



BOROUGH OF DUNELLEN

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Message from the Mayor Jason F. Cilento November 2021

Payment in Lieu of Taxes (PILOT): The Benefits of this Economic Tool to the Revitalization and Growth of Dunellen's Downtown

As we continue to see the construction of Dunellen Station on the old Art Color Factory site and look forward to the benefits this project and other multi-use developments coming to downtown Dunellen will have for our local economy and tax base, I want to use this month's *Message from the Mayor* to discuss with you the advantages of payments in lieu of taxes (PILOT) and dispel any misconceptions there may be regarding this economic tool that can be used to revitalize and grow our downtown, while at the same time using the incentive program to improve infrastructure, increase community value and augment revenue to the municipality on properties that otherwise may remain undeveloped and depreciated in value.

History of Redevelopment in Dunellen

Dunellen's redevelopment efforts began in 2001 when the Dunellen Mayor and Borough Council authorized the Dunellen Planning Board to conduct a preliminary investigation as to whether the study area (Route 28 from the Middlesex to the Plainfield borders, and one block east and west on both sides) qualified as an area in need of redevelopment. This resulted in a "Report on a Study to Determine the Qualification of the Dunellen Downtown Redevelopment Study Area as a Redevelopment Area" which was presented to the Dunellen Planning Board and adopted by resolution on April 28, 2003. The report and resolution were forwarded to the Mayor and Dunellen Borough Council which accepted it and by resolution dated May 5, 2003, designated the subject area as in need of redevelopment. Borough attorneys, engineers, and planners in consultation with the Mayor and Council created the "Dunellen Downtown Redevelopment Plan, Phase One" that was adopted by ordinance in July 2004 and periodically updated. This document is the basic zoning and land use blueprint for redevelopment and it designated three main sites: Site #1 (Train Station North), Site #2 (Train Station South) and Site #3 (the 19 acres between the train tracks and Columbia Street commonly known as the "Art Color Complex"). At a later point, Site #4 would be added. Properties in Site #4 are known as Remainder parcels as the Next Phase(s) Redevelopment Area. These properties are located on both sides of the street on North Avenue from the Plainfield border to Madison Avenue and both sides of the street on Bound Brook Road to Middlesex except for the two multi-family properties located on the south side of the road.

In late 2004, the owners of the Art Color Complex, once the site of a major printing plant that employed hundreds of workers, made it known that they wanted to turn the site that was now used mostly for warehouses and light industry into a more attractive mixed-use housing/retail setting. By a Request for Proposal (RFP) process, the Redevelopment Agency received and reviewed six proposals for redevelopment from major developers. The proposals considered improvements to all three original Sites. On February 20, 2006, the Council designated Kaplan Companies as the redeveloper. A condition of the designation was that an Agreement between the Borough and Kaplan Companies be arrived at within a certain time. When that did not occur, Kaplan was de-designated as of January 2007 and Baker Residential was selected as the Redeveloper. Unfortunately, before the Borough and Baker could arrive at a mutually accepted Agreement, the financial melt-down of 2007-2008 occurred and formal redevelopment activities were put on hold at the request of the Redeveloper.

The economy slowly began to recover, and the Art Color Complex owners again expressed an interest in developing the site. This time, they would do so in partnership with established builders. Negotiations ensued, and on July 13, 2017, the Mayor and Dunellen Borough Council by resolution entered into an Agreement with Brudner Redevelopment Partners Urban Renewal LLC. On the 19-acre "Art Color" site, now known at Dunellen Station, there will be 130 townhomes for sale and 252 apartments for rent, with 58 of the rental apartments being affordable housing. There will also be a 10,000 sq. ft. commercial/retail building on the former World Gym site. Residents of the complex will have access to a Club House with a community room, barbecue area, weight room and pool. The development will be home to over 600 new Dunellen residents. The development of the Art Color complex will be done by two companies: K. Hovnanian will build the townhouses and Prism will build the apartments and retail space. Both companies have many years of experience in building redevelopment sites throughout New Jersey and surrounding states.

In January 2020, I presented to the Dunellen Borough Council the opportunity to appoint a Municipal Planner, DMR Architects, a professional service our municipality needed as we turn towards this new era in Dunellen. In order to be successful in our redevelopment efforts, we believed we needed a professional who could assist us in that vision and also elicit public input as we move collectively ahead. Together with DMR Architects, a Community Vision Plan for downtown Dunellen was developed and issued to the residents and business-owners to better understand the community's preferences as we continue to welcome the redevelopment of Dunellen's downtown. We have been using this survey information to help guide us on amending our existing Redevelopment Plan's design standards and development guidelines, as well as our zoning ordinance, making sure everything reflects our community's image for the downtown.

What is a Payment in Lieu of Taxes (PILOT)?

New Jersey has established the ability for municipalities to make use of an economic tool under the Long-Term Exemption Law, N.J.S.A. 40A:20A-1, et seq., called payment in lieu of taxes (PILOT). A PILOT is a tax exemption from paying the taxes on the value of the improvements made to a property as part of a redevelopment and financial agreement. 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 (PILOT) at an amount agreed to by the parties based upon a formula set forth in the Long-Term Tax Exemption Law. PILOT agreements can last anywhere between 10 to 30 years.

What are the reasons for and the benefits of a PILOT?

