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Hopewell Township: Financing Our Future

New Municipal Revenue Sources for a Changing World

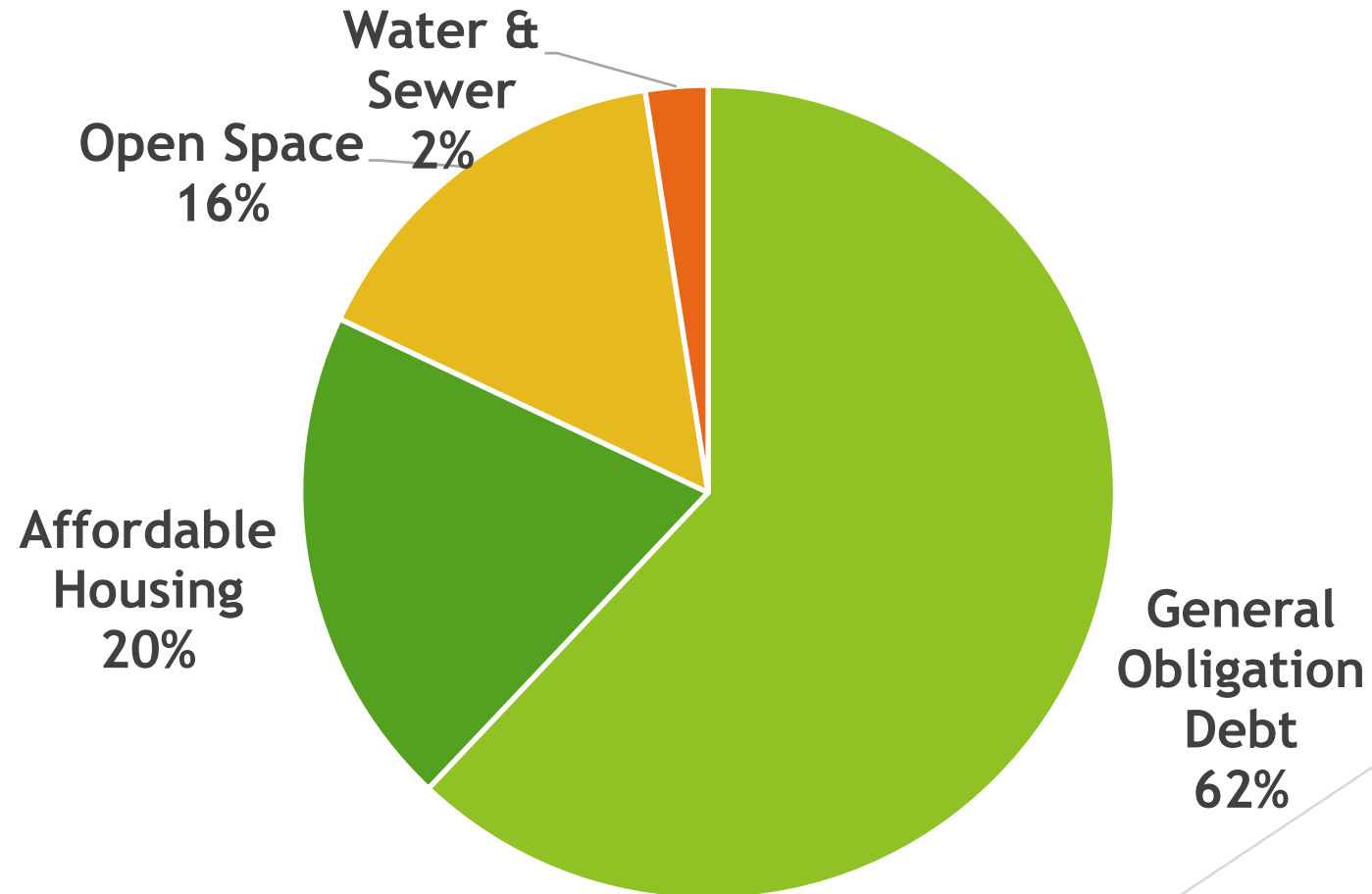
January 27, 2022

Budgetary Challenges Facing Hopewell Township

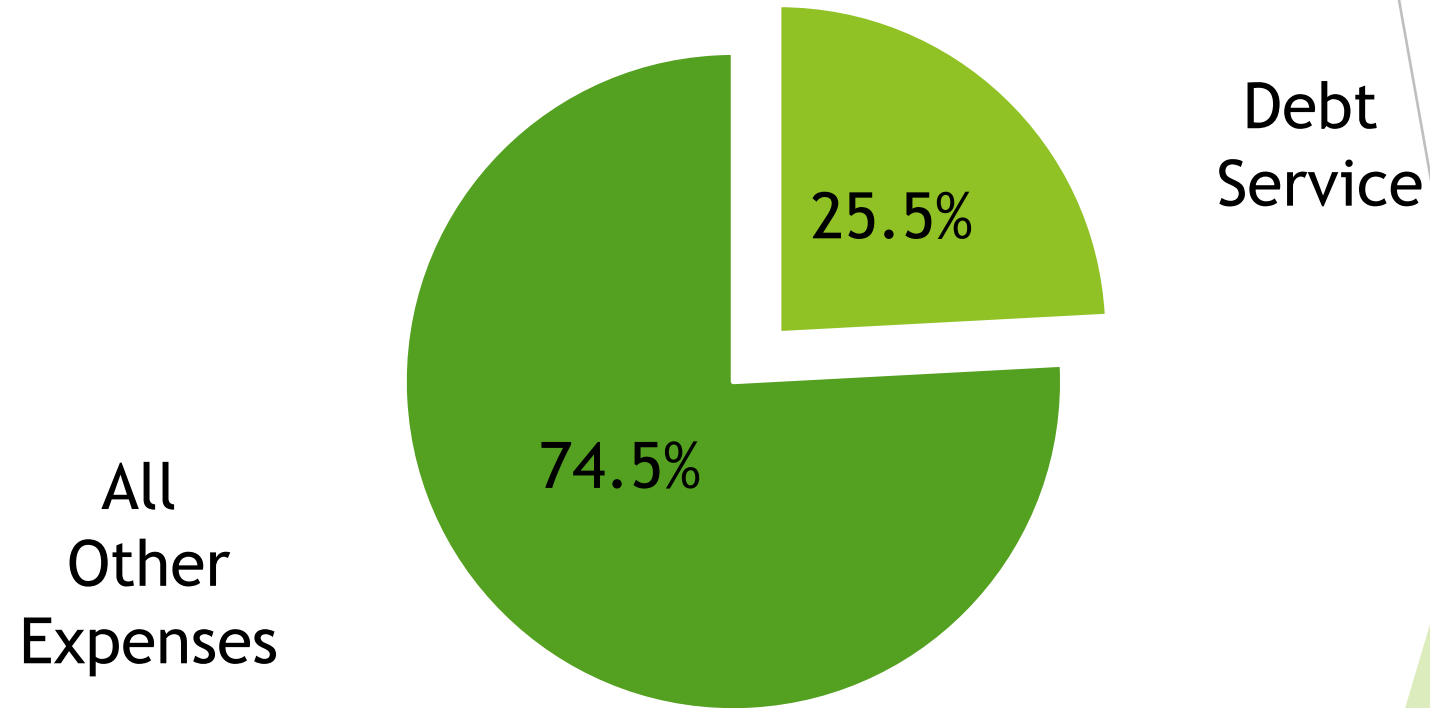
- ▶ While Hopewell Township delivered the lowest equalized municipal tax rate in 2021 in Mercer County, we face several challenges:
 1. State Aid has largely been flat at ~\$1.6 Million since 2011 and now covers only 6.6% of Municipal expenditures
 2. Beginning in 2008-10, the State diverted significant 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 several have been negatively impacted, including by COVID-19. For example, cumulative municipal court revenues are down >70% vs. 2015 or approximately \$287k in total
 4. Hopewell Township's debt levels are relatively high due to prior years capital purchases. Debt service in 2021 accounted for 25.5% of total spending, including \$1.4 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 Outstanding Debt in Jan'21 after the note pay-off stood at \$60.7 Million

Township Debt Components



Debt Service Consumed 25.5% of the Township's 2021 Budget



...that's roughly 1 out of every 4 dollars expended.

