

Borough of  
Hightstown

Bank Street Village  
Redevelopment  
Project

Borough Council Meeting  
June 16, 2025

Presented by:  
Phoenix Advisors



# PILOT Basics

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- A PILOT, or “payment in lieu of tax”, is an amount that a property owner pays to a municipality pursuant to a financial agreement instead of paying generally applicable real estate taxes on the improvement portion of their property.
- The land portion of the assessment may also be exempt from taxation for residential projects. The property owners still pay land taxes on non-residential projects and receive a corresponding credit against the PILOT in the following year.
- The municipality keeps 95% of every PILOT dollar and pays 5% to the County.
- Amounts due under the PILOT are a municipal lien (similar to conventional taxes).
- The term of a financial agreement is generally 30 years from certificate of occupancy (can also be less). After expiration, payments revert to conventional taxes.
- Statutory minimums based on a percentage of conventional taxes (20/40/60/80%) that can be enforced as early as years 7 through 30.
- Municipality may charge an administrative fee not to exceed 2% of the PILOT.



# Purpose of a PILOT

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- The Long-Term Tax Exemption Law allows municipalities to grant PILOTs to projects that would otherwise be unable to deliver financial returns and obtain private financing.
- Redevelopment projects are frequently unable to attract private investment without assistance in the form of a PILOT or, in some cases, bond financing. The combination of risk associated with speculative real estate projects and uncertainty of future conventional taxes make marginal projects difficult to finance.
- Promotes redevelopment in areas that need it or offsets environmental remediation costs. A market-driven solution to completing these, and other, municipal objectives.
- Allows the municipality to have increased decision-making powers throughout the redevelopment process.
- The PILOT is a partnership between the municipality and the developer. If the project performs better than expected, the municipality shares in the upside in the form of increased PILOT payments. If the project is unable to fully lease up, or market rents decrease, the Developer is not overburdened with a fixed tax obligation.

# The Project

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- The Project site:
  - former rug mill on Bank Street in the designated “Redevelopment Area”.
  - currently underutilized and only generates about \$132,000 in total taxes per year, split between the Borough (33%), County (19%) and School District (48%).
  - Borough has attempted to redevelop the property for the last 15 to 20 years.
- The Project:
  - a \$148,000,000 residential redevelopment project.
  - expected to be developed in 3 phases over several years.
  - will include townhomes, 2 apartment buildings (3 to 4 stories), on-site parking and other on-site and off-site improvements and amenities.
  - expected unit mix:

<u>Unit Type</u>	<u># of Units</u>	<u>Avg. SqFt</u>
Studio	18	467
1-Bedroom	210	645
2-Bedroom	110	1,068
Townhouse	43	1,657

# The Project (continued)

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- Additional Benefits of the Project:
  - May serve as a catalyst to revitalize downtown, generate additional foot traffic and benefit local economy.
  - Affordable housing contribution of \$386,000.
  - Parks and recreation fee of \$50,000.
  - Off-site public infrastructure improvements (municipal building property purchase of \$900,000, park and firehouse improvements, and lighting and roadway improvements).
  - Significant nominal revenue to Borough as a percentage of budget.
  - Tax appeals are not permitted under the LTTE Law.



# The Proposed PILOT

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- Proposed PILOT is for 30 years and based on the greater of (i) a percentage of annual gross revenue (“AGR”); and (ii) a percentage of otherwise payable conventional taxes.
- The PILOT/Annual Service Charge (“ASC”) is calculated annually based on the following stages:
  - Stage 1 – 10% of AGR in years 1-10.
  - Stage 2 – Greater of 10.5% of AGR or 20% of conventional taxes in years 11-15.
  - Stage 3 – Greater of 11.0% of AGR or 40% of conventional taxes in years 16-20.
  - Stage 4 – Greater of 11.5% of AGR or 60% of conventional taxes in years 21-24.
  - Stage 5 – Greater of 11.5% of AGR or 80% of conventional taxes in year 25.
  - Stage 6 – Greater of 12.5% of AGR or 80% of conventional taxes in years 26-30.
- Per the Long-Term Tax-Exemption Law, the Borough will also collect an annual administrative fee of 2% of the ASC and must remit 5% of the ASC to the County.
- Both the improvements and land will be exempt from taxation since this is a 100% residential project.



