

Overview of PILOTS

The Budgeted Distribution of Local Taxes



School 57.99%



Town 29.69%



County 12.33%

The Budget

The myth about school budget and its funding.

The BOE gets its fixed share of each dollar received – not true.

It only receives the budgeted amount.

Once a school budget is adopted by the BOE it is submitted to the Borough.

If it is within the allowed State limits it is incorporated into the Borough Budget.

Once included in the Borough Budget – the Borough HAS to pay the BOE this amount.

This is the law!

If the Borough does not or cannot raise the required amount by taxation,
it has to raise or provide the money some other way.

Some of the more common ways are reducing services and other non-life safety items.

PILOT's allow a municipality to provide additional funds to the budget to support from
Property's that are underperforming by allowing them to be redeveloped into more
Productive uses.

How is a PILOT different from Property Taxes?

- Taxes are based on an assessment of what that property is worth today and can vary from year to year depending upon that assessment and the current tax rate.
- The assessment and local taxes are divided into two parts, land and improvements.
- With a PILOT, the land tax continues to be paid in the normal manner. (It should be noted that the land tax portion will probably increase as the total assessed value of the property will increase when the new project is completed).
- Payments under a PILOT are designed to be a stable identifiable revenue over time.
- PILOTs can be based on 2% of the total cost of construction of the project, a % of what regular taxes would be, or more commonly a % of the project's annual gross revenue or income, a minimum of 10% and a maximum of 15%.
- By basing the PILOT payments on the project's revenues, the municipality shares in the success of the project as rents typically increase over time. PILOTs can have a term of no more than 30 years from issuance of a CO.
- Further, PILOT payments can be designed to increase in percentage over time.

What effect do PILOT's have on property tax?

PILOT's help stabilize the property tax burden on all of the community's taxpayers by generating new revenue that would otherwise not exist.

- While not a tax in the traditional sense, a PILOT does increase revenue to the municipality significantly and allows for better budget planning as long-term income can be accurately estimated over the term of the PILOT.
- PILOT revenues are consistent as in most cases they are based on the income the improvement generates from rents and other income sources.
- This revenue is far more reliable and permits a municipality to develop long term budgeting goals.

WHY?

- New development generates new sources of revenue (PILOT Fee's) from the day a Certificate of Occupancy is issued.
- New development helps to increase all property values .

Explanation of a Long Term Tax Abatement (PILOT)

- LTTA's were created by the State to encourage growth in areas that have significant challenges to development, to help create a new revenue stream.
 - ✓ The municipality has to determine if an area meets the requirements of an "area in need of redevelopment"
 - ✓ If it is, the municipality must declare it by resolution
 - ✓ A Redevelopment Plan that conforms to the "Local Housing and Redevelopment Law" must be prepared and approved by ordinance
- A PILOT of this type can only be offered in a designated Redevelopment Area
- PILOT's are designed to incentivize redevelopers to undertake projects in these areas
- Projects in "these" areas are typically more expensive to develop due to their prior use
 - ✓ They may need significant environmental clean up
 - ✓ They may need major infrastructure improvements
- The municipality bases its decision on the "But For" test!
 - ✓ The "But For" test is; if a PILOT is not offered, will the redeveloper construct the project or go to a community that does offer them.

Benefits of a PILOT to a Municipality

1. Offers an identifiable cash flow over an identified number of years
2. Owner cannot make a tax appeal to reduce payments as it is not a tax
3. Redeveloper and Municipality enter into a financial agreement that details the project and details the terms of the PILOT, includes performance and penalty items.
4. PILOT service fee's do not affect or reduce a municipality's State Aid
5. May have built in escalators.
6. Service fee's (payment) can increase over time due to inflation

Benefits of a PILOT to a Developer

1. Identifies costs over a long time frame – PILOT duration
2. Financial Institutions favor a fixed financial structure for loans
 - ✓ In many instances this is the only way to finance a project in built out areas
3. Provides an offset to typically higher construction and other costs of project

2024 Estimated PILOT's

		"If" taxed share
The Edge	\$735,000	\$485,642
Cobalt	\$240,000	\$196,731
6 N Doughty	\$32,000	\$31,014
SOMA	\$110,000	\$109,604
The Commons	\$54,000	\$120,164
The Davenport	\$85,000	\$111,304
Parcview/40 Hayne	\$200,000	\$140,284
Station House	\$205,000	\$230,548
Pulte	\$480,000	\$515,366
Avalon Bay	\$890,000	\$87,289
<u>Total 2024</u>	<u>\$3,749,000</u>	<u>\$2,073,770</u>

Borough Land Tax Share \$489,690

Total Borough Net \$4,238,690

Revenue Comparison – Borough Share vs Pilot

Revenue Comparison taxes vs PILOT for duration of PILOT						Change vs
Developer	Reg Taxes+	Boro Revenue	over duration	Years	Net PILOT Revenue	share of reg Tax
The Edge	\$1,670,022	\$485,642	\$14,569,260	30	\$24,760,287	\$10,191,027
Cobalt	\$676,517	\$196,731	\$4,918,275	25	\$8,881,455	\$3,963,180
SOMA	\$376,906	\$109,604	\$2,740,100	25	\$5,066,279	\$2,326,179
Somerville Commons	\$413,218	\$120,164	\$301,635	25	\$1,282,500	\$980,865
6 South Doughty	\$106,651	\$31,014	\$775,350	25	\$1,402,509	\$627,159
The Davenport	\$382,752	\$111,304	\$2,782,600	25	\$4,150,669	\$1,368,069
40 Haynes	\$482,407	\$140,284	\$375,327	27	\$13,479,075	\$13,103,748
Station House	\$792,808	\$230,548	\$5,763,700	25	\$7,630,875	\$1,867,175
TFE	\$157,570	\$45,821	\$1,145,525	25	\$4,583,750	\$3,438,225
Pulte	\$1,772,237	\$515,366	\$10,307,320	20	\$15,390,000	\$5,082,680
AvalonBay	\$300,170	\$87,289	\$2,618,670	30	\$38,486,685	\$35,868,015
Sub Total	\$7,131,258	\$2,073,767	\$46,297,762		\$125,114,083	\$78,816,321
Land Tax Only	NA	NA	NA		\$42,562,699	
Revenue Totals			\$46,297,762		\$167,676,783	\$121,379,021

Explanation

+Phoenix

Developer

Name of developer or Development

Reg Taxes

Regular annual taxes paid if no PILOT beginning and subject to normal distribution

Boro Revenue

Borough share of regular annual taxes subject to normal distribution

Borough rev - over duration

Regular Borough share of taxes that would be paid over the time period of the PILOT

Net PILOT Revenue

Total estimated NET PILOT paid to the Borough after credits. Estimated at the time of Financial Agreement

Change vs share of reg Tax

Difference between what the regular taxes would be and the PILOT revenue over the duration of the PILOT

The important part

- A. The borough can use “other” sources of income to help fund the budget
- B. These other sources can include Redevelopment PILOT revenues

The Benefits

- A. Income from residential taxes is stabilized over time
- B. School budget is funded without having to go into debt
- C. Borough receives a non-tax boost in income
- D. School can still receive State Aid
- E. The existing PILOT projects are estimated to inject between \$74 and \$104 million in new personal expenditure into the local economy each year.

In Closing

PILOT's are a part of a comprehensive set of Redevelopment objectives that help:

- Revitalize the local area
- Add competition without cannibalization
- Create new sources of revenue to stabilize property taxes through negotiating PILOT's that benefit the community

Thank You