Impact of Debt on the Budget

The Township took advantage of the favorable bond market in 2020 by converting Notes into Bonds. The Township was also able to refund a portion of the 2014 bond issue for a savings on interest costs

As of Jan '21, the Township's debt obligation was \$60.7 million after a note repayment ~ 82% of that debt is supported by the general fund budget

In 2021, the Township repaid \$5.1 million of bond principal, plus an additional \$1.4 million in interest

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New Municipal Revenue Sources for a Changing World

**A Primer on PILOTs 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 Local Redevelopment and Housing regulations and Tax Laws, including N.J.S.A 40A:20-1 et seq.

A Primer on PILOTs

Executive Summary

- ▶ PILOTs are a time-tested tool in NJ and have been used to cost-effectively support redevelopment and otherwise benefit taxpayers
- ▶ Hopewell Township has utilized PILOTs since 2002 - but it's important to structure these agreements properly
 - ▶ Improvements to previously-negotiated PILOTs will net approximately **\$700,000** more in financial benefits for the Township in 2022
- ▶ The Township has approved two PILOTs for Affordable Housing projects(Woodmont and Zaitz) that are expected to deliver **\$158 Million in revenues** over the next 30 years, much more than if taxed conventionally
- ▶ Tonight, we will be introducing a new PILOT for Hopewell Parc, which will deliver **\$387 Million in new revenues** over its term (5.8x higher than conventional taxes)
- ▶ PILOTs can also support investments in our Schools and EMS services, fund new services and amenities for residents, and reduce Township taxes

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. 14.1% 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, Former 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 members of the public have claimed 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, the Township agreed to compensate the developer each year for rental vacancies, amongst other issues
- ▶ Net, 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 could have been as high as:

\$1.5 Million Dollars

We Successfully Renegotiated the Hopewell Gardens PILOT in 2021

- ▶ On December 20th, the Township Committee approved a resolution amending the financial agreement for Hopewell Gardens
- ▶ This renegotiation accomplished two important goals:
 1. We reduced the annual rent guarantee, capping it at \$15,000, so that more net revenue flows to Hopewell Township; and
 2. We secured a +8.2% increase in the annual PILOT revenue
- ▶ The total financial benefit for Township residents is estimated to exceed **\$500,000** over the coming 10 years

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 \$650K of these PILOT monies to the District, to build a new baseball field at Back Timberlane, 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 environmental reasons and otherwise)
- ▶ On top, Capital Health agreed to contribute \$145K per year to the Township for its taxable entities, as a Payment in Lieu of Taxes
 - ▶ More recently, we successfully negotiated an increase in this annual payment. This year, the amended CHS PILOT will bring in an additional **\$197,356.23** in revenues

Lessons Learned from Previous HT PILOTs

- ▶ PILOTs can help the HT achieve important municipal goals, including the development of Affordable Housing projects without large taxpayer-subsidized upfront costs
- ▶ PILOTs can also deliver significant new revenues, reducing the burden for residential taxpayers
- ▶ However, it's critical that the Township take the time to get the ongoing financial details right in a PILOT:
 - ▶ The end result of any PILOT should benefit 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 until the recent renegotiation
- ▶ PILOTs can help support community projects that would not otherwise be feasible or affordable
 - ▶ Working with the District to build the new baseball field at Back Timberlane (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 moving forward in this spirit, to the extent other parties are willing

Modern Day PILOTs in Hopewell Township

- ▶ Over recent years, the Hopewell Township Committee has negotiated two PILOTs for redevelopment projects:
 - ▶ **Woodmont** - a residential project 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 significant increases in costs
 - ▶ To note, the Hopewell Valley School District currently has 700-800 open seats or available capacity, as enrollment has declined ~20% since its peak

A Closer Look at the Woodmont PILOT

(Federal City project)

