decker asked how to get beyond egos and posturing to focus on substance. The onus is on both universities and the city government to commit to finding and focusing on the goals.

Councillor Toomey said these meeting each year are a waste of everyone's time. The pilot money is woefully inadequate. One day's interest on the endowment would be a fair and equitable agreement. If the universities agree to that, the parties won't have to see each other again.

Councillor Sullivan then invited public comment.

Elie Yarden, 143 Pleasant Street, said that the presence of Harvard and M.I.T. in this city is very important to him. This is not simply a town-gown conflict. The population of Cambridge is changing. Universities are talking in terms of very limited self-interest. Harvard has distanced itself from the city. The universities need to understand the causes of neighbor's frustration, for example, limited public access to our river. Also, the presence of Harvard and M.I.T. makes it difficult for the city to be a beneficiary of philanthropy. The universities are direct competition. He suggested the universities move to a broader definition of self-interest.

John Pitkin, Fayette Street, expressed disappointment in the universities focusing on their own self-interest instead of providing community leaders. Harvard and M.I.T. set the tone and their actions are key to getting other corporate citizens to act responsibly.

Councillor Sullivan said that the meetings are not a waste of time, but they always raise the question of whether it is worth the effort. The biggest issue is the future economic security of the city.

Councillor Sullivan invited closing comments from the universities. John Curry said that he looks forward to working with the city government.

Councillor Sullivan then thanked all those present for their attendance.

The meeting was adjourned at 8:25 p.m.

For the Committee,



Councillor Michael A. Sullivan
Chair





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CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager Richard C. Rossi, Deputy City Manager

February 13, 2001

TO: The Honorable Michael Sullivan, Chair, Finance Committee of the
 Cambridge City Council

FROM: Robert W. Healy, City Manager

SUBJECT: Cambridge In Lieu of Tax Program

The Current In Lieu of Tax Program

Each year, in January or February, the City Manager and the Director of Assessment jointly send a letter to each owner of property that is exempt from the property tax because of the owner's charitable status. This letter (copy attached to this report) asks the charitable owner for a contribution that is related to the area of land occupied by the organization. For FY2000 the requested amount was \$0.163 per square foot of land.

There are a number of exempt institutions that do not receive the request letter because they have an agreement with the City for a specified contribution amount or a particular formula contribution.

The Payment in Lieu of Tax Agreement between the City and Harvard, in effect since 1990, has four major components:

1. A payment tied to the gross income produced by Harvard's "Affiliated Housing" developments, specifically
 - Peabody Terraces
 - Haskins Hall
 - Holden Green
 - Shaler Lane
 - 29 Garden St.
 - 34-41 Kirkland St. and 18 Sumner Road
 - 8-10 Mt. Auburn St.
 - 10-20 DeWolfe St.

For FY2001, the amount of this component was \$889,234.



2. Voluntary payment less lodging house license fees (Harvard contends that it should be exempt from lodging house license fees.) The FY2001 net amount was \$361,028.
3. Continued payment of most recent tax amount of properties taken off the tax rolls since 1990. This payment was \$282,491 for FY2001.

At the present time, there is no agreement in place between the City and M.I.T. Like Harvard, M.I.T. has several affiliated housing buildings. The land area of these buildings' parcels is included in the total that is the basis for the annual in lieu request. In 2000, we sent the standard in lieu request letter to M.I.T. asking for \$1,099,146.16. The amount remitted by M.I.T. was \$1,046,974.05.

The chart below lists the in lieu of tax collections for 2000.

Cambridge Nursury School	\$ 756.48
CASCAP	\$ 5,293.26
CCAE	\$ 1,500.00
Harvard Crimson	\$ 1,400.17
Harvard University	\$1,632,491.00
Lincoln Institute	\$ 5,526.84
M.I.T.	\$1,046,974.05
Real Colegio Complutense	\$ 992.67
Rowland Institute	\$ 50,000.00
Shelter, Inc.	\$ 635.37
Vinfin	\$ 5,385.52
Weston College	\$ 5,794.00
Whitehead Institute	<u>\$ 362,213.09</u>
TOTAL IN LIEU PAYMENTS	\$3,486,519.47

Hypothetical Tax Amount if Harvard and M.I.T. Were Taxable

The question has been asked, what taxes would Harvard and M.I.T. be paying if they were not exempt? The question is not easily answered for a number of reasons; however, an attempt will be made as discussed below.

