

What is a Municipal PILOT Agreement?

Why is it Important for the Township of Chatham?

PILOT: What does it stand for?

1. PILOT-Payment in Lieu of Taxes.
2. It's a financial agreement that helps implement planning goals for development or redevelopment.
3. It's a financing tool for municipalities to assist in the creation of developments that would not normally be feasible.
4. It helps to facilitate affordable housing obligations through development or redevelopment.

How does it work?

- ▶ Planning process.
 - ▶ Begins with determining if an area is “blighted” and “in need of redevelopment”.
 - ▶ Area is designated as an area “in need of redevelopment”.
 - ▶ A redevelopment plan is presented.
 - ▶ After the redevelopment plan is adopted by both the Planning Board and Township Committee, the Township then can proceed to negotiate with developers.
- ▶ PILOT Agreement
 - ▶ Consistent with Long-Term Tax Exemption law.
 - ▶ Terms of agreement can be for up to 30 years from completion of a development. Or, 35 years from the date of the execution of the agreement.
 - ▶ Development being financed must be consistent with the approved Development Plan.

How does it work? (cont'd)

- ▶ Part of the agreement is that municipalities will receive an Annual Service Charge (ASC).
- ▶ The ASC is determined by the Percentage of Annual Gross Revenues of the project.
- ▶ The ASC is subject to conventional tax phase-ins.
- ▶ The Annual Gross Revenue is based on rent.

What are the benefits to PILOT?

- ▶ Provides tax relief to developers and redevelopers. It reduces other costs.
 - ▶ It gives developers and redevelopers certainty about some of their future costs.
 - ▶ Helps to secure project financing.
 - ▶ Helps attract commercial and residential tenants for their project.
 - ▶ Note: Commercial in this bullet point is a general reference for development across the state.

- ▶ Benefits for the Township
 1. Transformation of blighted properties.
 2. New tax ratables after the PILOT ends.
 3. Boost to the local economy, if it is a mixed use development.
 4. New jobs.

- ▶ The Township retains 95% of all PILOT proceeds. The County receives 5%.
 - ▶ This helps cover the costs for Police, Fire, Emergency Squad, and Sewer charges.

How will this affect Chatham?

Township of Chatham Review of Arbor Green PILOT Program and Dixiedale Development *Preliminary projections – subject to change*

ARBOR GREEN DEVELOPMENT - ESTIMATED PILOT CASH FLOW			
	Year 1	Year 30	30-yr Total
Annual Gross Revenue (AGR) <i>Based on 24 units at Very Low/Low/Mod allowable rents</i>	\$272,000	\$512,000	\$11,398,000
Annual Service Charge (ASC) <i>Based on 6.28% of AGR; subject to statutory escalation</i>	17,000	47,000	744,000
As a % of Conv. Taxes¹ <i>Based on a projected assessment of \$1,685,900</i>	52%	80%	55%
Plus: Administrative Fee <i>2% of ASC per statute</i>	300	900	15,000
Less: County Fee <i>5% of ASC per statute</i>	(900)	(2,400)	(37,000)
Net PILOT Revenue to Twp²	\$17,000	\$46,000	\$721,000

DIXIEDALE DEVELOPMENT - ESTIMATED TAXES ³		
	Per Unit	Total
Unit Count <i>53 market rate units (2-3 BR); 50 in new bldg. and 3 in mansion</i>	1	53
Estimated Average Sales Price <i>Expected sales price to range from \$1.0-\$1.3MM per unit</i>	\$1,100,000	\$58,300,000
Estimated Assessed Valuation <i>Based on the 2019 Equalization Ratio of 88.28%</i>	970,000	51,410,000
Projected Municipal Tax (17%)	3,000	165,000
Projected School Tax (67%)	12,000	636,000
Projected County Tax (16%)	3,000	153,000
Projected Total Tax	\$18,000	\$954,000

- 100% affordable housing developments are not economically viable without financial assistance.
- Current property does not generate any tax revenue.
- Developer's initial PILOT proposal was based on 5% of AGR and generated \$12,000 in Year 1 and \$550,000 in total.
- 6.28% PILOT is consistent with NJHMFA tax credit projects.
- The average sales price of a unit in Dixiedale is expected to be \$1.0–\$1.3 million and is subject to conventional taxation.

(1) Based on discussions with Tax Assessor. Assumes 2% tax rate growth per year.

(2) Assumes land tax exemption and therefore no land tax credit will be applied.

(3) Based on preliminary estimates provided by the Developer.

(4) Numbers may not add due to rounding.