# Projected PILOT Payments

Year <sup>(1)</sup>	AGR	PROPOSED PILOT SCENARIO <sup>(2),(3)</sup>						
	Annual Gross Revenue -Residential	PILOT is Greater Of: % of AGR for Proposed PILOT	Statutory Stages (as % Trad'l Taxes)	Gross Projected PILOT	Plus: 2% Admin. Fee	Less: 5% to County	Less: Developer Credit	Net ASC to Municipality
Year 1	\$802,000	10.00%	0.00%	\$80,200	\$1,604	(\$4,010)		\$77,794
Year 2	6,688,000	10.00%	0.00%	668,800	13,376	(33,440)		\$648,736
Year 3	8,514,000	10.00%	0.00%	851,400	17,028	(42,570)		\$825,858
Year 4	9,700,000	10.00%	0.00%	970,000	19,400	(48,500)		\$940,900
Year 5	11,428,000	10.00%	0.00%	1,142,800	22,856	(57,140)		\$1,108,516
Year 6	11,771,000	10.00%	0.00%	1,177,100	23,542	(58,855)	(85,400)	\$1,056,387
Year 7	12,124,000	10.00%	0.00%	1,212,400	24,248	(60,620)	(85,400)	\$1,090,628
Year 8	12,487,000	10.00%	0.00%	1,248,700	24,974	(62,435)	(85,400)	\$1,125,839
Year 9	12,862,000	10.00%	0.00%	1,286,200	25,724	(64,310)	(85,400)	\$1,162,214
Year 10	13,248,000	10.00%	0.00%	1,324,800	26,496	(66,240)	(85,400)	\$1,199,656
Year 11	13,645,000	10.50%	20.00%	1,432,725	28,655	(71,636)	(85,400)	\$1,304,343
Year 12	14,055,000	10.50%	20.00%	1,475,775	29,516	(73,789)	(85,400)	\$1,346,102
Year 13	14,476,000	10.50%	20.00%	1,519,980	30,400	(75,999)	(85,400)	\$1,388,981
Year 14	14,911,000	10.50%	20.00%	1,565,655	31,313	(78,283)	(85,400)	\$1,433,285
Year 15	15,358,000	10.50%	20.00%	1,612,590	32,252	(80,630)	(85,400)	\$1,478,812
Year 16	15,819,000	11.00%	40.00%	1,866,727	37,335	(93,336)		\$1,810,725
Year 17	16,293,000	11.00%	40.00%	1,904,062	38,081	(95,203)		\$1,846,940
Year 18	16,782,000	11.00%	40.00%	1,942,143	38,843	(97,107)		\$1,883,879
Year 19	17,286,000	11.00%	40.00%	1,980,986	39,620	(99,049)		\$1,921,556
Year 20	17,804,000	11.00%	40.00%	2,020,605	40,412	(101,030)		\$1,959,987
Year 21	18,338,000	11.50%	60.00%	3,091,526	61,831	(154,576)		\$2,998,780
Year 22	18,888,000	11.50%	60.00%	3,153,357	63,067	(157,668)		\$3,058,756
Year 23	19,455,000	11.50%	60.00%	3,216,424	64,328	(160,821)		\$3,119,931
Year 24	20,039,000	11.50%	60.00%	3,280,752	65,615	(164,038)		\$3,182,330
Year 25	20,640,000	11.50%	80.00%	4,461,823	89,236	(223,091)		\$4,327,969
Year 26	21,259,000	12.50%	80.00%	4,551,060	91,021	(227,553)		\$4,414,528
Year 27	21,897,000	12.50%	80.00%	4,642,081	92,842	(232,104)		\$4,502,818
Year 28	22,554,000	12.50%	80.00%	4,734,923	94,698	(236,746)		\$4,592,875
Year 29	23,230,000	12.50%	80.00%	4,829,621	96,592	(241,481)		\$4,684,732
Year 30	23,927,000	12.50%	80.00%	4,926,213	98,524	(246,311)		\$4,778,427
Total	\$466,280,000			\$68,171,427	\$1,363,429	(\$3,408,571)	(\$854,000)	\$65,272,285

- PILOT will be paid over 30-years from time of Project completion.
- PILOT percentages will be set by Financial Agreement.
- Amount of Developer's rental revenue is estimated and projected (subject to change).
- PILOT revenue received will increase as Project is completed and units are rented.
- Developer will receive a credit in years 6 to 15 as an offset to the extra public improvements included in the Financial Agreement.

(1) Year 1 assumed to be 2028 for presentation purposes.

(2) Assumes estimated revenue, annual rent increases and projected phasing per Developer's figures.

(3) Assumes a 2.00% increase to the tax rate each year and an estimated assessed valuation per Tax Assessor.



# Impact of the PILOT Program

## ESTIMATED PILOT CASH FLOW<sup>(1),(2),(3)</sup>

	<u>Year 1</u>	<u>Year 7</u>	<u>Year 30</u>	<u>30-yr Total</u>
<b>Annual Gross Revenue (AGR)</b> <i>Based on 381 units at projected market rents</i>	\$802,000	\$12,124,000	\$23,927,000	\$466,280,000
<b>Annual Service Charge (ASC)</b> <i>Calculated at 10% to 12.5% of AGR; subject to escalation</i>	80,000	1,212,000	4,926,000	68,171,000
<b>Plus: Administrative Fee</b> <i>2% of ASC per statute</i>	2,000	24,000	99,000	1,363,000
<b>Less: County Share</b> <i>5% of ASC per statute</i>	(5,000)	(60,000)	(246,000)	(3,409,000)
<b>Less: Developer Credit</b> <i>\$85,400 per year, Years 6 to 15</i>	0	(85,000)	0	(854,000)
<b>Net PILOT Revenue to Borough</b>	<b>\$77,000</b>	<b>\$1,091,000</b>	<b>\$4,779,000</b>	<b>\$65,271,000</b>

The projected PILOT revenue is over **7x** what the property is currently generating in conventional taxes and over **20x** what the Borough currently receives from the property.

- The current property generates only \$132,000 of total tax revenue:
  - Borough: \$44,000
  - County: \$25,000
  - School District: \$63,000
- PILOT expected to provide Borough:
  - \$1,000,000 in net revenue at full stabilization
  - \$16,000,000 in first 15 years
  - \$65,000,000 over 30 years
- If the property's rental revenue increases, the PILOT payments to the Borough also increase.
- Borough will receive additional benefits including affordable housing fee, parks and rec. fee, off-site improvements, etc.

(1) Figures rounded to \$1,000 and Year 1 assumed to be 2028 for presentation purposes.

(2) Assumes estimated revenue, annual rent increases and projected phasing per Developer's figures.

(3) Assumes a 2.00% increase to the tax rate each year and an estimated assessed valuation per Tax Assessor.