

Borough of Frenchtown

February 29, 2020
Phoenix Advisors, LLC

Country Classics
Redevelopment
Project

Summary of
Redevelopment
Project and
PILOT Proposal

Project Summary

- Residential development located at the intersection of Harrison and Eighth Streets (Block 3, Lots 1 and 2, Block 10, Lot 1) in the Borough, consisting of residential rental units and for sale duplex style homes.
- Property is being remediated to prepare for development.
- Rental Component:
 - 92 total units in 2 buildings
 - Projected rents of \$1,400 to \$1,800 per month
 - 17 affordable units
 - Projected rents of \$488 to \$1,362 per month
- For Sale Component:
 - 19 duplex style units.
 - Sale prices are expected to be approximately \$425,000 per unit.
- The developer is seeking a PILOT for the project.

PILOT Basics

- **PILOT = Payment in Lieu of Taxes**
- An amount a property owner pays to a municipality instead of regular real estate taxes.
- Determined pursuant to a negotiated financial agreement.
- Used in an area designated as an “Area in Need of Redevelopment.”
- Long Term Tax Exemption Law allows PILOTs for projects that would otherwise be not be financed and consequently, not developed.
- Real estate taxes on the land portion of the property are still paid to the Borough, school district, county, etc. The value of the land typically increases after development.
- Term of the PILOT agreement is restricted to a total of 35 years from execution, but no more than 30 years from receipt of “certificate of occupancy”.

PILOT Basics (continued)

- Property owner pays a PILOT in the form of an “Annual Service Charge” (ASC) as part of the financial agreement.
- After expiration of the financial agreement, the payments revert to conventional taxes.
- By law, 5% of the gross PILOT must be paid to the county and 95% is retained by municipality.
- Developer’s profit is restricted to 12% by law. Any excess must be paid to municipality.
- PILOT can be structured as a percentage of (i) annual gross revenue or (ii) project costs.
- PILOTs are increasingly being used in redevelopment projects, both large and small, throughout New Jersey.

PILOT Benefits

- For the developer:
 - Gives developers certainty about some of their future costs which helps to secure project financing.
 - Helps financially non-viable projects become more viable.
 - Helps to accelerate project occupancy.

PILOT Benefits (continued)

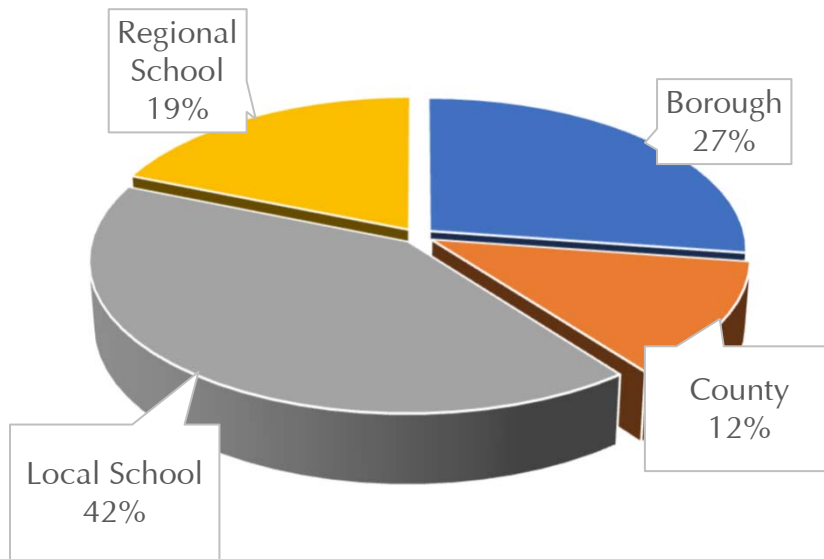
- For the Borough:
 - Transformation of a blighted and underutilized property.
 - Property currently contributes approximately \$11,300 of annual tax revenue to the Borough.
 - Development of a property that would otherwise not be developed.
 - Remediation of formerly contaminated site.
 - Increases revenue.
 - Borough retains 95% of the PILOT/ASC payments.
 - 50% will be shared with local school district (uncommon in most PILOT agreements)
 - Boost to the local economy (more patrons at shops, restaurants, etc.)
 - Expected to increase number of school children (desirable for the Borough since school enrollment is below functional capacity).
 - More users of sewer system ==> will help offset portion of sewer debt service. Project expected to provide new sewer connection fees of over \$300,000 plus over 100 new sewer rental customers.