The Board of Assessors values exempt real estate by first applying the taxable land valuation tables to the land data (size, location, and zoning). Building values of tax exempt properties are updated every three years by comparing the assessed building values to the insurance values provided by the larger exempt organizations. For FY2001, the total assessed value of Harvard properties is \$2,335,289,995. The M.I.T. total value is \$1,089,865,100. It should be noted that these values have never been tested against the

market because there is no market. The properties are never made available for market transaction.

After acknowledging the uncertain accuracy of the values, another couple of issues should be identified. First, an unknown amount of building space owned by both institutions is dedicated to residential use and would be taxed at the residential rate, while the rest would be taxed at the commercial rate. For the purposes of this report, the City's equalized tax rate for FY2001, \$14.05 per thousand of valuation, will be used to estimate tax liability of the institutions. The equalized tax rate is what the tax rate would be if the City Council did not vote for classification and for two tax rates.

Second, buildings dedicated to religious activities and certain other charitable activities at both institutions would presumably continue to be exempt even if the educational or scientific exemption were to be revoked. This is probably a relatively small part of the portfolio of each institution. No adjustment will be made to account for these properties.

Hypothetical tax liability of Harvard and of M.I.T.:

Institution	Assessed Value	Tax Rate	Tax amount
Harvard University	2,335,289,995	\$14.05	\$32,810,810
M.I.T.	1,089,865,100	\$14.05	\$15,312,605

Historical Payments by Harvard and M.I.T.

The chart below shows Harvard's and M.I.T.'s payments in lieu of taxes for the five years prior to FY2000.

Fiscal Year	Harvard	M.I.T.
1995	\$ 1,287,783	\$ 872,896
1996	\$ 1,289,100	\$ 943,192
1997	\$ 1,361,565	\$ 969,974
1998	\$ 1,395,028	\$ 995,974
1999	\$ 1,488,597	\$ 1,020,099

In Lieu of Tax Programs in other Jurisdictions

A telephone survey was conducted of numerous other communities known as hosts to major universities. In general, State educational institutions do not contribute to their host communities. In New Hampshire, the local burden is alleviated somewhat by the non-exemption of dormitories. Connecticut actually makes a PILOT payment to all communities where educational institutions and nonprofit hospitals are located (New Haven receives a State PILOT of \$19,516,228 attributable to Yale). North Carolina also

has a reimbursement program that pays Chapel Hill \$850,000 for fire services to the University and to a State hospital in Chapel Hill.

Amherst, Massachusetts does not receive payments in lieu of taxes either from UMASS or from Amherst College. Likewise, Northampton is not the recipient of any contributions from Smith College. Medford and Somerville, Massachusetts have called the Cambridge assessors on numerous occasions seeking advice on how to initiate an in lieu of tax program with Tufts University, which does not make a contribution. Boston College makes a PILOT of \$100,000 annually to the City of Newton, Massachusetts. The Universities of Michigan, California, and North Carolina do not make payments in lieu of taxes. However, as noted above, the State of North Carolina contributes to fire services.

Cornell University entered into a thirteen year agreement with the town of Ithaca, New York in 1994 whereby a \$650,000 payment is made to the city annually. Ithaca is a city of 30,000 population, a city town budget of \$39 million, and a tax levy of \$7 million.

Princeton University is sandwiched between two New Jersey municipalities: Princeton Township and Princeton Borough. The University makes a \$30,734 annual contribution to Princeton Township. Princeton Township also receives \$100,000 annually from the Institute for Advanced Studies, an institution affiliated with Princeton University. Princeton Borough receives an annual PILOT of \$102,000. Additionally, Princeton contributed \$300,000 toward improvements made to the Borough Hall. The Princeton Borough annual budget is \$18 million.