Township of Chatham

Review of Arbor Green PILOT Program and Dixiedale Development

Preliminary projections – subject to change

PROJECTED PUBLIC SCHOOL CHILDREN (PSC) - ARBOR GREEN/DIXIEDALE					
Unit Description	Unit Count	Applicable Multiplier ¹	Projected PSC	Est. Cost per Pupil ²	Total Cost
1-BR Affordable Unit	4	0.09	0.4	\$9,735	\$3,000
2-BR Affordable Unit	14	0.41	5.7	9,735	56,000
3-BR Affordable Unit	6	1.09	6.5	9,735	63,000
2-BR Market Rate Unit	3	0.07	0.2	9,735	2,000
3-BR Market Rate Unit	<u>50</u>	0.06	<u>3.1</u>	9,735	<u>30,000</u>
	77		15.8		\$154,000

72 Affordable Units at Vernon Grove produce 9 PSC (0.13/unit) and 56 Market Rate Units at Rose Valle produce 1 PSC (0.02/unit).

PROJECTED REVENUE/COST SUMMARY - YEAR 1					
Entity	PILOT Revenue	Tax Revenue	Dixiedale Tax Levy Offset*	School Costs	Balance
Township	\$17,000	\$165,000	\$0	\$0	\$182,000
School District	0	0	636,000	154,000	482,000
County	<u>900</u>	<u>0</u>	<u>153,000</u>	<u>0</u>	<u>153,900</u>
	\$17,900	\$165,000	\$789,000	\$154,000	\$817,900

**New tax revenue produced for the School District and County does not add to their budget; it redistributes the tax burden across the tax base, thus reducing the average tax bill.*

- Arbor Green and Dixiedale are not projected to produce a material number of PSC.
- The estimated revenue/tax offset to the Township and School District far exceeds the estimated incremental school costs.

Other Benefits/Considerations:

- No additional COAH contribution other than land and no additional exposure during construction.
- Satisfies approximately 25% of the Township's Third Round COAH obligation per settlement (24/98 units).

(1) Based on applicable demographic multipliers for Affordable and Market Rate units per the Rutgers Bloustein Nov. 2018 study, "Who Lives in New Jersey Housing?"

(2) Based on Classroom Spending, Extracurricular and Transportation Costs per NJDOE "Taxpayers Guide to Education Spending 2019".

(3) Numbers may not add due to rounding.



▶ **Based on the 2019 Average Residential Assessment of \$815,000. The increase of the Township's ratable base from the Dixiedale Development would theoretically reduce the school portion of a resident's property tax bill by \$154.85.**

Township of Chatham

Fulfilling the Remainder of the Third Round Requirement

Preliminary projections – subject to change

PROJECTED PUBLIC SCHOOL CHILDREN (PSC) - REMAINDER OF THIRD ROUND					
Unit Description	Unit Count	Applicable Multiplier ¹	Projected PSC	Est. Cost per Pupil ²	Total Cost
1-BR Affordable Unit	22	0.09	1.9	\$9,735	\$19,000
2-BR Affordable Unit	36	0.41	14.7	9,735	143,000
3-BR Affordable Unit	<u>16</u>	1.09	<u>17.4</u>	9,735	<u>169,000</u>
	74		34.0		\$331,000

- ❖ In aggregate, these developments are estimated to produce a total of 50 PSC at an estimated total cost of \$485,000.
- ❖ 50 additional PSC represents an enrollment increase of approximately 1.2% (based on 2019-20 Budget).
- ❖ \$485,000 estimated cost represents a budgetary increase of approximately 0.7% (based on 2019-20 Budget).
- ❖ In all, revenues and tax offsets are expected to exceed estimated costs by approximately \$490,000, prior to accounting for any potential PILOT/tax revenue from the proposed remaining 74-unit project.

- After Arbor Green, the Township’s remaining Third Round COAH obligation will be approximately 74 units.
- These units will satisfy the Township’s Third Round COAH obligation through July 2025.
- The Township intends to utilize the revenue generated by Arbor Green/Dixiedale to offset any costs associated with its Third Round COAH obligation.
- Tax revenue to the School District and County will be used to offset the average tax bill.

(1) Based on applicable demographic multipliers for Affordable and Market Rate units per the Rutgers Bloustein Nov. 2018 study, “Who Lives in New Jersey Housing?”

(2) Based on Classroom Spending, Extracurricular and Transportation Costs per NJDOE “Taxpayers Guide to Education Spending 2019”.

(3) Numbers may not add due to rounding.

(4) \$490,000 = \$817,000 balance on Slide 7 minus the \$331,000 Total Cost on Slide 8.

