

Fanwood Redevelopment Plans, PILOT/ Tax Agreements and South Avenue Commercial Corridor Zoning : FAQs

Areas in Need of Redevelopment

What is an “area in need of redevelopment”?

The Borough Council can delineate any area within a municipality as an “area in need of redevelopment” if the area qualifies under one or more of the criteria set forth in the Local Redevelopment and Housing Law, N.J.S.A. 40A:12A-5.

When properties qualify as and then are designated as an area in need of redevelopment by a governing body, a redevelopment plan may be prepared and adopted which would include specific zoning and development standards for the area. Designation of an area in need of redevelopment may also qualify projects for certain financial incentives only available to properties within an area in need of redevelopment.

What is the process to determine that an area qualifies as an “area in need of redevelopment”?

The Borough Council must adopt a resolution directing the Planning Board to conduct a preliminary investigation of the area to determine if it qualifies under the Local Redevelopment and Housing Law.

Upon completion of the area study, the Planning Board reviews the report and findings, during which the public is given an opportunity to ask questions and make comments regarding the investigation. The Planning Board then adopts a resolution recommending that the area, or any part thereof, be delineated as an area in need of redevelopment, or rejecting such conclusions and not recommending the delineation.

The Borough Council may then act to accept, reject, or modify such recommendations and adopt a resolution delineating the area as an area in need of redevelopment.

What is a Redevelopment Plan?

After an area is delineated as an Area in Need of Redevelopment, the Borough Council must adopt, by ordinance, a redevelopment plan for the area. The redevelopment plan will set forth the approved uses for the area, the bulk standards (i.e. heights, setbacks, etc.), and any other design or zoning characteristics that will be required for redevelopment in that area.

In addition, a redevelopment plan provides the municipality with significant control over a project, including the power to dictate architecture, building materials, green spaces, amenities and more. However, this control does not extend to control over occupancy or tenancy (i.e. a redevelopment plan cannot dictate specific end-users/tenants such as a specific store or company, as long as the uses comply with the plan).

What is the process for adopting a redevelopment plan?

The Planning Board must hold a public hearing on the redevelopment plan during which the public is able to comment on the proposed plan. After the public hearing, the Council can adopt the redevelopment plan by ordinance.

What are the current Areas in Need of Redevelopment in Fanwood?

Fanwood has two Areas in Need of Redevelopment located along the South Avenue Commercial Corridor which have Redevelopment Plans that set forth special zoning and other provisions for the development in those areas:

1. Fanwood Downtown Block 64 Redevelopment Plan adopted February 2005 (5th revision 2016)- *full build out completed.*
This redevelopment plan provided specialized zoning for the Downtown block such as Maximum Height District, Downtown Residential District, shared parking, building step backs and other design elements to ensure the compatibility of projects and cohesion with the character of the emerging town center and neighborhood.
2. Old South Avenue Redevelopment Plan adopted June 2019
This redevelopment plan builds upon other planning documents or project plans in the area such as the Commercial Corridor Zoning overlay, the Area in Need of Rehabilitation, and the South Avenue TAP grant project. One of the issues The Old South Avenue Redevelopment Plan addresses is the disruption in the South Avenue streetscape by providing for the vacation of Old South Avenue and requiring pedestrian friendly design elements. The potential zoning needs for the significant mixed-use project planned at 105 South Ave. are also accommodated.

Payments in Lieu of Taxes (PILOTs)

What is a long-term tax exemption (LTTE) or PILOT? How does it work?

Long Term Tax Exemptions (LTTEs) are authorized by New Jersey State Law N.J.S.A. 40A:20 The tax abatement law was created to help NJ municipalities efficiently and responsibly improve their ratable base and redevelop underutilized and dilapidated properties. Long Term tax exemptions are only permitted in areas that have already been determined to be an Area in Need of Redevelopment. **A tax abatement is not a right; the redeveloper must demonstrate the need for the abatement to make the project feasible.**

A long-term tax exemption is an exemption from paying taxes on the value of the improvements made to a property as part of a redevelopment agreement. The maximum term of the exemption is 30 years. In lieu of paying taxes on the exempted value of the improvements during that term, the redeveloper pays annual service charges, or payments in lieu of taxes (PILOTs). The PILOT payments can be calculated as a percentage of revenue or a percentage of construction costs.

