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# Hopewell Township: Financing Our Future

## New Municipal Revenue Sources for a Changing World

February 19, 2018

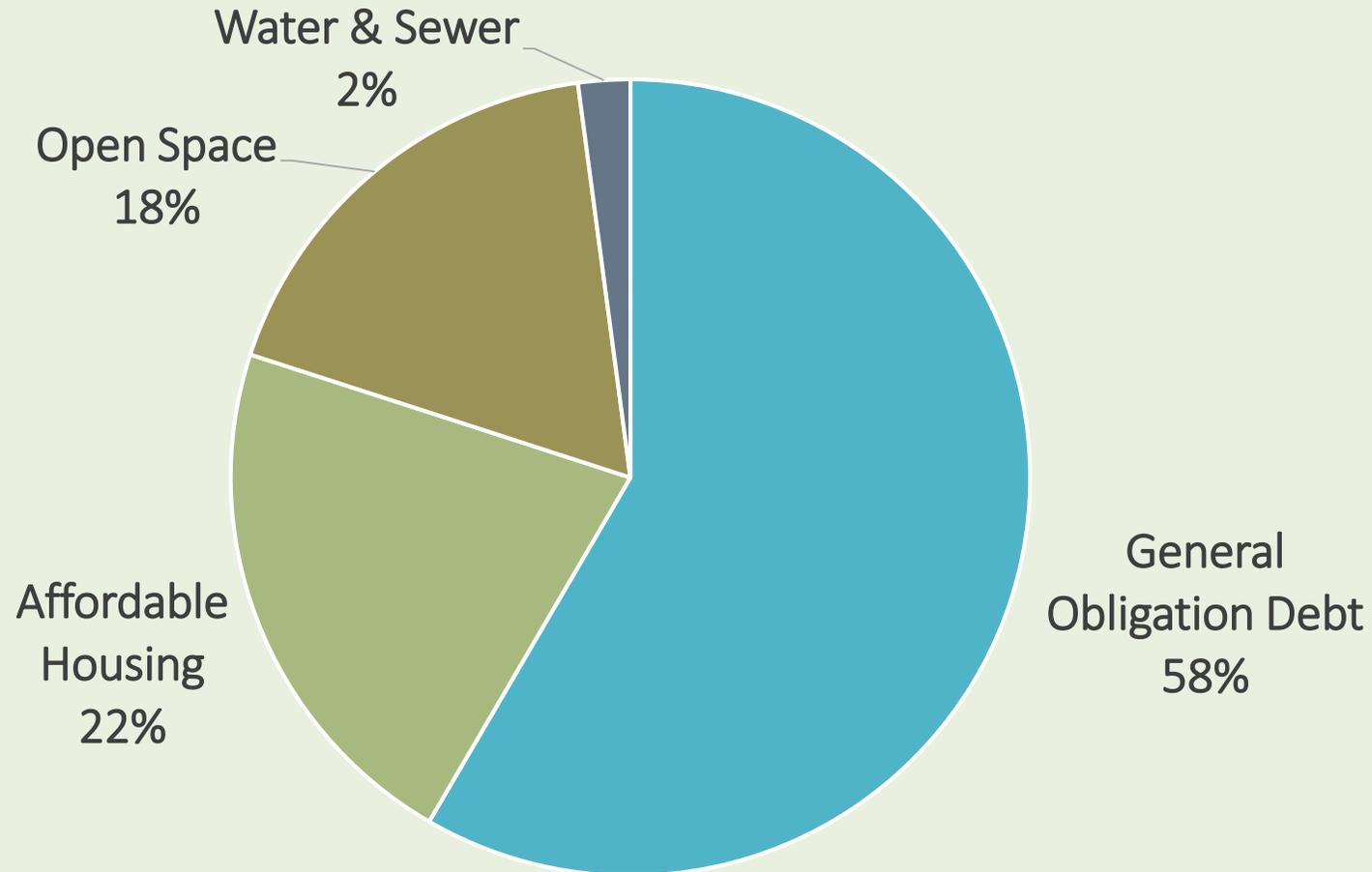


# Budgetary Challenges Facing Hopewell Township

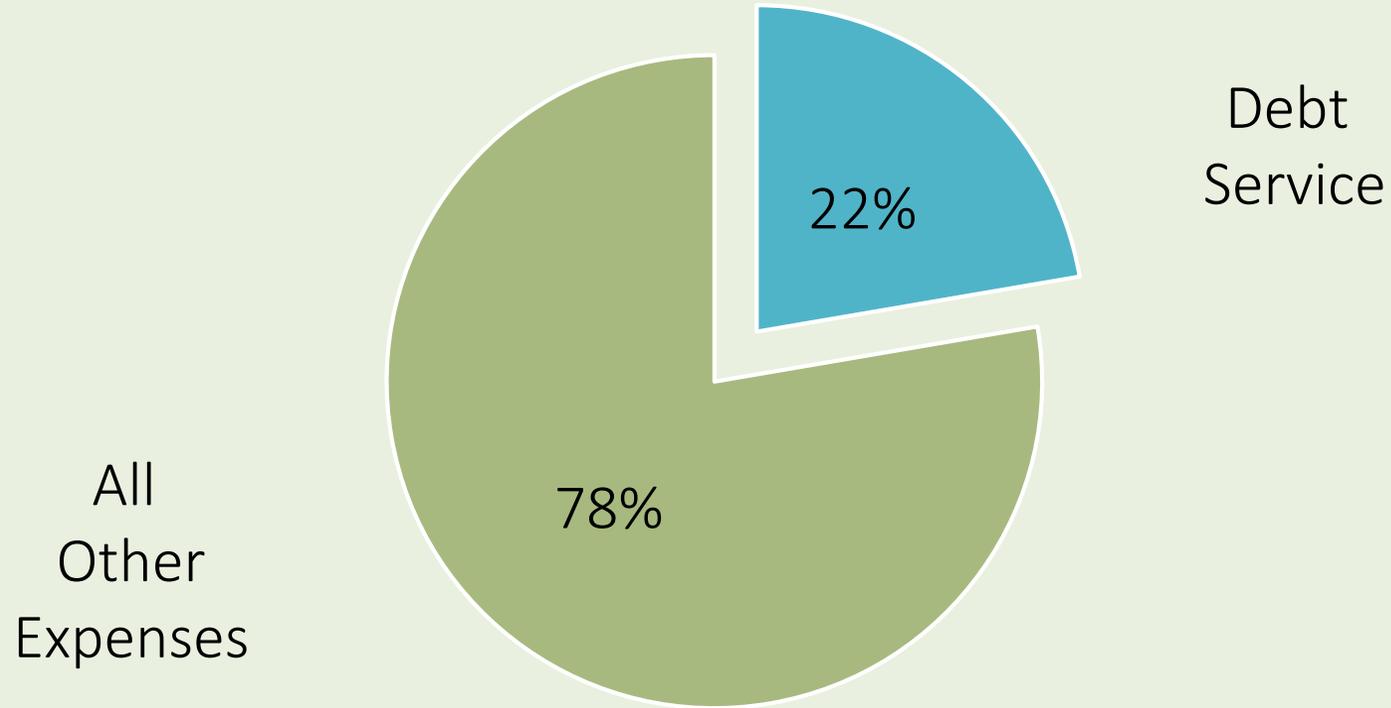
- ▶ While Hopewell Township delivered the lowest equalized municipal tax rate in 2018 in Mercer County, we face several challenges:
  1. State Aid has been flat at \$1.6 Million since 2011 and now covers only 7% of Municipal expenditures
  2. Beginning in 2008-10, the State diverted significant portions of municipalities' Energy Tax distributions towards other priorities. This diversion continues today and has created a significant funding gap at local levels (\$1.6 Million gap for Hopewell Twp as of 2016)
  3. Other non-tax revenues for the Township are relatively small and declining. For 2019, we project these revenues will cumulatively be down -11.4% vs. 2015 or approximately \$500k in total
  4. Hopewell Township's debt levels are relatively high due to prior years capital purchases. Debt service in 2018 accounted for 22.3% of total spending, including \$1.5 Million in interest costs
  
- ▶ To deliver the services our residents expect, while keeping residential property taxes low, we must seek new revenue sources in a changing world
  
- ▶ One potential solution, which we will discuss in more detail today, is PILOTs ...