Comparison of PILOT vs. Regular Taxes *In General*

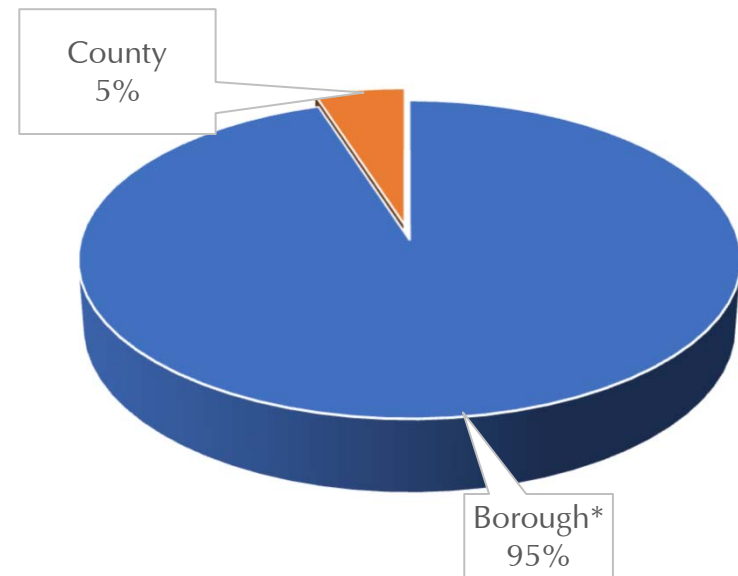
With regular taxes, Borough receives 27% of total taxes paid by a property owner.

With a PILOT, Borough receives 95% of the payment made by a property owner.

Percentage of Each Tax Dollar
- Regular Taxes



Percentage of Each PILOT Dollar
- PILOT Structure



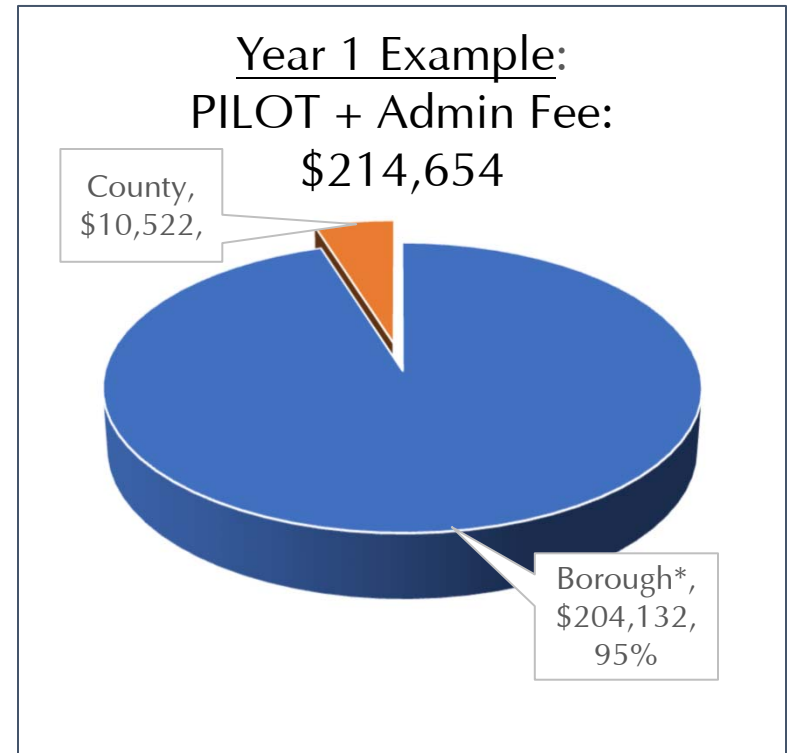
* Borough plans to share PILOT revenue 50/50 with Local School.