The Long-Term Tax Exemption Law was enacted in order to attract development in areas in need of redevelopment in order to spur economic growth in underutilized properties and therefore increase the ratable base within the municipality. The rationale behind the law was that blighted properties generally needed an economic boost in order to once again become productive, and, indeed, as we have learned in Dunellen, the costs of redeveloping a given site are often such that, without a PILOT, the developer cannot achieve a level of profit sufficient for him or her to be willing to undertake the project. Recognizing this economic reality, the legislature granted municipalities the authority to charge less than the full tax amount as an incentive for a property owner to undertake redevelopment. Certainly, some level of revenue from a new redevelopment is better than none at all from a fallow property, the thinking went, and over time that the PILOT amount would increase, with the building ultimately being added to the regular tax rolls upon expiration of the PILOT agreement. New redevelopment would also spur additional economic activity and further physical development, making the award of a PILOT a long-term investment in the future of a municipality. With the Dunellen Station project having led the way, this is exactly what is in the process of taking place along the Borough's main thoroughfares.

An additional positive for the Borough when a PILOT is granted is the increase in revenues the Borough receives as compared to a traditionally taxed property. The municipality gets to keep 95% of the revenue from the PILOT while the County gets the remaining 5%. Normally, Dunellen would only keep 26% of tax revenues, with larger portions of the tax payment going to the school district (62%), with other payments to the County (12%), the Library (1%), and Open Space funds (1%). For example, on a property requiring redevelopment that would pay \$10,000.00 in annual property taxes once developed, only \$2,600.00 of that would be kept by the municipality. In this example, under a PILOT granted to incentivize redevelopment of that property, where the annual PILOT amount was \$8,500.00 instead of the full \$10,000.00 in traditional taxes, the municipality would be able to keep \$8,075.00. This annual amount would increase over the life of the PILOT, with this kind of agreement providing the Borough with as much as 30 years of consistent, recurring revenue.

To place the above into perspective regarding current redevelopment in Dunellen, prior to the development of Dunellen Station, the property was paying about \$250,000.00 in property taxes, based on the value of the commercial property at the time. The anticipated value of Dunellen Station after full completion (including all market value townhomes and apartments) will be close to \$100,000,000.00. Under the negotiated formula of the PILOT and the land taxes, the annual taxes and fees from the development will increase to approximately \$700,000.00 in the first year and will continue to increase for 30 years. This is additional revenue we never would have realized on this property without this economic tool in our pocket and it can now be used for improvements to infrastructure, enhanced quality of services and alleviating taxes.

For example, PILOTs are able to assist the Borough in funding projects in the municipality such as infrastructure and capital improvements (i.e. North Washington Avenue Pump Station and a new sewer line in regard to the Dunellen Station project), as well as future park improvements and pedestrian safety throughout the downtown, that would otherwise be funded through traditional taxes. These types of community benefit investments are made feasible through PILOTs and benefit the community as a whole.

Impact on School System

Specifically in the Dunellen Station project, the townhomes and apartments are being designed for and marketed to commuters who will take trains or buses to work. They are mostly one- or two-bedroom units, with a few three-bedroom units required under New Jersey's Affordable Housing laws. Using the demographic multipliers prepared by the Rutgers Edward J. Bloustein School of Planning and Public Policy, our experts calculate that we can expect approximately 41 additional school aged children for the Dunellen Station development. We must keep in mind that these students are spread out among all K-12 grades in our district. This report is on the Redevelopment web site page and can be found here: <https://www.dunellen-nj.gov/redevelopment/index.php>. Most communities like Dunellen which are advancing under a transit-oriented development model have reported receiving fewer school aged children in multi-family dwellings than initially anticipated. For example, the Mayor of South Orange, NJ at a Downtown New Jersey conference noted that they counted one school-aged child being produced for every 33 units in a multi-family housing development.

In addition, a PILOT does not have a negative impact on the school district's funding. The school district will always receive 100% of our statutorily required full amount of funding. This is with or without a PILOT. The school district receives the same amount regardless of what is collected. The municipality is always last to be paid when levying taxes. Therefore, the burden is on the municipality to maintain its finances for our operational expenses. However, increased revenue through a PILOT helps in those financial decisions and capital planning.

As I conclude this month's Message from the Mayor, I wish to emphasize that PILOTs have a positive value for Dunellen. They are an economic tool that when used appropriately will increase revenue into Dunellen that will assist with alleviating residential tax burdens, help increase ratables and property values in our downtown, attract new businesses and investors, create the funds for capital projects and help provide community benefits for Dunellen. As we continue to develop downtown Dunellen, I want this message to serve as an educational piece for the public to better understand redevelopment in Dunellen and the use of PILOTs as a means to develop and spur economic development throughout our downtown.

Please consider joining us on Wednesday, December 8, 2021, at 7PM as we host a Town Hall Meeting on *Understanding Redevelopment in Dunellen* where we will discuss various topics such as recent redevelopment plan updates, affordable housing, school aged children, PILOTs and provide a Q&A session. Guest speakers will include myself, Dr. David Listokin of Rutgers Edward J. Bloustein School of Planning and Public Policy, Charles B. Liebling, Esq. and Sandy L. Galacio of Windels Marx Lane & Mittendorf, LLP, Matthew D. Jessup, Esq. of McManimon,

Scotland & Baumann, LLC, and Gabriel Bailer, PP, AICP of DMR Architects. This will be an in-person event at the Dunellen Senior Center with a live stream capability for those who cannot attend in-person. As part of my continued commitment towards communication and transparency with the public, I am making efforts with the community to host quarterly town halls on various Borough matters throughout the year. I hope to see you there for this important conversation as we continue to revitalize Dunellen's downtown.

Thank you for your time in this matter.

Yours very truly,

A handwritten signature in black ink, appearing to read "Jason F. Cilento". The signature is fluid and cursive, with a prominent initial "J" and "C".

Jason F. Cilento, Mayor
Borough of Dunellen