By agreement, Yale University pays the City of New Haven 5.63% of that City's fire services budget. The FY01 payment amounted to \$2,102,100. As was mentioned above, New Haven also receives \$19.5 from the State of Connecticut for Yale's exempt property. New Haven is a City of 120,000 people, with an annual budget of \$338 million and a tax levy of \$152 million.



CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

FILE COPY

OFFICE OF THE ASSESSORS

January 24, 2000

LESLEY COLLEGE
PEAT MARWICK C/O P. BUSSE
1 BOSTON PL TAX DEPT 19TH FL
BOSTON MA 02108

Dear Tax Exempt Property Owner:

Beginning in 1972, every year the City of Cambridge has requested that owners of real estate which is exempt from local property taxes make an in lieu of tax payment. The amount requested is based on a formula which relates the costs of municipal services to land area. All Cambridge residents and businesses receive these services regardless of the taxable status of the property owner.

Fifty percent of the area of Cambridge is tax exempt. We believe that it is only fair to expect exempt property owners to make some contribution toward the costs of municipal services. All of us who reside, work, or study in Cambridge benefit either directly or indirectly from City services. The amount requested this year, \$0.163 per square foot of land area, is in no way comparable in magnitude to the payments made by taxable property owners; however, it is still a significant and appreciated contribution to the fiscal well-being of the City.

Your requested voluntary payment of \$64,517.68, based upon your occupancy of 395,814 square feet, should be made payable to the City of Cambridge, c/o Board of Assessors, City Hall, Cambridge, MA 02139.

To those who have made contributions in the past, we express our sincere appreciation and look forward to your continued participation as responsible members of the Cambridge community.

Very truly yours,

Robert W. Healy, City Manager

Sally Powers, Director of Assessment



CHARLES M. VEST, PRESIDENT

ROOM 3-208
77 MASSACHUSETTS AVENUE
CAMBRIDGE, MASSACHUSETTS 02139-4307
617-253-0148

February 7, 2001

Mr. Robert W. Healy
City Manager
City of Cambridge
795 Massachusetts Avenue
Cambridge, MA 02139-3201

Dear Mr. Healy:

Thank you for your January 23 letter expressing concerns about MIT's intention to purchase Technology Square, related matters of communication, PILOT, and real estate taxes. I am grateful that we had an opportunity to speak by phone on January 25 — the day that I received your letter — so that we could immediately begin to address the issues that you raised.

On January 30 you met with Assistant City Manager for Finance Jim Maloney, MIT Executive Vice President John Curry, and MIT Real Estate Managing Director Steve Marsh. I understand that this was helpful both in clarifying the circumstances surrounding MIT's interest in Technology Square and in defining the nature of the City's concerns about such a transaction.

The matter of communication with you and your office is of paramount importance to MIT and to me personally. Even though we were bound by a confidentiality agreement with the seller, we specifically negotiated an exception, allowing us to inform your office and Mayor Galluccio of the pending purchase within hours of the signing of the purchase and sales agreement and several weeks prior to a scheduled closing date.

For many years, we have been extremely fortunate to work with you in a relationship grounded in fairness and honesty and would never knowingly take an action that might jeopardize that relationship. I am greatly relieved that John and Steve were able to describe those components of the Technology Square transaction that led to the miscommunication cited in your letter. I sincerely hope that we can now put these matters behind us and move on to the financial issues that I know are important to you.

At this time I would like to advance three principles, which I believe might serve as a foundation for our joint good-faith efforts going forward. MIT will work diligently to develop:

- a mutually satisfactory PILOT agreement to be put in writing;

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Mr. Robert W. Healy
February 7, 2001
Page 2

- mutually satisfactory terms for tax payments on Technology Square; and
- a mutually satisfactory methodology to help mitigate any material financial impacts incurred by MIT's legal removal of property from the tax rolls.

To move toward achieving these ends, I have asked John and Steve to work with you and your colleagues to arrive at specific agreements. I expect that they will act with deliberate speed, recognizing that they must secure the approval of the MIT Corporation before the agreements can be executed. In the meantime, we will have an opportunity for a thoughtful exchange with the City Council Finance Committee on February 13.

