



FANWOOD RESIDENTS ARE NOT PICKING UP THE TAB FOR DOWNTOWN DEVELOPERS AN EXPLANATION OF TAX INCENTIVES

By Tom Kranz, President, Fanwood Borough Council and Elizabeth Jeffery, Fanwood Economic Development Director

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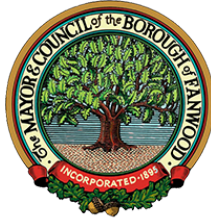
Recently, a concerned citizen wrote a letter to TAPintoSPF that raised questions about tax incentives for Fanwood's downtown development. Similar questions came up at an April town meeting. Since the subject of that meeting was the town-wide property revaluation, the Mayor and Council were not prepared to engage in a detailed explanation of tax abatements or PILOTS offered to developers. But we will address the concerns here.

The acronym PILOT is short for "payment in lieu of taxes." It is an investment incentive created by State Statute that allows developers of properties located in an "Area in Need of Redevelopment" to make annual payments under an agreement with a municipality -- instead of a conventional tax payment.

The Statute sets forth the general requirements and parameters under which tax abatements can be administered. It includes such things as evidence of need, profit limitations and increased payments over time. The payments are less than the property taxes would be and thus help the financial feasibility of the project. Equally important to the developer is the known payment schedule. This schedule is often necessary to get financing. When the agreement ends, the property is at full conventional taxation. Some residents evidently believe this arrangement is unfair to most property owners in town who pay their fair share of taxes. Or, as the headline of a recent letter to the TAPintoSPF editor suggests, Fanwood residents are "picking up the tab" for downtown developers. This is not true, but it does point out a fundamental misunderstanding of what PILOT's are and why towns use them.

The answer begins with filling in the blanks that our citizens may not be aware of. First, the developers who receive PILOTS always continue to pay regular taxes on the real estate on which the property sits. That means the revenue generated to the county, schools and borough from the property before the project was built is not reduced. The PILOT payments are only on the improvements, not the land.

Second, the payments they make in lieu of property taxes are still a very big increase from what the properties were paying. As an example, Fanwood currently has one developer operating under PILOT agreements. Elite Properties is the developer of Fanwood Crossing in downtown. Fanwood Crossing currently pays \$311,648 under its agreement on property that was previously paying \$72,000.



Additionally, with a PILOT payment Fanwood keeps roughly 95%. Under the PILOT for the Fanwood Crossing project, Fanwood currently receives \$242,115 annually versus the \$76,865 it would get with conventional taxes (after schools take 60% and County takes 20%). That makes a big difference in our budget. The schools and county aren't 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.

Third, in the 80 apartments at Fanwood Crossing there are four (4) school age children, and this is actually the highest count since they opened 7 years ago. In most transit-oriented, mixed-use projects, that is the trend. And fourth, all developer agreements are approved by ordinance and subject to a public hearing which is announced in advance by the Council and advertised in the weekly newspaper and on TapInto.net. The public has ample opportunity to ask questions about these agreements before they are enacted. Also, the Fanwood Crossing tax abatement information is in the town budget each year showing how much they pay.

PILOT's and other incentive programs are effective tools for towns. They are used in select cases, not as a rule. Most times they are used to offset some of the big initial costs of 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 us to turn abandoned, overgrown, dilapidated 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 contributing to our economy, the new retail space has created 41 full time jobs and over 25 part time jobs in Fanwood. It has helped us attract over \$30 million in investment and revitalized 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.

In assessing fairness, we urge the community not to lose sight of the big picture—but for incentives and partnership, these larger investment projects would not have happened, allowing Fanwood's downtown to be transformed into a source of community pride for our citizens today and for those still to come.

If a Fanwood resident has further questions or would like additional information, contact one of us at tkranz@fanwoodnj.gov or ejeffery@fanwoodnj.org.

Sincerely,

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