



Township of Cranford

Redevelopment
Projects & PILOTs:

Hartz Mountain &
Iron Ore Properties

Phoenix Advisors, LLC

September 27, 2022

How We Got Here

- 2017 & 2018: Hartz Mountain lawsuits seek to leverage affordable housing obligation to build 905 apartments at 750 Walnut.
- August 2020: Township approves South & Chestnut MoU including a 5-year PILOT with Iron Ore Properties, as part of a Fair Share Housing Center Settlement.
- December 2020: Township unanimously approves 750 Walnut MoU including a 30-year PILOT with Hartz Mountain, for a project consisting of 250 residential units and 15-acres of commercial space.
- April 2021: Court approves the Township's Affordable Housing Plan conditioned on completing these projects, including South & Chestnut and 750 Walnut. Compliance with the Affordable Housing Plan provides protection from builder's remedy lawsuits.
- The proposed projects fully conform with the respective MoU with Hartz Mountain and Iron Ore Properties approved by Township Committee in 2020 and comply with the Township's Third Round Affordable Housing obligation.



PILOT Basics

- A PILOT, or “payment in lieu of tax”, is an amount that a property owner pays instead of paying conventional real estate taxes on the improvement portion of their property. The amounts due under the PILOT are a municipal lien.
- Facilitates redevelopment in areas that need it and helps fulfill affordable housing obligations. Allows the municipality to have increased decision-making powers throughout the redevelopment process.
- The land portion is not exempt from taxation.
- The term of the PILOT is generally 30-years for Long-Term PILOTs and 5-years for Short-Term PILOTs. After the expiration of the financial agreement, the payments revert to conventional taxes.
- State law sets the minimum Long-Term PILOT at 10% of annual gross revenue (“AGR”) or 2% of project costs; whereas Short-Term PILOTs are typically structured as the taxes paid in the prior year plus a percentage of the incremental conventional taxes on the new improvements (0%/20%/40%/60%/80%).



Proposed Project Descriptions

750 Walnut Project:

- Residential Component (Long-Term PILOT)
 - 212 market-rate units and 38 affordable units
 - Project site currently produces approx. \$460,000 in total taxes per year
- Commercial Component (Conv. Taxes)
 - Approximately 240,000 SF of commercial/flex space
 - Project site currently produces approx. \$460,000 in total taxes per year

South & Chestnut Project:

- 201 Walnut Component (Short-Term PILOT)
 - 34 market-rate units and 8 affordable units
 - Project site currently produces approx. \$33,000 in total taxes per year
- South Ave Component (Short-Term PILOT)
 - 48 market-rate units, 9 affordable units and approx. 2,600 SF of retail space
 - Project site currently produces approx. \$81,000 in total taxes per year



Proposed PILOT for 750 Walnut

ESTIMATED PILOT CASH FLOW - RESIDENTIAL COMPONENT

| | <u>Year 2</u> | <u>Year 30</u> | <u>30-yr Total</u> |
|--|------------------|--------------------|---------------------|
| Annual Gross Revenue (AGR) <i>Based on 250 units at projected rents/escalation</i> | \$7,815,000 | \$17,880,000 | \$356,900,000 |
| Annual Service Charge (ASC) <i>Initially at 11.5% of AGR and subject to escalation</i> | 900,000 | 3,025,000 | 45,965,000 |
| As a % of Conv. Taxes <i>Based on a projected assessment of \$30,960,000</i> | 41% | 80% | 54% |
| Plus: Administrative Fee <i>2.00% of ASC per statute</i> | 18,000 | 60,000 | 920,000 |
| Less: County Fee <i>5.00% of ASC per statute</i> | (27,000) | (120,000) | (1,590,000) |
| Less: Net Land Tax Credit <i>Based on a projected assessment of \$5,250,000</i> | (280,000) | (485,000) | (10,955,000) |
| Net PILOT Revenue to Municipality After LTC | \$610,000 | \$2,480,000 | \$34,340,000 |

