# Borough of Roseland

## 2017 PILOT Forum

September 19, 2017

# PILOT Overview

# What is a PILOT?

- A PILOT = payment in lieu of tax
  - Payment property owner makes to the Borough rather than paying conventional real estate taxes on the improved portion of their property
    - Owner still pays conventional real estate taxes on the land portion
  - Municipal lien
  - Collected same as property taxes
  - Payments revert to conventional taxes upon expiration of financial agreement

# Determining the Need for a PILOT

- Attract private investment within the municipality by offering an alternative to conventional taxes
  - A predictable tax line item in a developer's proforma is more attractive to investors
- Redevelopment projects are frequently infeasible without PILOT assistance or, in some cases, bond financing.
- Conventional tax scenario
  - Net income often does not generate adequate coverage ratios to obtain bank financing.
  - This often results in unsatisfactory ROIs which preclude equity contributions from redevelopers.
- Stimulus for local economy
- The term normally 30 years
- Helps offset cost of developing low/moderate income housing

# Statutory Authority for PILOTs

- **Long Term Tax Exemption Law – *N.J.S.A.* 40A:20-1 *et seq.***

  A municipality may enter into a financial agreement providing for a long term tax exemption for purposes of redevelopment or the development of low or moderate income housing.

- **Redevelopment Area Bond Financing Law – *N.J.S.A.* 12A:65 *et seq.***

  A municipality may enter into a financial agreement providing for a tax exemption for redevelopment projects financed with bonds.

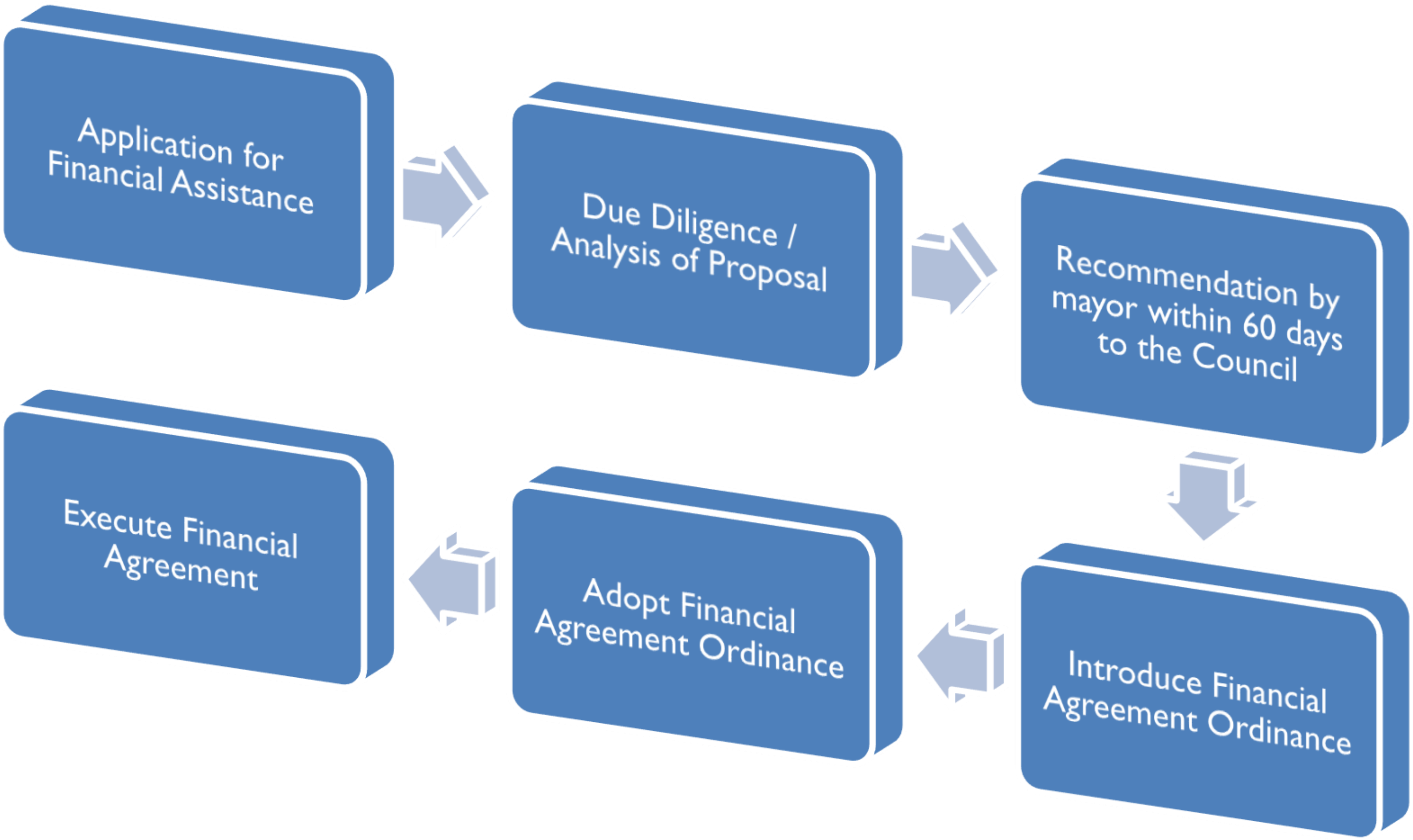
- **Housing and Mortgage Finance Agency Law – *N.J.S.A.* 55:14K-37**