Country Classics - Rental Component *Summary*

- 92 Units (17 Affordable)
- PILOT Term = 30 Years
- PILOT = 11% of AGR (min 50% of taxes)
- PILOT Growth
 - Years 1 to 5: 0.00%
 - Years 6 to 10: 1.00%
 - Years 11 to 30: 2.00%

Year 1 Example:

- PILOT Payment = \$210,000 (\$2,287 per unit)
- Plus 2% Admin Fee = \$4,200
- Less 5% to County = (\$10,500)
- PILOT Revenue to Borough = \$204,000*
- Current Borough Tax Revenue from Site = \$11,300
- Difference = \$192,700



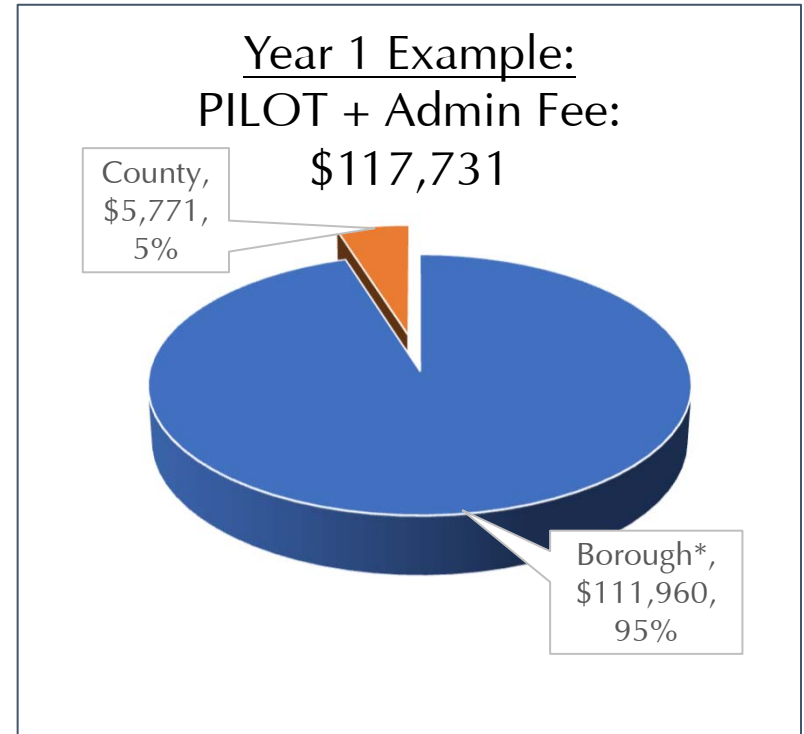
* Borough plans to share PILOT revenue 50/50 with Local School.

Country Classics – For Sale Component *Summary*

- 19 Units
- PILOT Term = 15 Years
- PILOT = 45% of Regular Taxes
- PILOT Growth
 - Years 2 to 15: 1.75%

Year 1 Example:

- PILOT Payment = \$115,400 (\$6,073 per unit)
- Plus 2% Admin Fee = \$2,300
- Less 5% to County = (\$5,800)
- PILOT Revenue to Borough = \$111,900*
- Current Borough Tax Revenue from Site = \$11,300
- Difference = \$100,600



* Borough plans to share PILOT revenue 50/50 with Local School.

Total Project - Financial Summary

- PILOT revenue will increase annually with rent increases, negotiated annual PILOT increases and required statutory phase-ins.
- Expected to generate approximately 250 new residents, including approximately 28 public school children, using standard multipliers.
- Expected to bring more than \$300,000 of sewer connection fees and over 100 new sewer users to Borough.
- Total Projected PILOT Revenue to Borough:

Years	Avg Ann Revenue – For Sale	Avg Ann Revenue – Rentals	Avg Ann Revenue – Total
1 to 5	\$127,625	\$212,462	\$340,087
6 to 10	\$166,789	\$241,802	\$408,591
11 to 15	\$214,155	\$289,202	\$503,357
16 to 20	Regular Taxes	\$352,535	\$352,535
21 to 25	Regular Taxes	\$429,739	\$429,739
26 to 30	Regular Taxes	\$526,622	\$526,622

Additional Project Considerations

- Country Classics developer is assuming full costs of environmental clean-up
- Borough is not issuing Redevelopment Area Bonds (“RABs”) to assist with the redevelopment or clean-up process (RABs are commonly issued as part of a redevelopment project)
- Country Classics development will handle its own trash collection for the rental units.
- Country Classics will maintain roadways and parking lots within their community.
- Additional project area improvements by developer:
 - repave lower 8th Street
 - add new sidewalks
 - repave Harrison Street in front of the school including new curb bump-outs to help with traffic calming.