Redevelopers who receive PILOTS continue to pay regular taxes on the real estate on which the project sits. **The revenue generated to the county, schools, and town from the property before the project was built is almost never reduced. It is only the value of the improvements that are subject to the PILOT.** Once the PILOT period has ended, the entire property (including the improvements) is subject to conventional taxes. Law, N.J.S.A. 40A:20-1, et seq.

Who gets LTTEs and PILOTS?

Not all developers qualify for tax exemptions. To qualify for an LTTE, the redeveloper of the Area must be an Urban Renewal Entity (a limited dividend entity) or non-profit subject to profit restrictions (a maximum of 12% of project costs).

PILOTS and other incentive programs are used in select cases, not as of right. Most times they are used to offset extraordinary, initial costs of the development or obstacles that threaten feasibility of the project such as environmental clean-ups, high acquisition costs or infrastructure needs. In Fanwood, over 1 million was spent to remediate environmental contamination downtown that took over a decade and not only received NJDEP sign off, but one site is a recognized NJDEP innovation & partnership success story. These programs have made it possible for Fanwood to turn abandoned, dilapidated light industrial properties into mixed-use buildings that have provided retail and living space to our downtown over the last 15 years. In addition to the 150 new residents living downtown and enriching our community, the new retail space has created 31 full time jobs and over 20 part time jobs in Fanwood. It has helped us attract over \$30 million in investment and revitalize Fanwood into a highly desirable town, increased our property values and made the town a statewide model for integrating a commuter hub into a family-friendly living environment.

What are the benefits of a PILOT to a redeveloper?

The redeveloper benefits from a PILOT because the annual service charges paid each year are almost always less than what the redeveloper would pay in traditional taxes. After all, the idea behind the PILOT is to provide incentive to the redeveloper to complete a redevelopment project that likely cannot be made profitable without the financial incentive. Further, the redeveloper benefits by having predictable, stable payments over a long-term period. This stability is often necessary for the redeveloper to be able to obtain bank financing for the project.

What are the financial benefits of a PILOT to the municipality?

The municipality benefits from a PILOT because it is able to keep 95% of the revenue from the PILOT. In traditional taxation, Fanwood only keeps 20% of the tax revenue, with the larger piece going to the school district (60%), the county (20%). But, as stated above, the school districts and county do not generally lose out on tax revenue, because these redevelopers continue paying the existing land taxes.

As an example, Elite Properties, the developer of Fanwood Crossing in downtown currently pays \$311,684 on property that was prior to development paying \$72,000 (of which Fanwood got 20% or \$14,400). With a PILOT payment Fanwood keeps roughly 95%. Under the PILOT for the Fanwood Crossing project, Fanwood currently receives \$286,820 annually versus the \$100,516 it would get with conventional taxes (after schools take 60% and County takes 20%). That is a difference of \$186,304 annually in the Borough budget

- **Under conventional taxation Fanwood would receive \$100,516**

\$473,024 Conventional tax (2024 rate)
-\$296,823 62.75% Schools portion
- \$75,684 16% County portion
\$100,516 TOTAL Fanwood keeps

- **Under Tax Abatement Fanwood receives currently \$242,115.94**

\$227,325 PILOT payment
- \$11,366 5% to County
\$215,959 subtotal
+ \$17,926 plus Fanwood portion of conventional land taxes
\$233,885 TOTAL Fanwood keeps

Under this example, schools and counties are still receiving their portions of the Land taxes (\$52,936 and \$13,497 respectively).

That makes a big difference in the Borough budget. The schools and county are not harmed because they are still getting what they always did from the land and Fanwood gets a healthier piece of the gain for a period of time (up to 30 years) of this consistent, recurring revenue. This directly supports the municipal budget helping keep resident taxes down. It also allows the Borough to undertake important community improvements and projects for example- the annual debt service for the new Fanwood Library is expected to be \$160,000. The PILOT is a source of revenue that could cover all or a portion of that debt service rather than any additional tax levy on the residents.

- Upon expiration of the tax abatement the project returns to conventional taxation.
- PILOT agreements have a provision prohibiting excess profits. The developers must submit audited financial statements every year to show that.

Is the school district harmed by PILOTs?