  A municipality, in which a housing project financed or to be financed by the Housing and Mortgage Finance Agency is or is to be located, may enter into a financial agreement for payments to the municipality in lieu of taxes for municipal services.

# The Road to PILOTs

- Determining the need
- Analysis of application
- Analysis of benefits and costs of the PILOT
- Negotiating terms
- Local government holds hearings and votes at meetings open to the public
- PILOT structured in accordance with the Long Term Tax Exemption Law – including protections such as minimum payment requirements

# Process



Application for Financial Assistance
Due Diligence / Analysis of Proposal
Recommendation by mayor within 60 days to the Council
Introduce Financial Agreement Ordinance
Adopt Financial Agreement Ordinance
Execute Financial Agreement

# Common Misconceptions

- PILOT = No Taxes
  - *Under a PILOT agreement the property owner is still paying taxes, they are simply calculated in a different manner.*
- Under a PILOT, the Borough receives significantly less revenue than under conventional taxes
  - *The amount received through the PILOT is often equal to or more than the amount the City would receive under conventional taxes.*
- PILOT = Rebate
- The additional costs of services associated with the project outweigh the PILOT revenue
- Offering a tax abatement raises the property taxes of other Borough residents
  - **A PILOT does not impact costs to current taxpayers**

# Some Municipalities that Utilize PILOTs

| Asbury Park | Harrison | Long Branch | Rahway |
|---|---|---|---|
| Homdel | Montclair | Union City | Bloomfield |
| Morristown | Weehawken | Fort Lee | Linden |
| Bayonne | Newark | Jersey City | West Orange |

# Sample Project Analysis
## PILOT Revenues v. Conventional Taxes

# Determining Assessed Value

| Sample Project | Stabilized Year |
|---|---|
| | |
| Annual Gross Revenues | $4,000,000 |
| Annual Operating Expenses | 850,000 |
| Net Operating Income | $3,150,000 |
| | |
| Cap Rate | 6.500% |
| Effective Tax Rate | 2.074% |
| Full Cap Rate | 8.574% |
| | |
| Market Value | $36,738,978 |
| Equalization Ratio | 93.93% |
| Assessed Value | $34,508,922 |

Notes:
Revenues based on sample project
Operating Expenses set at 20% of Gross Revenues (not including taxes)

