

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

**Updated January 16, 2017**

PILOTS, which stands 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 given 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. The developer will continue to pay taxes on the assessed value of the land. Pursuant to the statute, the amount of the land taxes paid in the preceding year is credited to the PILOT amount. Below is an example of how this works:

Annual Rent	\$3,583,900
PILOT %	10%
Calculated PILOT Amount	\$ 358,390
Annual Land Tax	\$ 236,875 (credited amount)
Remaining PILOT owed	\$ 121,515

The Borough and JMF have agreed to a PILOT where JMF will pay 10% of the gross revenue (i.e. rent) for the first twenty (20) years after completion of the project, 11% of the gross revenue for the next five (5) years and 12% of the gross revenue for the following five (5) years. After 30 years, 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 land tax will continue to be allocated amongst the Borough, School and County in the same manner as regular taxes are today. Currently, the Borough receives approximately 30.4%, the School 60% and the County 9.6% of regular property taxes. Using the example set forth above, the Borough would receive \$71,991 of the land taxes, the School \$142,032 and the County \$22,851. As required by the statute, the remaining PILOT amount is allocated 95% to the Borough and 5% to the County. Using the above example, the Borough would receive \$115,440 of the remaining PILOT owed and the County would receive \$6,076. The total allocation amongst the 3 entities would be as follows:

Borough	\$ 187,431
School	\$ 142,032
County	\$ 28,927

In 2015, the properties paid a total of \$146,691 in taxes for both the land and improvements. This was allocated as follows:

Borough	\$ 44,583
School	\$ 87,957
County	\$ 14,151

Under the PILOT scenario, upon completion of the project, the properties will pay an additional \$211,699 from what is being paid today. Below is the estimated annual increase for each of the Borough, School and County:

Borough	\$ 142,848
School	\$ 54,075
County	\$ 14,776

Upon completion of the 30 year term, it is estimated that the project will pay a total of \$16,081,682. This represents an estimated increase of \$10,130,710 from what the property would pay based upon its current use. Of the \$16,081,682 total amount, the Borough would receive \$9,069,075, the School \$5,761,962 and the County \$1,250,646.

The agreed upon PILOT is extremely beneficial to our community as the total tax revenue should increase by almost 250%. This will help the Borough, School and County pay for the services that our residents need, want and expect, while creating a significant improvement to our downtown.