

Intro to Financial Agreements (aka PILOTS)

Chatham, NJ

October 15, 2019

Redevelopment Curriculum

RDV 101: Preliminary Investigations

RDV 201: Redevelopment Planning

RDV 301: Financial Agreements

RDV 401: Redevelopment Agreements

Why PILOTs

Mutual Benefits

- PILOTs can improve both the project's financial feasibility and the municipality's tax revenue stream
- Payment grows over time – lower during stabilization, supporting project feasibility
- Ongoing transparency – annual audited financial statements
- Projects achieve area redevelopment goals

Why PILOTs

Municipal Benefits

- Promotes development in areas “In Need of Redevelopment”
- Allow for projects not otherwise financially feasible.
- Can provide greater revenues to municipality than traditional taxes
- Potential to negotiate better public givebacks
- Facilitates affordable housing
- If market is stronger than expected, municipality shares in market upside.

Developers Benefits

- Typically less than traditional taxes
- More stability, predictability and certainty than traditional taxes
- Inability to fully lease up or realize market rents decrease, not burdened with a fixed tax obligation

BUT FOR: Key Component

For a project to qualify for a PILOT, it must demonstrate that the project would not happen **BUT FOR** the negotiation of a financial agreement with the Borough.

Hypothetical Example:

- Existing Tax Revenue: \$25,000
- PILOT Tax Revenue: \$75,000
- Without PILOT: \$25,000
 - No project; no additional revenue

The Basics

Ad Valorem Taxes = Assessed Value x Tax Rate

Payment-In-Lieu-of-Taxes (PILOT): Long Term Tax Exemptions

- Up to 30 years from project completion or 35 years from agreement execution
- Tax exemptions may be granted to projects in areas designated as being "In Need of Redevelopment"
- Projects will pay an Annual Service Charge (known as a PILOT) instead of taxes.

Annual Service Charge (PILOT)

- ASC paid instead of taxes:
 - no less than 10% of annual gross revenue (AGR); or
 - no less than 2% of the total project cost.
- Administrative Fee: no more than 2% of ASC
- Minimum ASC increases throughout life of PILOT

Stage	Length (Years)	% of Taxes Otherwise Due
1	6 to 15	0%
2	1 to 6	20%
3	1 to 6	40%
4	1 to 6	60%
5	1+	80%

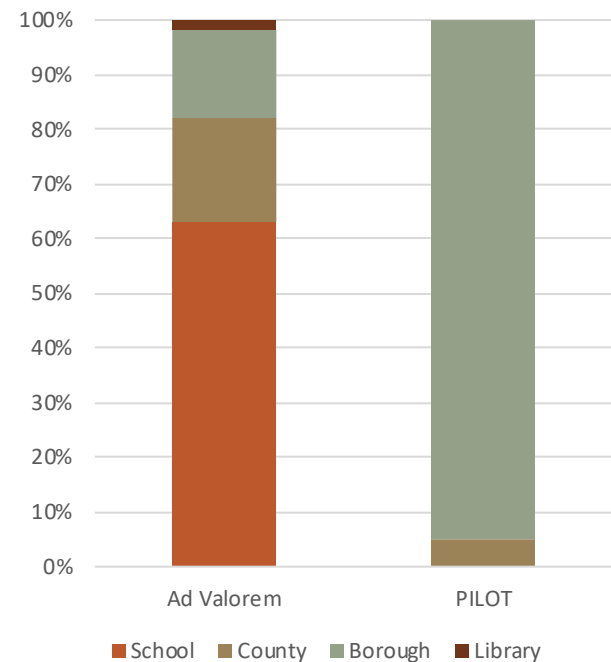
Ad Valorem vs. PILOT Revenue

Ad Valorem tax revenue is split among:

- Library (2%)
- County (16%)
- Borough (19%)
- School District (63%)

Revenue from PILOT is split between:

- County (5%)
- Municipality (95%)^{***}



^{***} Municipality may direct money to school district + library.

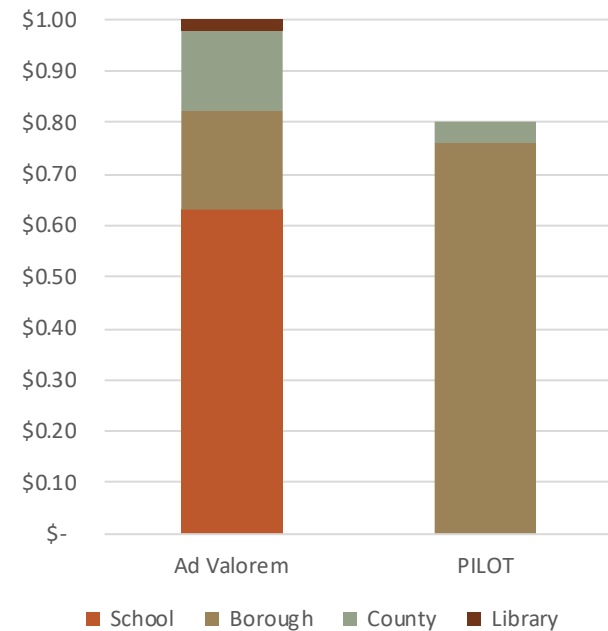
Ad Valorem vs. PILOT Revenue

Ad Valorem tax revenue is split among:

- Library (\$0.02)
- County (\$0.16)
- Borough (\$0.19)
- School District (\$0.63)

Revenue from PILOT is split between:

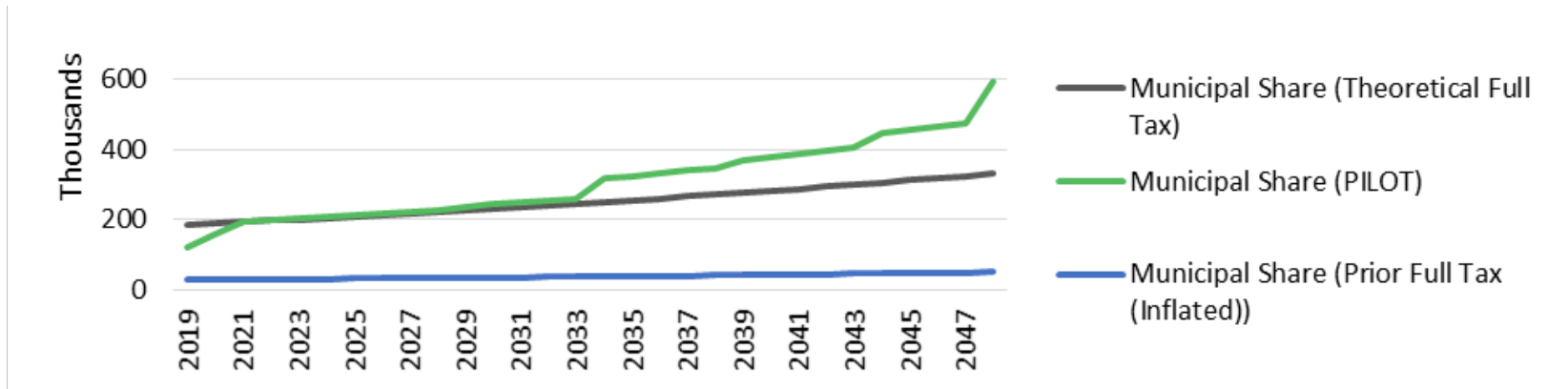
- County (\$0.04)
- Municipality (\$0.76)***



*** Municipality may direct money to school district + library.

Example PILOT Agreement

Comparison of revenues under standard property taxes (gray), proposed PILOT (green), and with no redevelopment (blue).



Questions

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