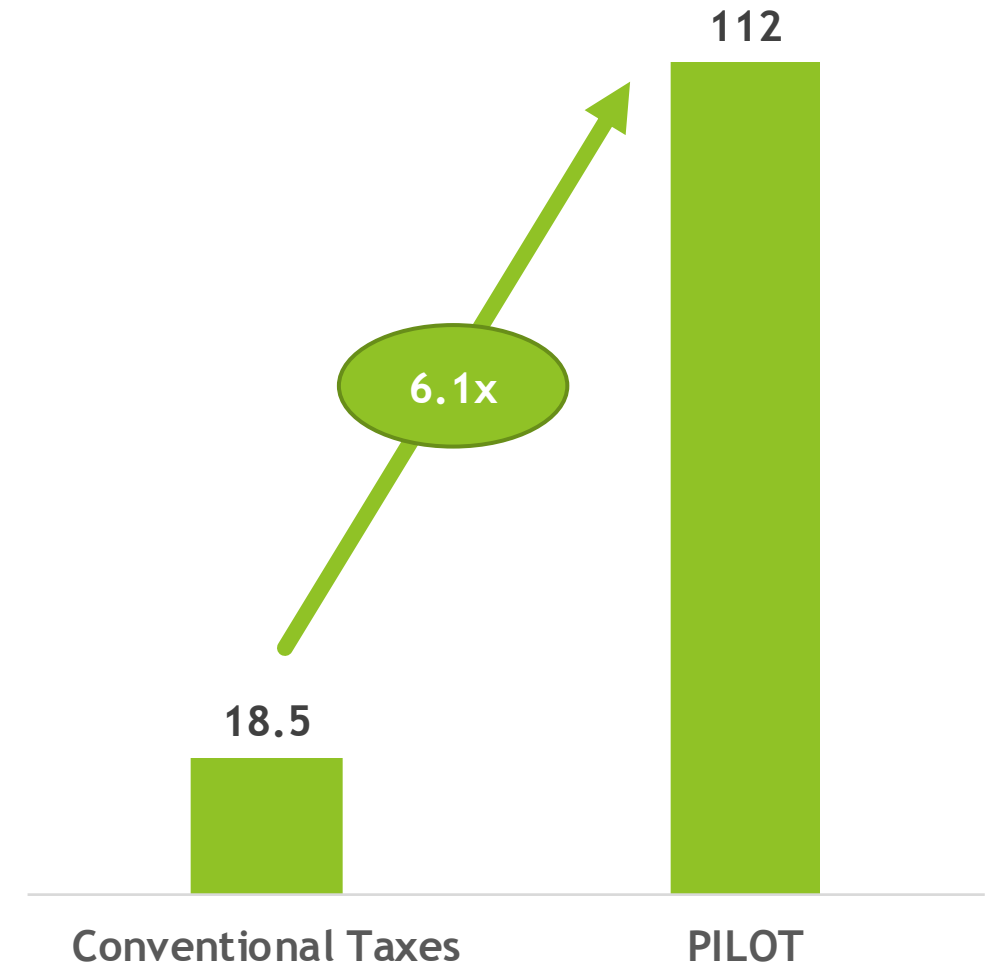
- ▶ Projected to deliver **\$830k** in Year 1 to Hopewell Township, once construction is complete
- ▶ This is equivalent to ~5% of our current TOTAL municipal tax levy, or roughly as much as the Township's former largest taxpayer paid (\$888k)
 - ▶ Importantly, the Woodmont PILOT mitigates the tax impact of BMS moving out
- ▶ 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 significant impact on Schools

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

(behind the Shop Rite on the 31 Circle)

- ▶ 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

Hopewell Township Revenue: Zaitz PILOT
USD Millions, Projected



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
PILOT Revenue to Township	<u>\$2,070,000</u>	<u>\$2,600,000</u>	<u>\$4,450,000</u>
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>
Net Revenue In Excess of Township Taxes	<u>\$1,380,000</u>	<u>\$1,830,000</u>	<u>\$3,470,000</u>

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 Ratables. 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 ⁽¹⁾	Applicable Cost	Residential Portion ⁽²⁾	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	-	-	-
	23,158,289	8,907,901	6,165,583	333

PROJECTED NEW RESIDENTS				
Unit Description	Unit Count	Applicable Multiplier ⁽³⁾	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
	301		592	197,128

(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.