ESTIMATED TAXES - COMMERCIAL COMPONENT

| | <u>Current Taxes</u> | <u>Year 2</u> | <u>Year 30</u> | <u>30-yr Total</u> |
|---|----------------------|--------------------|--------------------|---------------------|
| Projected Assessment <i>Based on 240,000 SF of flex space</i> | \$14,000,000 | \$17,200,000 | \$17,200,000 | \$17,200,000 |
| Projected Total Taxes | 925,000 | 1,205,000 | 2,100,000 | 48,000,000 |
| Municipal Share (22%) | 205,000 | 270,000 | 470,000 | 10,695,000 |
| School Share (56%) | 520,000 | 680,000 | 1,180,000 | 27,015,000 |
| County Share (20%) | 185,000 | 240,000 | 420,000 | 9,590,000 |
| Library Share (2%) | 15,000 | 20,000 | 30,000 | 705,000 |
| Estimated Total Tax Revenue | 925,000 | \$1,205,000 | \$2,100,000 | \$48,000,000 |

- The Residential Component (Long-Term PILOT) will be built on 50% of the site and the Commercial Component (Conv. Taxes) will be on the other 50%.
- The proposed PILOT is for 30 years and is based on a percentage of annual gross revenue: 11.5% in years 1-10; 12.5% in years 11-20; and 13.5% in years 21-30.
- The land will continue to be taxed conventionally and is projected to produce \$360,000 of total tax revenue per year.
- The Commercial Component is subject to conventional taxes and will be split between the Township (22%), School District (56%), County (20%) and Library (2%).
- The Commercial Component alone (15-acres) will exceed the current total taxes on the aggregate 30-acre property.

(1) Based on discussions with Tax Assessor and preliminary estimates. Assumes 2% tax rate growth per year.

(2) PILOT terms were independently analyzed based on information in MoU, supporting documentation and consultant reports.

(3) Current taxes reflect the projected 2022 taxes on the full 30-acre property. The Project is not located in the SID.

(4) Totals may not add due to rounding.



Proposed PILOT for South & Chestnut

CURRENT/PROJECTED TAX ASSESSMENTS

| | Current | | | Projected | | | |
|-------------------|------------------|------------------|--------------------|-------------------|--------------------|--------------------|---------------------|
| | Land | Imp. | Total | Land | Imp. | Total | |
| 201 Walnut | 314,000 | 163,300 | 477,300 | 201 Walnut | 600,000 | 4,500,000 | 5,100,000 |
| South Ave | 679,000 | 511,900 | 1,190,900 | South Ave | 1,190,000 | 5,310,000 | 6,500,000 |
| Total | \$993,000 | \$675,200 | \$1,668,200 | Total | \$1,790,000 | \$9,810,000 | \$11,600,000 |

ESTIMATED PILOT/TAX CASH FLOW

| PILOT/Tax Basis | Current | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Conv. Taxes | | 0% | 20% | 40% | 60% | 80% | Conv. Taxes |
| | | Increment | Increment | Increment | Increment | Increment | |
| Est. Taxes/PILOT: | | | | | | | |
| 201 Walnut | \$33,000 | \$43,000 | \$114,000 | \$185,000 | \$257,000 | \$328,000 | \$400,000 |
| South Ave | 81,000 | 84,000 | 169,000 | 254,000 | 339,000 | 424,000 | 509,000 |
| Total | \$114,000 | \$127,000 | \$283,000 | \$439,000 | \$596,000 | \$752,000 | \$909,000 |
| Allocation: | | | | | | | |
| Municipal | \$25,000 | \$27,000 | \$174,000 | \$321,000 | \$467,000 | \$614,000 | \$196,000 |
| School | 62,000 | 69,000 | 71,000 | 72,000 | 74,000 | 75,000 | 496,000 |
| County | 22,000 | 25,000 | 33,000 | 41,000 | 49,000 | 57,000 | 176,000 |
| Library/SID | 5,000 | 6,000 | 6,000 | 6,000 | 6,000 | 6,000 | 41,000 |
| Total | \$114,000 | \$127,000 | \$284,000 | \$440,000 | \$596,000 | \$752,000 | \$909,000 |

- The properties currently generate \$114k of total tax revenue split between the Township (\$25k), County (\$22k), School District (\$62k) and Library/SID (\$5k).
- 201 Walnut and South Ave are Short-Term PILOTs, structured as 5-year incremental tax phase-ins (0/20/40/60/80%).
- The land is not abated so all taxing entities will receive no less than current taxes.
- In Year 6, the PILOT reverts to conventional taxes and is projected to generate over \$900k per year.

