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# Borough of Roselle Park

Meridia – Westfield at Roselle Park



# What is a PILOT?

A PILOT, or payment in lieu of tax, is an amount that a property owner pays to the Township pursuant to a financial agreement instead of paying generally applicable real estate taxes on the improvement portion of their property.

In most instances property owners **continue to pay real estate taxes** on the land portion of their property.

The amounts due on the PILOT are a municipal lien and collected in the same manner as property taxes.

After the expiration of the PILOT Agreement the property pays conventional taxes.

# Projects Eligible for a PILOT

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Project must be in a redevelopment area or an urban enterprise zone

- Exception for affordable housing, housing those displaced by redevelopment

Project must be built pursuant to a redevelopment plan

Owner must be an urban renewal entity

- ◆ Limited Dividend Entity
- ◆ Limited Transfer Rights
- ◆ Subject to Regulation of Municipality

# Purpose of PILOTs

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PILOTs are used in redevelopment projects in order to attract redevelopers by offering an alternative to conventional ad valorem taxes.

In the current economic climate, redevelopment projects are frequently unable to attract private investment without assistance from the local government entity in the form of PILOT agreements or, in some cases, bond financing.

The combination of risk associated with redevelopment projects and uncertainty of conventional taxes make marginal projects difficult to finance.

## PILOT = No Taxes

- ◆ Under a PILOT agreement the property owner is still paying taxes, they are simply calculated differently.

Under a PILOT, the Borough receives significantly less revenue than under conventional taxes.

- The amount received through the PILOT is often equal or more than the amount the Township would receive under conventional taxes.

The additional costs of services associated with the project exceed the PILOT revenue.

- A PILOT must provide a net benefit to the municipality.

PILOTs cause an increase in property taxes for existing residents.

- Offering a PILOT does not put any additional burden on the residents of the municipality. All additional municipal costs are typically covered by the PILOT and there are built in escalators to ensure the payments increase over time. **A PILOT should decrease or stabilize costs to current taxpayers.**

# Project Summary

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Project Cost is approximately \$34.5 million

212 Residential Units (106 1BR and 106 2BR)

346 Parking Spaces

# Key Project Metrics

<b>RENTAL REVENUE</b>				
Type	Count	SF	Monthly Rent per Unit	Monthly Rent per SF
1 BR/1BA	54	680	\$ 1,500	\$ 2.21
1BR w Den/1BA	48	735	\$ 1,650	\$ 2.24
1BR w Den/2BA	4	892	\$ 1,725	\$ 1.93
2 BR/1BA	90	846	\$ 1,700	\$ 2.01
2 BR/2BA	16	991	\$ 1,800	\$ 1.82

Comparable rents range from \$1.70 to \$2.60 per sf

<b>Project Costs</b>	
Land	\$ 3,812,500
Hard Costs	\$ 28,631,422
Legal Approvals	\$ 300,000
Permits/Fees/Bonds	\$ 400,000
Construction Docs	\$ 250,000
Insurance	\$ 250,000
Marketing Rental Expense	\$ 75,000
Real Estate Taxes	\$ 125,000
Lender Fees and Broker Fees	\$ 612,500
Third Party Fees	\$ 75,000
	<b>\$ 34,531,422</b>

Comparable projects are often delivered at between \$200,000 and \$250,000 per unit.

# Project Economics

<b><u>Conventional Taxes</u></b>	
Annual Gross Revenue	\$ 4,362,370
Operating Expenses	\$ 1,400,059
Property Taxes	\$ 1,037,611
Net Operating Income	\$ 1,924,700
Project Value	\$ 27,721,418
Total Project Cost	\$ 34,531,422
Net Project Value	\$ (6,810,004)
Yield on Cost	5.57%
Internal Rate of Return	6.74%

<b><u>PILOT 10.50%</u></b>	
Annual Gross Revenue	\$ 4,362,370
Operating Expenses	\$ 1,400,059
PILOT	\$ 458,049
Net Operating Income	\$ 2,504,262
Project Value	\$ 36,425,628
Total Project Cost	\$ 34,531,422
Net Project Value	\$ 1,894,206
Yield on Cost	7.25%
IRR	17.53%

Current Market conditions would likely require:

- Yield 6.50% to 8.50%
- IRR 15% to 20%

# PILOT Calculation

<u>Conventional Taxes</u>			<u>PILOT</u>		
Total	\$ 1,037,611		PILOT	\$ 458,049	
County Share	\$ 145,663		Land Tax Credit	\$ (145,315)	
County Open Space	\$ 4,084		Municipal Share of Land Taxes	\$ 46,800	
Schools	\$ 553,792		County Share of PILOT	\$ (22,902)	
Library	\$ 9,257		Administrative Fee	\$ 9,161	
Municipal Share of Taxes	\$ 324,815	31.30%	Municipal Share of ASC	\$ 345,792	75.49%

The key advantage of the PILOT to the municipal budget is the improved share of revenue received as compared to conventional taxation.

# Municipal Impact

<b>Municipal Budget Impact</b>		<b>School Budget Impact</b>	
Expected New Residents	399	Cost of Classroom Instruction	\$ 9,068
Incremental Portion of Municipal Budget	30%	% of Budget Raised in Levy	64.97%
Residential Share of Municipal Levy	89.39%	Incremental Cost per Student	\$ 5,891
Approximate per Capita Cost	\$ 318	<b>Expected Students</b>	
Impact to Municipal Budget	\$ 127,000	Conservative Estimate	18 \$ 106,000
		North Jersey Above Median Income	12 \$ 71,000
		Transit Oriented Development	5 \$ 29,000
Township and Municipal Share of PILOT	\$ 413,000		
Net Benefit - Conservative Estimate	\$ 180,000		
Net Benefit - NJ Above Median Income	\$ 215,000		
Net Benefit - Transit Oriented Development	\$ 257,000		

*Using this model, the project would have to generate 48 public school students, approximately four times the expected number of students to eliminate the net benefit from the project.*