

Using a PILOT for the hotel-area redevelopment project

New Jersey law provides that towns with areas designated “in need of redevelopment” may consider a Payment In Lieu Of Taxes (PILOT) arrangement with a redeveloper. The goal is to attract redevelopment that otherwise would not likely occur in a blighted area.

How is a PILOT established?

The municipality and the redeveloper negotiate the terms of a PILOT within parameters defined in the state statute. The PILOT is then adopted by the town as an ordinance. As with all ordinances, there is a first reading at a council meeting, followed by a public hearing and a vote at a subsequent meeting.

PILOTs are common for large redevelopment projects in New Jersey. They are not common in Hunterdon County due to our rural nature. We already have one PILOT, though, at the Herman E. Kapp Center at 62 Church St.

How does a PILOT affect the local budget?

Flemington’s 2016 property taxes were allocated 59% to schools, 11% to the county, and 30% to the borough. 95% of PILOT receipts go to the municipality and 5% go to the county. Properties in a PILOT are not subject to normal taxes, so, for the duration of the PILOT, they are tax-exempt, like schools and churches. Unlike schools and churches, though, the town still receives a significant payment from the redeveloper.

PILOT payments to a town are like other revenue such as state aid, permit fees, fines, and grants. All these revenues go toward funding the budget. The part of the budget not covered by such revenues becomes the tax levy. It is what the businesses and residents pay to the borough as the municipal portion of the property tax. By increasing the other revenue, the PILOT reduces the tax levy, which helps both residences and businesses.

Flemington’s annual budgets have increased 6.9% between 2009 and 2016, but the tax levy has increased 56%. This is why the municipal tax keep going up. Reducing the tax levy via a PILOT would make a noticeable reduction to the municipal portion of the property tax.

How are neighboring communities affected?

Both county and school taxes are allocated based on property valuations. The county formula is simple: each municipality contributes to the county in proportion to its share of property valuation. The school tax formula, which is administered by the state, is too complex to explain in this article, but it is still property valuation – not the number of students – that determines how much each community contributes to the schools. Let’s take a closer look at each of these taxes:

The county tax impact of a hotel-area PILOT: As stated above, 11% of the taxes collected by Flemington on the would-be PILOT properties go to the county now. With a PILOT, 5% of the PILOT payment would go to the county. Unless 5% of the larger PILOT payment would be less than 11% of the current county tax on these properties, which we do not expect to be the case, the county would not get any less revenue from Flemington than it does today. There would be no negative affect on any surrounding municipality. Neither the county nor our neighboring communities would be subsidizing the project.

The school tax impact of a hotel-area PILOT: As stated above, PILOT-area properties are tax exempt, so they do not contribute to the schools. Let us see how fair this seems in terms of the hotel-area project.

The project, because of its location and density, should primarily attract millennials and baby-boomers who do not tend to come with school-age children, but there will undoubtedly be some students added to the school system. Suppose, for example, that the 200-250 proposed residential units adds 50 students to the system. Spread over 13 grades, that is three or four students per grade, which is unlikely to require an additional classroom or teacher.

The five K-8 districts that send to the high school have experienced a combined 17% decline in enrollment since 2010. This decline will ripple through the high school in the coming years, so there is no need to build schools. Also, since school taxes are allocated based on property valuation, and because the PILOT properties are exempt from the valuation, the relative valuations among the K-8 and high school sending districts would remain exactly as it is today. Therefore, as with the county, there would be no increase to the school tax contribution from neighboring communities.

When would a PILOT affect the school tax of other communities?

If a municipality or region were to pursue many large-scale redevelopment projects, each with a PILOT that reduces support to the schools, you could argue that the redevelopment zones are not contributing their fair share to the schools. Other communities in this case can be said to be subsidizing the redevelopment. This is especially true if the combined projects add significant enrollment to the schools. With our hotel-area project, this argument does not hold. As shown above, because of the nature of the project and Flemington's small share of the local-area property valuation, there would be no noticeable impact to surrounding communities for either county or school taxes because of the hotel-area project.

Why not just collect the regular taxes?

Finally, let us address the notion that a PILOT is a tax break or even a sweetheart deal for the redeveloper and that we should just insist that the redeveloper pay the full tax load like everyone else. Ideally, this sounds great. Practically, though, since PILOTs are a matter of state law, redevelopers can pick and choose among communities that either will or will not consider a PILOT. If a redevelopment project makes sense to the community, then it also makes sense to employ the tools that can make the project become a reality without being a burden to either local or surrounding taxpayers.

This brings us back to the original premise of the PILOT: it encourages redevelopment that otherwise would likely not occur at all.