



# Frequently Asked Questions About PILOTS

## What is a PILOT?

PILOT is an acronym for Payment in Lieu of Taxes. New Jersey's PILOT tax abatement program (N.J.S.A. 40A:20-1 et seq) was created to help NJ municipalities responsibly improve their ratable base and redevelop properties that meet the specific standards. PILOTs can be a useful tool to bring new investment to the town and yield benefits to our current and future residents. In lieu of paying traditional property taxes on the improvements created by the project, the redeveloper makes annual payments based on a percentage of annual rental income generated from the project for a predetermined period of time.

## When and Why Are They Used?

Parsippany and many other communities have utilized PILOTs to avoid high-density affordable housing projects or to change the scope of a project to a more appealing use for the community. There must be evidence that without the use of this tool, the project would not be economically feasible.

## How is a PILOT agreement beneficial to Parsippany?

In this market, redevelopers may not be able secure financing for large-scale projects without PILOTs, forcing marketable properties vacant and deteriorating. Therefore, a PILOT on the completed project generates more revenue for Parsippany than what we would collect on the undeveloped land or underutilized space. This will cause the tax burden to shift from the commercial property to the town's residents.

## If the developer is paying less, then isn't the proposed PILOT bad for Parsippany taxpayers?

It is important to know that the comparison is not a PILOT vs. property taxes on the completed redevelopment project, it is the PILOT vs. vacant/underutilized land. With the PILOT the town will be bringing in more than \$35 million in revenue compared to if the buildings are demolished and the land becomes an undeveloped, under-utilized lot. This is the real comparison.

## How is a PILOT different from the taxes I pay on my property?

Taxes on traditionally taxed properties are based on an assessment of what that property is worth today and can vary widely from year to year depending upon that assessment and the current tax rate. Payments under these PILOT proposals are designed to be stable over time. These agreements are often between 10% to 15% of the project's annual gross revenue. By basing the PILOT payments on the project's revenues, the Township shares in the success of the project as rents increase over time.





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## **Are other neighboring towns using PILOT agreements?**

PILOTS have become prevalent throughout the State with at least 50 PILOT agreements in Morris County alone. Neighboring towns like Boonton, Montville, Denville, Hanover Township, and Florham Park, to name a few, have such agreements. If we do not use PILOTS, companies will go to town's that are using the tool.

## **Parsippany is a very desirable place, why does Parsippany need PILOTS?**

According to our Tax Assessor, the township's vacancy rate has doubled from pre-pandemic times and recent trends show this will continue to go up. This means that without this development the town will have to recoup the revenue from existing tax-payers. Redevelopment is necessary to prevent residents from being overburdened with picking up the tax burden previously covered by commercial properties.

## **But I have heard that these PILOTS will take money away from the schools, is this true?**

No. Support for Parsippany Public Schools is a top priority of the Administration. The Board of Education is guaranteed its budget regardless of what the municipality collects. Each year, the school district receives 100% of its budget - this will not change.

## **Won't these new residential properties add too many new students to our school system?**

No. The anticipated number of school aged children from new residential units is dependent on numerous factors; however, using the conservative demographic multipliers contained in a study prepared by Rutgers Bloustein School the development proposed today will add 27 students to the school system. Of these, 19 students will be from the mandatory affordable units the town must add. These additional students will not all be in the same class or in one grade, and is not likely to require any expansion of capacity or capital improvements at the schools.

## **What happens at the end of 30 years?**

Upon expiration of the tax abatement the project returns to conventional taxation. There are also mandated step-ups to full taxation through Year 30.