

SO WHAT EXACTLY IS A PILOT AND HOW DOES A PILOT AGREEMENT BENEFIT THE BOROUGH

PILOTS, which stand for payment-in-lieu-of-taxes, were created by the New Jersey State Legislature pursuant to N.J.S.A. 40A:20-1 *et seq.* to encourage development in areas where it otherwise might not occur. The statute provides that a developer and municipality can agree for the developer to pay a percentage of a development's revenues, ranging from 10% to 15% or a percentage of the project's construction costs, for up to thirty (30) years rather than pay traditional taxes on the buildings constructed on the site. Each developer who showed interest in the project indicated that they would not consider moving forward without a thirty (30) year PILOT agreement.

All properties within the Borough are ascribed a separate value for the Land and for the Improvements by the Tax Assessor. For most properties, the Improvement is the structure (home or building). Ordinarily, a property owner pays taxes on both the value of the Land and the value of the Improvements. Under a PILOT, rather than pay taxes on the value of the Improvements, the developer will instead pay a percentage of the gross revenue and 100% of the taxes attributable to the assessed value of the Land, while receiving a credit against the amount due under the PILOT Agreement. This is known as an Annual Service Charge (ASC).

The Borough and JMF have agreed to a PILOT where JMF will pay 10% of the gross revenue and 100% of the taxes on the assessed value of the land for the first twenty (20) years, 11% of the gross revenue and 100% of the taxes on the assessed value of the land for the next five (5) years and 12% of the gross revenue and 100% of the taxes on the assessed value of the land for the following five (5) years. At that time, the property reverts to the normal taxation method. The PILOT Agreement with JMF is for the properties on the west side of Kinderkamack Road from Lincoln Boulevard to Linwood Avenue.

The agreed upon PILOT is extremely beneficial to the Borough in that our projected revenues will increase approximately eight-fold, while insuring that the developer obtains construction financing so that the project can be completed. At present, the current assessments on the affected properties are as follows:

	<u>Land</u>	<u>Improvements</u>	<u>Total</u>
2016 Assessment	\$ 2,775,800	\$ 2,966,300	\$ 5,742,100
2015 tax	\$ 70,912	\$ 75,779	\$ 146,691
<u>Allocation</u>	<u>Borough</u>	<u>School</u>	<u>County</u>
Tax Rate	\$0 .78	\$ 1.53	.25
	30.4%	60%	9.6%
Land	\$21,552	\$42,529	\$6,841
Improvement	\$23,031	\$45,438	\$ 7,310
Total	\$44,583	\$87,957	\$ 146,691

Under this scenario, in the base year, the Borough would retain \$44,583 of the \$146,691 of regular taxes, with the remainder going to the Schools and County.

The projected conventional taxes using the income approach are as follows:

<u>Allocation</u>	<u>Borough</u>	<u>School</u>	<u>County</u>	<u>Total</u>
Tax Rate	\$ 0.78	\$ 1.53	.25	\$2.25
	30.4%	60%	9.6%	
Land	\$80,944	\$159,695	\$25,693	\$266,332
Improvement	\$188,870	\$372,621	\$59,951	\$621,422
Total	\$269,814	\$532,316	\$85,644	\$887,774

Based upon projected gross revenue of \$3,583,900, the PILOT payment to the Borough will be as follows:

	<u>1st Year</u>	<u>30th Year</u>	<u>30 Year Total</u>
Pilot Amount	\$358,390	\$1,121,740	\$16,081,682
Savings from Taxes	\$431,192	\$ 280,435	\$15,950,155
	<u>Development</u>	<u>Current Use</u>	<u>Difference</u>
30 Yr Borough Amount	\$ 9,069,075	\$ 1,808,500	\$ 7,260,574
30 Yr School Amount	\$ 5,761,962	\$ 3,568,203	\$ 2,193,759
30 Yr County Amount	\$ 1,250,646	\$ 574,269	\$ 676,377
30 Yr Total	\$16,081,682	\$ 5,950,972	\$10,130,710

By way of summary, in the first year of the PILOT, the Borough should receive \$358,390 in payments, of which 5% goes to the County. That is an increase of \$313,807 in the first year and a total of \$ 7,260,574 over the thirty (30) year term. The Schools will continue to receive 60% of the assessed value of the Land, which should increase substantially from the present values. During the term of the PILOT, the Schools are projected to receive \$5,761,962, an increase of \$2,193,759 (or 61.4%) over the \$3,568,203 they would have received if development did not occur.

The PILOT Agreement will help the Borough, County and School District pay for the services that our residents needs and want, while holding the line on property taxes. This PILOT Agreement benefits all Emerson residents and businesses.

What follows is a link to a seminar I attended at last year's League of Municipalities Convention:
<http://tinyurl.com/hsz4dhq>