The Board of Education is guaranteed its budget regardless of what the municipality collects. **The school district always receives 100% of its budget through traditional taxation.** Changes in municipal receipts to the positive or negative do not affect the BOE budget.

Does the new development result in a large increase in school children?

Regarding school crowding concerns from multi-family residential buildings:

The anticipated number of school children that come from a new residential unit is dependent on numerous factors, including the age, cost, number of bedrooms, construction type, and level of amenities. Studies conducted by the Center for Urban Policy Research at Rutgers University, the Joint Center for Housing Studies at Harvard University, and information from other New Jersey municipalities have shown that the number of school-age children in multi-family housing is dramatically lower than that which comes from a detached single-family dwelling. A typical threshold used based upon data in NJ is less than 10 school age children per 100 market rate apartments (1 and 2 bedroom) in above median income communities such as Fanwood. Not all of those children live full time and some attend private school.

As a point of reference, in the 80 units at Fanwood Crossing, the school age children living at any one time over a 9-year period has been about four (4). Since COVID that number has gone up a bit to 14, several of whom are part time with a single parent and/or attend private school. These statistics are similar to our neighboring towns.

What are the Fanwood Tax abatements (PILOTs)?

1. Fanwood Crossing- (80 units total, 8 retail spaces). Fanwood Crossing consists of 3 phases. The three buildings are owned by separate Urban Renewal Entities and each has a PILOT Agreement. This PILOT was calculated based upon construction costs. The pre-development conventional taxes on the property were \$72,000 (of which Fanwood received 20%, or \$14,347)

Fanwood Crossing I (250 South Ave) -24 residential units with 3 ground floor retail spaces.

The project paid \$102,092.85 in 2024 (PILOT \$86,119.73 + conventional Land Tax \$20,973.12).

Fanwood Crossing II/246 South Ave.- 40 residential units with 5 ground floor retail spaces.

The project paid \$133,578.97 in 2024 (PILOT \$91,685.60 + conventional Land Tax \$41,893.37).

Fanwood Crossing III /233 La Grande Ave- 16 two-bedroom apartments.

The project paid \$71,012.30 in 2024 (PILOT \$49,519.33 + conventional Land Tax \$21,492.97).

Station Square/2 second Street (28 townhome style rental units and 7 affordable housing apartments)

The project has a PILOT agreement based upon percentage of revenue. The project paid \$217,308.63 in 2024 (PILOT \$176,190.63 + conventional land tax is \$41,118.00

These 2 redevelopment projects and their associated PILOT Agreements have resulted in over \$400,000 per year of increased revenue to the Borough, without any reduction in pre-development land tax revenue for the schools and the county.

Are PILOTS part of the other development projects in Fanwood?

There are only two projects that have PILOT agreements in Fanwood - Fanwood Crossing and Station Square. The other renovation projects and development projects are conventionally taxed:

Lightbridge Academy	Enchantments- mixed use retail/residential
K9 resorts	Fanwood Clipper- mixed use retail/residential
40 South Avenue- mixed use	SoHo- mixed use retail/residential
Fanwood Animal Hospital	70 South Ave- residential 12 units

South Avenue Commercial Corridor Zoning

What is the Zoning on South Avenue?

The zoning along South Avenue is set forth in the Commercial Corridor Zoning Overlay adopted by Ordinance 15-R07R on May 18, 2015. The established three zones CC West, CC Center, and CC east. Each zone allows for a mixed-use development with multifamily housing.

The CC zoning was established in compliance with Fanwood's Housing Element and Fair Share Plan of the Master Plan as well as the Fair Share settlement Agreement. The standards, permitted uses and other items may vary in each zone.

How is the Zoning on South Avenue part of the Fair Share Housing settlement?

Fanwood was required to do a town wide site evaluation to determine sites suitable for affordable housing. In addition, Fanwood was required to provide evidence that it had or would put in place the zoning to enable mixed use residential development in Fanwood of an appropriate scale to ensure it could meet its COAH determined unit count need.

The following is an excerpt from the compliance documents:

South Avenue Overlay Zone District

The Borough will adopt an affordable housing overlay zone district covering the entirety of the Borough's Commercial Corridor along South Avenue in the CCW, CCC and CCE zones. This overlay zone would permit the development of new, mixed- use buildings with residential development on the second and third floors or the conversion of existing buildings into 3 story mixed-use buildings with residential...