



**Written Testimony Before the Boston City Council**

**Committee on Ways & Means Docket #7021**

**Jim Klocke, CEO, Massachusetts Nonprofit Network**

**August 2, 2018**

Chairman Ciommo and members of the Boston City Council, thank you for the opportunity to testify at today's hearing. My name is Jim Klocke, and I am the CEO of the Massachusetts Nonprofit Network (MNN), the Commonwealth's nonprofit association. MNN would first like to note four points important to this conversation:

- In partnership with local, state, and the federal government, nonprofits provide essential services that contribute to the public good and help our most vulnerable residents. In turn, under long established federal and state law, nonprofits are given a tax-exempt designation, recognizing the common good nonprofits bring to the communities they serve.
- Charitable nonprofits of all sizes provide services and programs that benefit residents and neighborhoods across Boston and the Commonwealth. These nonprofits are often providing services or running programs that local or state government would have to provide absent the nonprofit.
- Nonprofit organizations own 22% of the tax-exempt property in Boston, and the remaining 78% of tax-exempt property is government-owned. Tax-exempt real property in Boston represents 52% of all land area in the City.
- In 2018, the City of Boston received \$33.6 million in voluntary cash payments from nonprofits, an increase from last year. This figure does not include the invaluable partnerships, programs, and community benefits that nonprofits provide across the City.

MNN is the voice of the nonprofit sector and a statewide organization that brings together all parts of the nonprofit ecosystem—nonprofits, funders, community and business leaders, and elected officials—to strengthen nonprofits and raise the sector's voice on critical issues. MNN has over 800 members from across the state and from all subsectors of the nonprofit world, including hundreds here in Boston.

It is important to highlight the vital partnership between the City of Boston and nonprofit organizations that serve residents across the City. Nonprofits in Boston are key partners in improving communities,

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helping to drive Boston's economy, and making the City a cultural destination. Nonprofits are also there when residents of the City need them, providing critical assistance and investing in the communities they serve, in ways that are not always publicized.

The remainder of MNN's testimony focuses on three areas: (1) the breadth and the depth of the nonprofit sector; (2) the ongoing fiscal and public policy challenges facing nonprofits; and (3) key factors for the Council to consider related to Boston's PILOT program.

#### Background on the Nonprofit Sector:

The nonprofit sector enriches communities and provides vital services across Boston and the Commonwealth. Nonprofits work in close partnership with local, state, and federal governments on many of the Commonwealth's most pressing challenges related to health, education, environment, economic development, and quality of life.

The Commonwealth's nonprofit sector has an economic reach that can be felt across the state, including here in Boston. With over 540,000 jobs, the nonprofit sector employs more than 17% of the state's workforce, making Massachusetts the sixth largest nonprofit employer in the nation. With over \$30 billion in wages paid by nonprofits each year, and spending by nonprofits, the sector generates billions of dollars of tax revenues annually that support all levels of government.

While private and government support is critical to nonprofits, individual donations are the most common type of funding among Massachusetts nonprofits. In our last member survey, 82% of our members reported relying upon individual donations, a higher percentage than those who reported relying on foundation, corporate or government support.

#### Ongoing challenges impacting the nonprofit sector:

Last year the federal government passed a massive tax reform bill. While the bill was a tax cut for corporations and many individuals, it created new taxes on tax-exempt organizations and it presents ongoing fiscal challenges for the nonprofit sector.

The federal tax bill will significantly change the way that millions of middle-income Americans file their taxes, and in turn, donate to nonprofits. The cost of donating will increase by 28% for nearly all middle-income donors, an increase that will harm charitable giving. National studies have estimated that the new tax reform law will reduce charitable giving by \$13 to \$20 billion annually, with our own study predicting it will reduce giving in Massachusetts by up to \$500 million per year. To pay for some of the tax cuts, the federal tax bill creates new taxes on tax-exempt organizations. As a result, some nonprofits will face significant new costs that take resources away from mission-related services and programs.

Simply put, the federal tax bill will make it harder for all types of Massachusetts nonprofits to operate - small, medium, and large alike. In addition, these fiscal challenges are coming at a time when the demands for assistance and services from nonprofits are increasing.

Factors to consider in relation to PILOTs:

As the Council thinks about Boston's PILOT program, a program that is generating millions in additional revenue to the City while balancing the need for a strong nonprofit sector in Boston, MNN asks that the following factors be kept in mind:

- **Nonprofits are tax-exempt entities:** Nonprofits are mission driven organizations. They contribute to the public good, provide services that government would have to provide absent the nonprofit, and re-invest any revenue surplus back into their budgets to further their mission. As such, nonprofits are treated differently under federal and state laws, including receiving tax-exempt status.
- **Nonprofits are the cornerstones of Massachusetts communities:** The nonprofit sector enriches neighborhoods and provides vital services. From scholarships for local students, to free and subsidized health care, to a wide array of environmental, artistic, historic, and cultural programs, nonprofits make immense contributions that benefit residents and government alike. These community benefits contributions result in many millions of dollars worth of free or subsidized services each year. In addition, community benefits tend to be uniquely tailored to the needs of particular populations within a community related to the nonprofit's mission.
- **Nonprofit financials:** PILOT conversations can sometimes equate the size of a nonprofit or the value of a nonprofit's property with the availability of unrestricted funds. Many nonprofits that are fortunate enough to own property often find that some of their funds are restricted by donor intent or earmarked for specific programs/services. The financial pictures for many nonprofits are often more complex than an initial glance at a balance sheet might suggest.
- **Uniqueness of Boston's PILOT Program:** The PILOT model currently in place in Boston is recognized across the country as one of the most successful PILOT programs. It was created with input from the public, stakeholders, and government officials. The model enables community benefits and partnerships to be flexible, tailored to local needs, and cognizant of the voluntary nature of the system.

MNN is aware that many of the fiscal challenges and constraints faced by Boston are shared by municipalities and nonprofits alike. As a sector that works collaboratively with government throughout the City, nonprofits want to build on these partnerships to ensure that every Bostonian has access to programs and services that improve their quality of life.

Mr. Chairman and Committee members, thank you for having us at today's hearing. We want to keep working with you and Mayor Walsh and his team to ensure that the nonprofit sector in Boston remains strong and vibrant. I am happy to answer any questions you might have. And, as always, we appreciate your continued support of the nonprofit sector.