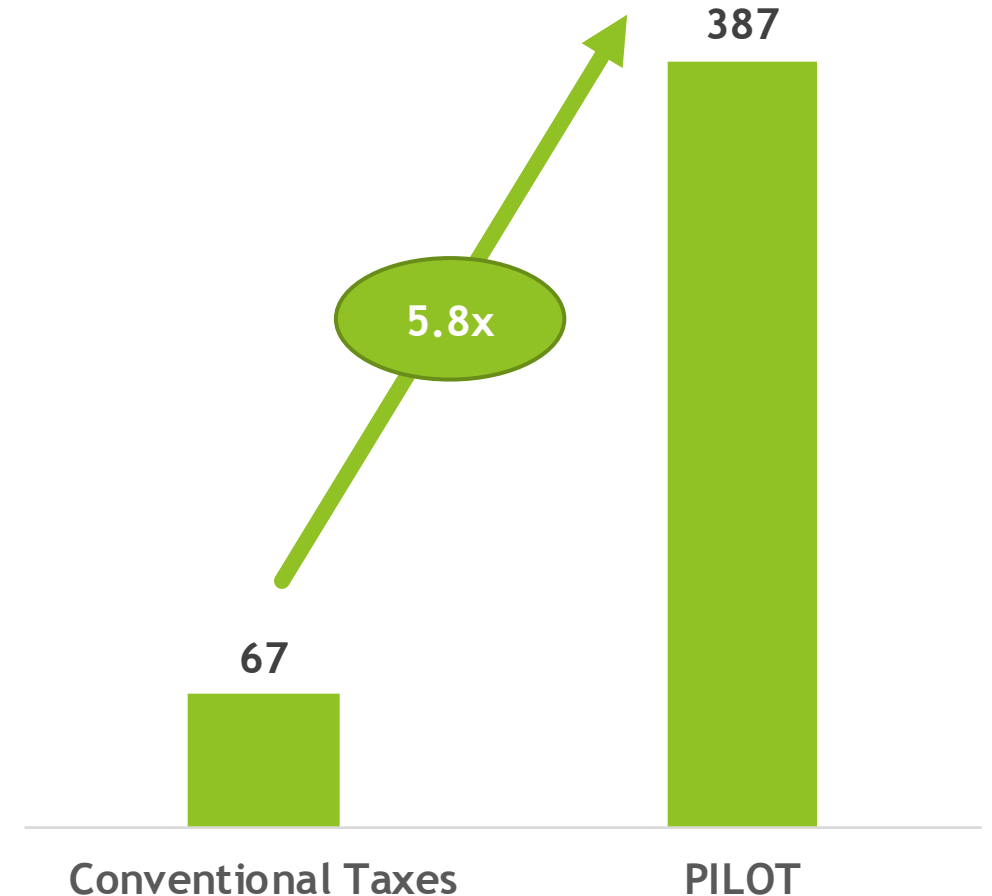
Prioritized Uses for Incremental Revenue

- ▶ 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
- ▶ We look forward to working with our residents and community partners on other ideas and proposals towards a better Hopewell Township. Stay tuned for opportunities to get involved and provide input

Tonight, We Will Be Introducing a new PILOT for the Hopewell Parc Project on Scotch Road

- ▶ We will cover this PILOT in more depth at the second reading in February, but I wanted to share several headlines this evening:
 1. This project will be phased over 15+ years. The financial agreement reflects this, allowing for 30 years of PILOT revenues for each phase
 2. Total Year 1 payments to the Township are projected at \$7 Million
 3. In total, the PILOT will (conservatively) generate \$387 Million in revenues for the Township, which is \$320 Million higher than if this project was taxed conventionally
- ▶ We have been in discussions with the School District, including working towards a joint demographic study
- ▶ As we did with the Capital Health project, we plan to utilize a portion of the PILOT revenues to make additional payments to the District, covering Hopewell Township's share of incremental educational costs
- ▶ We are also developing a longer-term plan to ensure that other Township services are scaled to meet any increased needs

Hopewell Township Revenue: Hopewell Parc PILOT
USD Millions, Projected



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Next Steps and Discussion

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Thank You!