# Calculating Conventional Taxes

Total Assessed Value: $34,508,922
Land Value: $ 5,176,338 (set at 15% of total assessment)
Improvements: $29,332,583

| Taxing Entity | 2016 Tax Rate | Improvements Taxes | Land Taxes | Total Taxes |
|---|---|---|---|---|
| | | | | |
| County | 0.541 | $158,689.28 | $ 28,003.99 | $ 186,693.27 |
| County Open Space | 0.016 | 4,693.21 | 828.21 | 5,521.43 |
| Local School District | 0.482 | 141,383.05 | 24,949.95 | 166,333.01 |
| Regional & Joint School District | 0.554 | 162,502.52 | 28,676.91 | 191,179.43 |
| Municipal | 0.570 | 167,195.73 | 29,505.13 | 196,700.86 |
| Municipal Open Space | 0.020 | 5,866.52 | 1,035.27 | 6,901.78 |
| Municipal Library | 0.035 | 10,266.40 | 1,811.72 | 12,078.12 |
| | | | | |
| **Total Taxes** | **2.218** | **$650,596.71** | **$114,811.18** | **$765,407.90** |

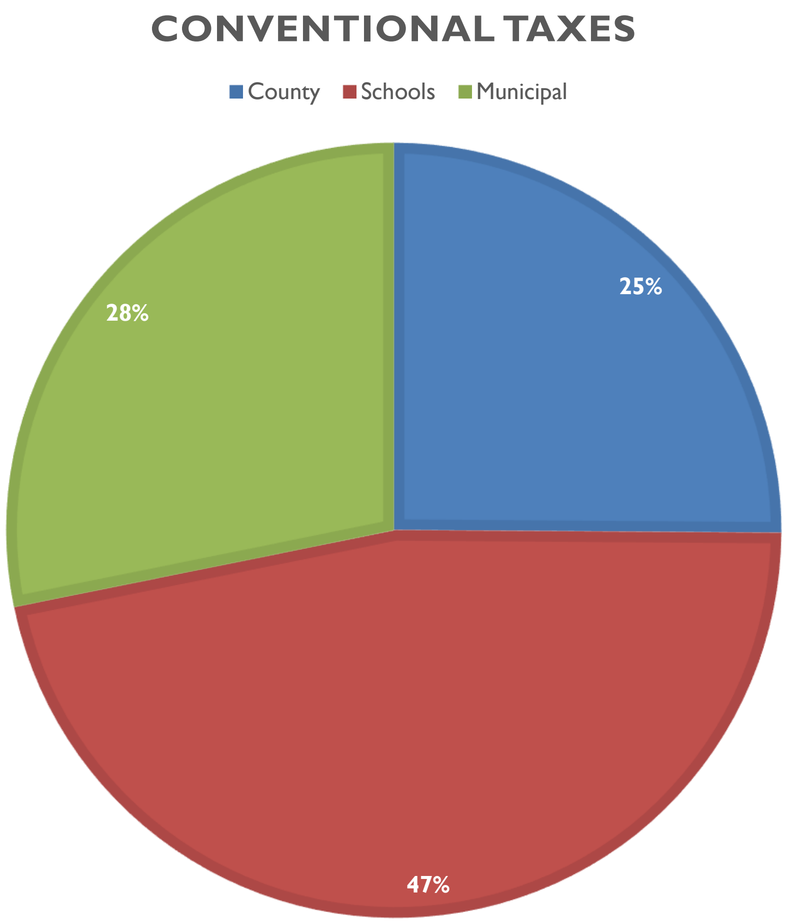
# PILOT Calculation

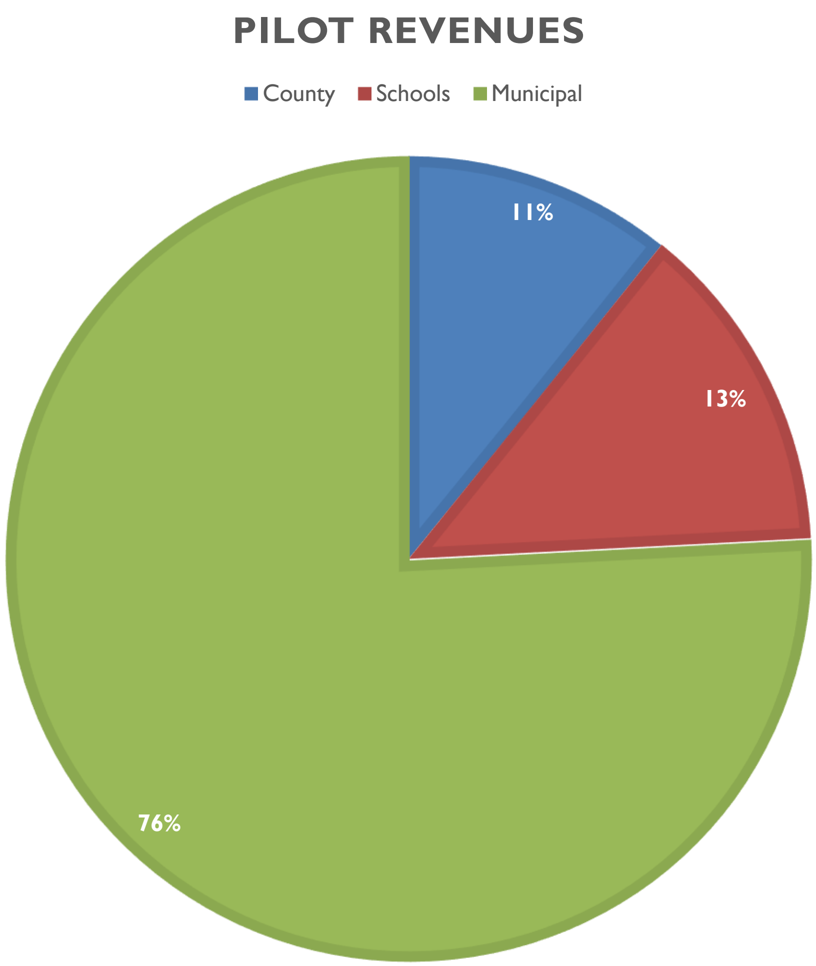
| Component | Stabilized Year |
| --- | ---: |
| Annual Gross Revenues | $ 4,000,000 |
| Gross PILOT (10.0% of Annual Gross Revenues(AGR)) | 400,000 |
| | |
| Land Tax Split: | |
| County | $ 28,003.99 |
| County Open Space | 828.21 |
| Local School District | 24,949.95 |
| Regional and Joint School District | 28,676.91 |
| Municipal | 29,505.13 |
| Municipal Open Space | 1,035.27 |
| Municipal Library | 1,811.72 |
| Total | $114,811.18 |
| | |
| County Share (5%) | $14,259.44 |