We at MIT care deeply about the health and future of this City and believe that our investment in Technology Square will be a very positive factor for the Cambridge economy. My staff and I are committed to working through these issues expeditiously to reach agreements acceptable to both parties.

Sincerely yours,



Charles M. Vest

CMV/smd

cc: Kathleen L. Born, City Councillor
Jim Braude, City Councillor
John R. Curry, Executive Vice President, MIT
Henrietta Davis, City Councillor
Marjorie C. Decker, City Councillor
Sarah E. Gallop, Co-Director, Government and Community Relations, MIT
Anthony D. Galluccio, Mayor
Thomas Lucey, Cambridge Chamber of Commerce
David P. Maher, Vice Mayor
James P. Maloney, Assistant City Manager/Finance
Steven Marsh, Managing Director, Real Estate, MIT
Sally Powers, Cambridge Director of Assessing
Kenneth E. Reeves, City Councillor
Michael A. Sullivan, City Councillor
Timothy J. Toomey, Jr., City Councillor

City of Cambridge

FINANCE COMMITTEE MEMBERS

Councillor Michael A. Sullivan, Chair
Councillor Kathleen L. Born
Councillor Jim Braude
Councillor Henrietta Davis,
Councillor Marjorie C. Decker
Vice Mayor David P. Maher
Councillor Kenneth E. Reeves
Councillor Timothy J. Toomey, Jr.
Mayor Anthony D. Galluccio

In City Council February 26, 2001

The Finance Committee held a public meeting on February 13, 2001 beginning at 6:24 p.m. in the Sullivan Chamber for the purpose of discussing the in-lieu-of-property tax payments that the City receives from tax exempt institutions, particularly Harvard and M.I.T.

Present at the meeting were Councillor Michael A. Sullivan, Chair of the Committee, Vice Mayor David P. Maher, Councillor Kathleen L. Born, Councillor Jim Braude, Councillor Henrietta Davis, Councillor Marjorie Decker, Councillor Michael A. Sullivan, Councillor Timothy J. Toomey, Jr. and City Clerk D. Margaret Drury.

Also present were Robert W. Healy, City Manager; James P. Maloney, Assistant City Manager for Finance; Sally Powers, Executive Director of Assessing; John Curry, MIT Executive Vice President; Steve Marsh, MIT Real Estate Managing Director; Catherine Donaher, MIT; Sarah Gallop and Paul Parravano, Co-Directors of Government and Community Affairs, MIT; David Cohen, MIT; Kathy Spiegelman, Associate Vice President for Planning and Real Estate, Harvard University; Paul Grogan, Vice President of Community and Public Affairs, Harvard University; Mary Powers, Senior Director of Community and Public Affairs, Harvard University; and Jane Corlette, Associate Vice President for Government and Community Affairs, Harvard University.

Councillor Sullivan convened the hearing and explained the purpose. He requested that all present introduce themselves.

Councillor Sullivan then explained the genesis of this meeting in a Finance Committee meeting held for the purpose of preliminary budget discussions. He invited Robert W. Healy to begin the discussion.

Mr. Healy distributed a memorandum on the Cambridge In Lieu of Tax Program (Attachment A) and outlined the current agreement.

He noted that the memo lists other smaller in-lieu-of-tax payments made by other nonprofit entities, for example, Whitehead Institute pays \$362,213. Mr. Healy also mentioned that the memo includes information about taxes paid by tax exempt entities in other jurisdictions. Most are significantly less than the amount Cambridge received from M.I.T. or Harvard University.

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Committee Report #3

Committee Report from Councillor Michael A. Sullivan, Chair of the Finance Committee for a meeting held on February 13, 2001 for the purpose of discussing the in-lieu-of-property tax payments that the City receives from tax exempt institutions, particularly Harvard and M.I.T.

In City Council February 26, 2001

Report Accepted.

PLACED ON FILE

ORDER ADOPTED

*See Policy Order
#8*