# Hopewell Township's Current Debt Stands at \$60.7 Million (as of 12/31/18)

## Township Debt Components



## Debt Service Consumed 22.3 % of the Township's Budget in 2018 . . .



. . .that's almost 1 in 4 dollars. For context, debt service is about as much as we spend on the Public Works department + Police staffing combined

# Impact of Debt on the Budget

As of 12/31/2018, the Township's debt obligation was \$60.7 million in outstanding debt. \$48.5 million or 79.9% of that debt is supported by the general operating budget (e.g. funded by taxpayers)

In 2019 we will repay \$4.0 million of that debt plus an additional

**\$1.6 million** in interest costs.

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# New Municipal Revenue Sources for a Changing World

**PILOTs Overview and  
Hopewell Township Detail**

# First, let's clear up some mis-perceptions about PILOTs ...

- ▶ When we talk, about PILOTs, we are not referring to:



- ▶ Nor are we referring to the dictionary definition of pilot:  
“to test a plan or project before introducing it more widely”
- ▶ The PILOTs we will be discussing today are a “Payment in Lieu of Taxes”
  - ▶ This is a tool whose basis is in the New Jersey Constitution ...
  - ▶ And something specifically authorized by the Local Redevelopment and Housing Law, N.J.S.A 12A-1 et seq.

# A Primer on PILOTs

# Ed McManimon: “PILOTs – A Vital and Often Misunderstood Tool for Municipalities”

(Feb 2019 NJ Municipalities magazine)

- ▶ PILOTs enable a municipality to develop partnerships with private entities to encourage redevelopment of a property
- ▶ They act as an incentive to make capital improvements to a property that will help develop the economic and tax base of the municipality
  - ▶ PILOTs help maintain and expand the financial viability of [a] municipality, and also provides additional financial support for schools and other government entities over the long-term
  - ▶ PILOTs are also revenue that would not have been realized by the municipality if the development had not occurred
- ▶ A municipality can receive up to 95% of the negotiated PILOT vs. ~13% through conventional taxes

Note: Ed McManimon is a partner at McManimon, Scotland and Baumann and a NJ expert on PILOTs

# Perspective from the Honorable Colleen Y. Mahr, NJ League of Mayors President

On Economic Development and PILOTs:

"Policies that give municipalities the ability to promote redevelopment are essential. We must guard against State laws, which would inhibit municipalities from encouraging economic development by entering into Payment In Lieu of Taxes agreements with willing business partners."





# A History of PILOTs in Hopewell Township

- ▶ Some former Committee Members and members of the public have suggested that PILOTs are a new tool or that they have never been utilized before in Hopewell Township
- ▶ That's simply untrue
- ▶ In fact, PILOTs were first utilized in Hopewell Township in the early 2000s, and then subsequently with Capital Health

# Hopewell Gardens: Township's First PILOT

- ▶ In 2002, Hopewell Township entered into an agreement with Brisben Hopewell Village Limited Partnership to build 150 affordable housing rental units for active seniors, off of Denow Road in Hopewell Township
  - ▶ Importantly, the developer agreed to produce these 150 affordable housing units (worth \$250-300k per unit at current costs) without upfront Township investment/cost-sharing
- ▶ A 30-year PILOT agreement was negotiated in association with this project
- ▶ While the project itself has been a success, creating new housing options for low and moderate income seniors, the PILOT has not. Specifically, we agreed to compensate the developer each year for rental vacancies, amongst other issues
- ▶ Net, rather than being a windfall for the Township, residents are effectively subsidizing the current year costs of the project from our general operating budget
- ▶ Over the term of the PILOT, the total cost of these hand-outs is projected at:  
**\$1.5 Million Dollars**
- ▶ This essentially wipes out any net revenues for the Township from this project

# Capital Health PILOT (2011)

- ▶ Capital Health's Medical Center on Scotch Road is largely exempt from property taxes because it is a non-profit entity
- ▶ However, its medical offices and other profit-generating entities are taxable
- ▶ In 2011, Hopewell Township settled a protracted legal battle over how the new health care facility would be taxed, and agreed to a PILOT wherein Capital Health made a one-time payment of \$4 Million in lieu of potential taxes, for the last three years during which the hospital was under construction
  - ▶ The Township contributed \$400K of these PILOT monies to the District, to move the baseball field, which in turn helped enable the building of the new turf field at the High School and moving it further away from nearby residences (for enviro reasons and otherwise)
- ▶ On top, Capital Health contributes \$145K per year to the Township for its taxable entities, as a Payment in Lieu of Taxes