| | |
| Net PILOT | $ 270,929.37 |
| Municipal Share of Land Tax | 32,352.11 |
| School Share of Land Tax | 53,626.87 |
| **Total Benefit to Roseland Taxpayers** | **$ 356,908.35** |

# Comparison of Tax Breakdown

| | Percentage of Revenue | Revenue | Percentage of Revenue | Revenue |
|---|---|---|---|---|
| | Conventional Taxes | | PILOT Revenue | |
| | | | | |
| County | 25% | $ 192,214.70 | 6% | $ 43,091.65 |
| Schools | 47% | 357,512.44 | 7% | 53,626.87 |
| Municipal | 28% | 215,680.76 | 40% | 303,281.49 |
| **Total Payments** | | **$ 765,407.90** | | **$ 400,000.00** |

# Distribution of Revenue



# Redevelopment Area Bonds (RABs)

# What is a RAB?

- A tool to provide "gap financing", repaid by Annual Service Charge (ASC) (a/k/a PILOTs) in order to encourage a project that "but for" the municipal participation would not be feasible

- Payments will be made from incremental municipal revenues that occur as a result of the redevelopment: PILOTs and other taxes that may be generated

- General Obligation Bonds of the City, supported by municipal taxes and the City's credit, are utilized to create a cost of funds that allows the project to proceed and the City to generate revenues in excess of its costs

# Minimizing Risks

- Annual Service Charge is structured such that stabilized project revenues to City will exceed the debt service on the RAB and provide excess funds for the Borough