(1) Based on discussions with Tax Assessor and preliminary estimates. Assumes 2% tax rate growth per year.
 (2) PILOT terms were independently analyzed based on information in MoU, supporting documentation and consultant reports.
 (3) The Project is located in the SID, so the tax split differs from 750 Walnut.
 (4) Totals may not add due to rounding.



Aggregate Cost/Benefit Summary

| PROJECTED PUBLIC SCHOOL CHILDREN (PSC) | | | | | |
|--|------------|-----------------------|---------------|---------------------|----------------------|
| Project Component | Unit Count | Applicable Multiplier | Projected PSC | Est. Cost per Pupil | Estimated Total Cost |
| 750 Walnut -Res. | 250 | 0.13 | 34 | 10,500 | 355,000 |
| 750 Walnut -Com. | 0 | 0.13 | 0 | 10,500 | 0 |
| 201 Walnut -Res. | 42 | 0.13 | 6 | 10,500 | 65,000 |
| South Ave -Mixed | <u>55</u> | 0.13 | <u>7</u> | 10,500 | <u>75,000</u> |
| | 347 | | 47 | | \$495,000 |

| PROJECTED COST/BENEFIT SUMMARY AT FULL STABILIZATION | | | | | |
|--|------------------|------------------|------------------|-----------------|--------------------|
| | Municipal | School* | County* | Library* | Total |
| PROJECTED REVENUE | | | | | |
| 750 Walnut -PILOT | \$530,000 | \$0 | 25,000 | \$0 | \$555,000 |
| 750 Walnut -Land Tax | 80,000 | 205,000 | 70,000 | 5,000 | 360,000 |
| 750 Walnut -Ratable | 270,000 | 680,000 | 240,000 | 20,000 | 1,205,000 |
| 201 Walnut -PILOT/Land | 10,000 | 24,000 | 9,000 | 1,000 | 43,000 |
| South Ave -PILOT/Land | <u>19,000</u> | <u>47,000</u> | <u>17,000</u> | <u>1,000</u> | <u>84,000</u> |
| Total Revenue | \$909,000 | \$956,000 | \$361,000 | \$27,000 | \$2,247,000 |
| PROJECTED COSTS | | | | | |
| Municipal Costs | \$330,000 | \$0 | \$0 | \$0 | \$330,000 |
| School Costs | <u>0</u> | <u>495,000</u> | <u>0</u> | <u>0</u> | <u>495,000</u> |
| Total Costs | \$330,000 | \$495,000 | \$0 | \$0 | \$825,000 |
| NET REVENUE | \$579,000 | \$461,000 | \$361,000 | \$27,000 | \$1,422,000 |

- Based on information provided by the District, 409 comparable existing units generated only 55 school children (0.13/unit).
- Further, enrollment in the District has decreased by 162 students (a 4% reduction) from 3,905 to 3,743 over the last 5 years (per 2021 audit).
- The projected aggregate annual PILOT/tax benefit far exceeds the estimated incremental school (\$495k) and municipal (\$330k) costs.
- The combination of the PILOTs and new commercial ratables results in an increase in revenue to all taxing entities as compared to the current underutilized or vacant properties.

**New tax revenue produced for the School District, County and Library does not add to their respective budgets; it redistributes the tax burden across the tax base, thus reducing the average resident's tax bill.*

(1) Based on discussions with Tax Assessor and preliminary estimates. Assumes 2% tax rate growth per year.
 (2) Demographic multipliers are based on actual data from other new residential development in the Township.
 (3) Cost per pupil is based on the Cost of Classroom Spending per Cranford School District FY2022-23 Budget.
 (4) Totals may not add due to rounding.



Additional Considerations

- \$200 million investment in the Township and addition of 55 affordable housing units in compliance with the Township's Third Round Affordable Housing obligation.
- Significant reduction in total unit density, reduction in new school children and increase to affordable housing set aside.
- On- and off-site improvements such as public open space, walking trails, basketball courts, traffic improvements and ground floor retail space.
- A reliable stream of new revenue for the Township that can be leveraged for various public improvements.
- Dropping tax appeals on 750 Walnut Avenue filed over the last seven (7) years; the cost of which is estimated to be \$325,000 per year. Tax appeals are not permitted under the LTTE Law.
- Addition of a new commercial ratable to the tax base with an estimated assessment of approx. \$17.2 million, which exceeds the total assessment on the current 30-acre parcel at 750 Walnut prior to the 2022 reduction.