# Lessons Learned from Previous HT PILOTs

- ▶ PILOTs can help the Township achieve important municipal goals, including the development of Affordable Housing projects without large upfront costs
- ▶ PILOTs can also deliver important new sources of revenue, without burdening residential property taxpayers
- ▶ However, it's critical that the Township also take the time to get the ongoing financial details right in a PILOT
  - ▶ The end result of any PILOT should benefit the Township and its residents financially, in Year 1 and Year 30
  - ▶ In this way, the Capital Health PILOT was far superior to the Hopewell Gardens PILOT, which has been a money-loser
- ▶ PILOTs can help support community projects that would not otherwise be feasible/affordable
  - ▶ Working with the District to relocate the baseball field (which in turn helped enable the building of the new turf field) is a good example of this
  - ▶ There is precedent to work together, and we should continue that precedent, to the extent other parties are willing

# Modern Day PILOTs in Hopewell Township

- ▶ Over the past two years, the Hopewell Township Committee has negotiated two PILOTs for redevelopment projects:
  - ▶ Woodmont - a residential project for on Federal City Road, providing 252 luxury 1-2 bedroom apartments and 48 affordable rental apartments
  - ▶ Zaitz - a mixed-use project near the ShopRite on the 31 Circle, providing an additional 78 affordable housing units, in addition to 301 “for-sale” Townhomes and Condos and redevelopment of the commercial properties on the Circle
- ▶ These projects help satisfy the unfunded State mandate on Affordable Housing and address rulings by the NJ Superior Court
- ▶ Importantly, both of these developments have been designed to minimize the number of new school-aged children and can be accommodated within our existing school buildings, without any significant increases in costs
  - ▶ To note, the Hopewell Valley School District currently has over 600 open seats due to declining enrollments

# A Closer Look at the Woodmont PILOT

- ▶ Projected to deliver \$830k in Year 1 to Hopewell Township, once construction is complete
- ▶ This is equivalent to ~5.5% of our current TOTAL municipal tax levy, or roughly as much as our Township's largest taxpayer pays today (\$888k)
  - ▶ Woodmont PILOT mitigates the risk/tax impact of BMS moving out in 2020
- ▶ By Year 30, revenues will grow to \$2.7 Million per year for Hopewell Township. Over 30 years, the PILOT will deliver roughly \$46 Million in Municipal revenues
- ▶ The proposed apartments are targeted to singles and young couples, to minimize the number of new school-aged children
  - ▶ A detailed benchmarking analysis of similar Woodmont projects indicated that this project should generate less than 30 additional schoolkids - e.g. no impact on Schools

# The Zaitz PILOT: \$112 Million > \$18.5 Million

- ▶ The Zaitz PILOT is projected to deliver over \$2 Million in new revenues to the Township in Year 1, once construction is complete
  - ▶ To note, this does not include incremental PILOT revenues from the redevelopment of the ShopRite and other commercial parcels
- ▶ Over 30 years, Zaitz will generate over \$112 Million in municipal revenues for Hopewell Township vs. ~\$18.5 Million through conventional taxes
  - ▶ The Township and its residents will also receive over \$16 Million in additional benefit from this project, including off-site infrastructure improvements to the land reserved for a Community Center and a sewer trunk line on Diverty Rd
  - ▶ Finally, the project will enable significant public safety and traffic improvements on the Route 31 Circle
- ▶ Similar to Woodmont, we analyzed projected school impacts, as well as incremental municipal costs, as the PILOT was negotiated
- ▶ This analysis indicated that any new school children could be accommodated within our existing school buildings due to the current under-enrollment

# Cost-Benefit Analysis on Zaitz PILOT

Township of Hopewell

Zaitz Property Redevelopment Project - PILOT Analysis

*\*Preliminary Projections - Amounts Subject to Change; Reflects Final PILOT Terms\**