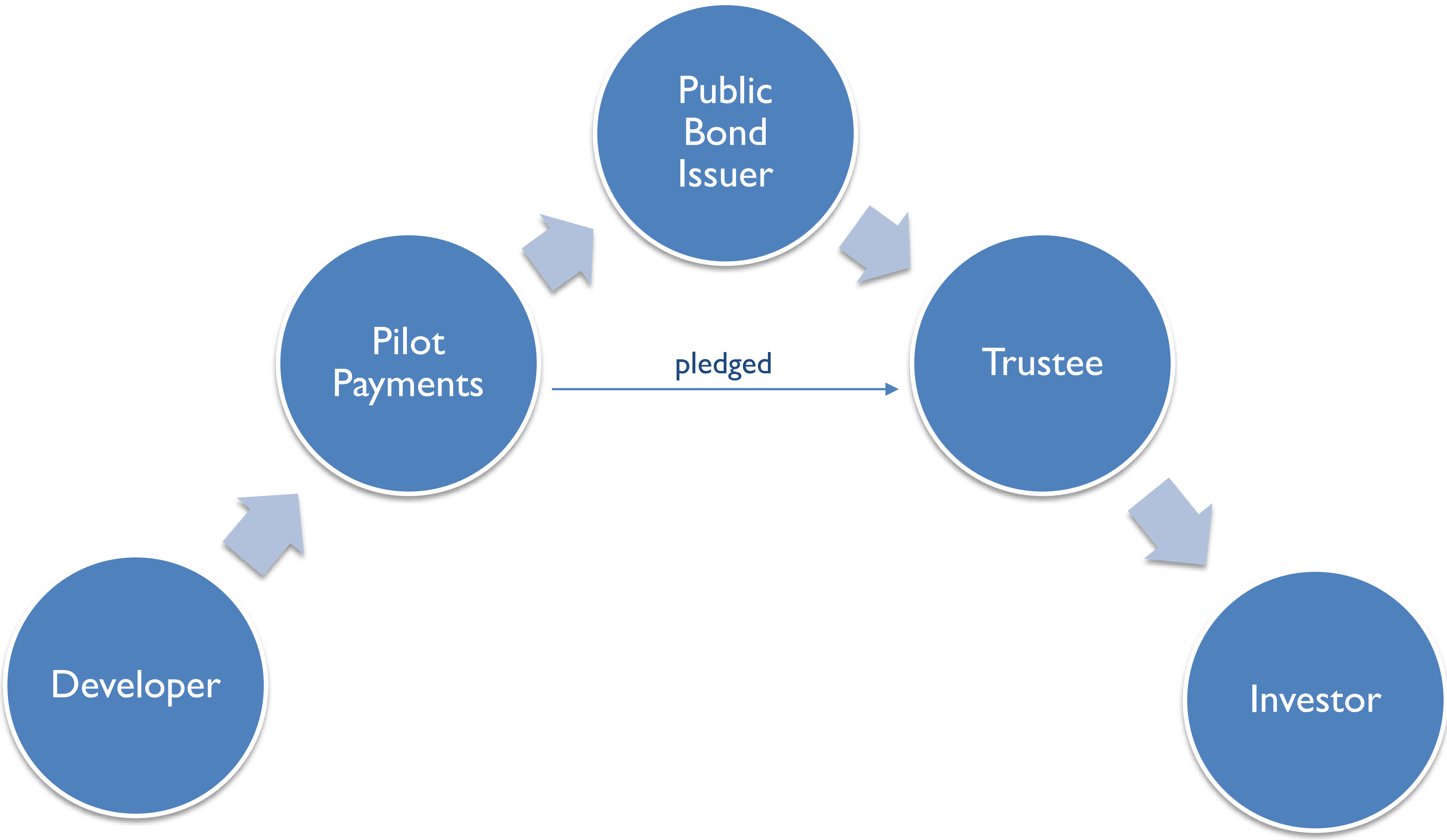
- ASCs are municipal liens on the property

- RABs are typically issued simultaneously to or after the contribution of Redeveloper equity

- Minimum Annual Service Charge - in the event the project is delayed, the Redeveloper must make payments to the City that cover the projected debt service costs and additional revenue to the City

- Guarantee from Redeveloper or parent company

# RAB Structure and Flow of Funds



# The End

Q&A