PROJECTED AVERAGE ANNUAL REVENUE OVER THE PILOT TERM			
	YEARS 1 - 5	YEARS 6 - 10	YEARS 11 - 30
<b>PILOT Revenue to Township</b>	<b><u>\$2,070,000</u></b>	<b><u>\$2,600,000</u></b>	<b><u>\$4,450,000</u></b>
Township Taxes (if no PILOT)	<u>\$480,000</u>	<u>\$530,000</u>	<u>\$680,000</u>
Revenue in Excess of Township Taxes	\$1,590,000	\$2,070,000	\$3,770,000
Estimated Municipal Costs From Development	<u>(\$210,000)</u>	<u>(\$240,000)</u>	<u>(\$300,000)</u>
<b>Net Revenue In Excess of Township Taxes</b>	<b><u>\$1,380,000</u></b>	<b><u>\$1,830,000</u></b>	<b><u>\$3,470,000</u></b>

## ASSUMPTIONS

- (1) Project expected to be completed in multiple phases over several years, with initial phase expected in 2020 ("Year 1" above). Analysis assumes full assessment/PILOT in Year 1 for presentation purposes.
- (2) 2.00% increase in taxes each year.
- (3) Market Value projections are based on the sale revenue per home for the market rate units. Assessed Valuation projections assume an Equalization Ratio of 100.00%.
- (4) Estimated taxes are based on the valuation information referenced above and the 2018 tax rates per the County Abstract of Rotables. Represents aggregate taxes on market rate units only (excludes affordable housing rental units).
- (5) Municipal Costs represent the cost of providing typical municipal services to the new residents produced by the development. This includes: police, fire, road maintenance, and other public services.
- (6) The Township indicated that there is available capacity in the School District and, therefore, does not believe there will be any material financial impact on the School District's operations.

# Additional Detail on Municipal Cost Analysis

PROJECTED MUNICIPAL COSTS				
Budget Expenditures	Total Budget <sup>(1)</sup>	Applicable Cost	Residential Portion <sup>(2)</sup>	Per Capita
Administrative	1,793,539	-	-	-
Public Works	2,418,237	1,946,264	1,347,102	73
Public Safety	3,729,318	3,729,318	2,581,239	139
Insurance	2,852,873	-	-	-
Health/Welfare/Recreation	1,099,391	219,446	151,889	8
Municipal Court	286,995	286,995	198,643	11
Utilities	566,000	165,000	114,204	6
Pension	1,845,799	1,845,799	1,277,566	69
Shared Service Agreements	717,749	715,079	494,940	27
Grants	1,403,747	-	-	-
Municipal Debt Service/CIF	5,385,390	-	-	-
Reserve for Uncollected Taxes	1,059,251	-	-	-
	<b>23,158,289</b>	<b>8,907,901</b>	<b>6,165,583</b>	<b>333</b>

PROJECTED NEW RESIDENTS				
Unit Description	Unit Count	Applicable Multiplier <sup>(3)</sup>	Projected Residents	Total Cost
Townhome 3-BR	111	2.104	234	77,738
Stacked TH 3-BR	32	2.104	67	22,411
Stacked TH 2-BR	32	1.844	59	19,641
Condominium 2-BR	126	1.844	232	77,338
	<b>301</b>		<b>592</b>	<b>197,128</b>

(1) Based on 2018 Budget.

(2) Represents the portion of costs applicable to Class 2 (Residential) and Class 4C (Apartment) property classifications.

(3) Based on applicable multipliers: Market Rate = Statewide New Jersey, 5+ units, own, above median. Source: "Who Lives in New Jersey Housing" Rutgers Bloustein 2006 Study.

# Prioritized Uses for Incremental Revenue

- ▶ The Hopewell Township Committee will be having additional discussions over how to use the incremental revenues from these PILOTs, but here are some potential opportunities:
  1. Reduce municipal taxes by paying-off the Township's outstanding debt. Fully fund future year capital needs through the regular operating budget
  2. Fund upgraded facilities for our EMS and other first-responders and other new community amenities, including a new Senior + Community Center
  3. Make additional voluntary contributions towards Hopewell Township's share of the School District levy, further reducing residential property taxes
  4. Accelerate road repair and maintenance in Hopewell Township
- ▶ Other ideas and proposals. We look forward to working with our residents towards a better Hopewell Township and will provide additional opportunities to get involved and provide input

# Next Steps and Discussion