TOWNSHIP OF VERONA
COUNTY OF ESSEX, NEW JERSEY

Understanding PILOT (Payment in Lieu of Taxes) Agreements: Addressing Common Questions and Concerns

The Verona Township Council and Administration have heard questions and concerns from residents about PILOT (Payment in Lieu of Taxes) financial agreements. There is unfortunately misinformation being spread within the community that is creating unnecessary angst. This document is intended to provide clear, factual information about how PILOT agreements work, how they relate to the Township and Board of Education budgets, and the options available under New Jersey law.

Key Points to Keep in Mind

- A PILOT does not reduce or determine the Board of Education's annual tax levy.
- The school district establishes its annual budget and tax levy through the same statutory process whether PILOT agreements exist or do not exist.
- New taxable development does not automatically increase the school district's annual tax levy. It can change the tax base and the way the established levy is distributed among taxpayers.
- The Township and Board of Education are separate governmental entities with separate budgets and fiscal responsibilities.
- A transfer of existing municipal revenue to the schools is a reallocation of public resources; it does not create new public revenue or increase the school district's statutory tax levy.
- State law provides school districts with budget options that include making reductions and remaining within the applicable levy cap, identifying other revenues, or seeking voter approval through a referendum for additional funds where permitted.
- PILOT revenue shared with the schools can provide additional funding while the PILOT is in effect, but it should not be confused with a permanent solution to an ongoing structural budget issue.

1. Do PILOT agreements reduce the school budget?

NO. Financial agreements with developers do not reduce the school district budget.

Longer Answer: The Board of Education establishes its annual budget and tax levy through its own budget process, subject to the limitations established by State law. In general, New Jersey school districts are limited to a 2% annual increase in their tax levy, subject to statutory exceptions and adjustments. For example, if the total school tax levy is $50,000,000, the district can collect $51,000,000 in total property taxes the next year.

The school district's annual tax levy is established through this process whether PILOT agreements exist in the community or do not exist. A PILOT does not reduce the amount of the levy the Board is authorized to establish. The Township is responsible for collecting and remitting 100% of the Board's approved school tax levy. Decisions regarding school staffing, programs and expenditures are made by the Board of Education, not the Township Council. Programmatic decisions made by the Board of Education are not the purview of the Township Council. The Board and school administration do not consult Township officials on their budget choices.

2: Would traditional property taxes on a PILOT project increase funds available to schools and save programs?

NO. Traditional taxes would not increase the school district's annual tax levy and tax receipts.

Longer Answer: New construction subject to traditional improvement taxation does not increase the tax levy available to schools. Schools are capped at increasing the levy by 2% of last year's dollar value. New taxable property can increase the overall tax base and may reduce the amount each homeowner in Verona pays for school taxes but it does not increase that levy. Thus, new construction with traditional property taxes will not change the district's revenue positively or negatively.

3: Do developments with PILOT agreements place an undue burden on schools due to new student enrollment?

No – not because of the PILOT. In some cases, the PILOT has been part of a negotiation that reduced the number of units or bedrooms in the specific project.

Longer Answer: Any new housing, single family or larger, can affect school enrollment, whether the property is taxed traditionally or is subject to a PILOT. Enrollment is a separate issue from the method by which the property is taxed. In some cases, a PILOT has been part of a broader negotiation that resulted in fewer total units or fewer bedrooms than originally proposed.

For example, the original proposal of the developer of 855-885 Bloomfield Avenue was to construct 60 units on the site. A negotiation between the Township and developer reduced the count to 28 townhouses for sale. With the exception of those reserved for affordable housing, each townhouse will be a maximum of two (2 bedrooms) which further reduces impact on schools.

Without the financial incentive of the PILOT, the developer would have built more units with greater bedroom counts in order to maintain necessary profit margins.

4: Can new PILOT revenue help close the school district's expected budget gap in 2027?

NO. The new projects will not generate PILOT payments in time to address that budget.

Longer Answer: Property owners begin making payments in lieu of taxes once a qualifying project is completed and the payment obligation begins under the agreement. The 885 Bloomfield Avenue and 383 Bloomfield Avenue projects will not be completed in time to make any payments to the Township for use by the Township or to be shared with the school district in this year or next year's budget.

5: Why can't old PILOT funds simply be used to benefit the Verona school system?

THEY ALREADY ARE. The Township has used PILOT related revenue to support decisions that benefit the school system.

Longer Answer: The Township has used PILOT revenue and anticipated PILOT revenue as part of financing the acquisition of 27 acres of developable land for $12M on Mount Prospect Avenue and between Commerce Court and Brookside Terrace. This land acquisition prevented the construction of 360 new housing units, which would have resulted in a significant increase in the student population in the schools.

The Township also used $6 Million in anticipated PILOT funds to purchase the property on which the Verona Flats Apartments currently sit. Developing the property as an all-affordable-housing community helped the Township meet a significant portion of its third-round state affordable housing mandate while also dramatically reducing the number of new residential units being built in Town. Third-round rules would have required 630 new housing units to be built to accomplish 95 affordable units from the 15% set-aside requirements. An additional 535 units would have been constructed throughout our town if not for this action. While Verona Flats has increased student census in the schools, not constructing it would have resulted in a much higher impact for the schools, potentially requiring not only more staff but also the costly expansion of facilities.

6: Does every new development receive a PILOT?

NO. PILOTs are not automatically provided to new developments.

Longer Answer: This is not the case. Examples of new developments without PILOTs include the planned apartment building at 176-200 Bloomfield Avenue and the townhouses planned for 21-25 Grove Avenue. PILOTs are considered within the specific legal, financial, planning and development circumstances of a project.

7: Will the Township start discussing PILOT sharing with the Board of Education?

YES. The issue has been discussed and remains under consideration.

Longer Answer: The Township Council and Board of Education held a joint meeting in March of 2025 at which PILOTs were discussed at length. In addition, there have been ongoing conversations between Township and school district administration. The Township Council has consulted with development counsel regarding legally permissible options for future revenue sharing. Subcommittees of each board will be meeting to begin discussing the structure a sharing agreement.

However, it should be noted that any sharing of future PILOT revenues will not increase the school district's tax levy and will not close any structural budget gaps. Further, it should be noted that new projects with financial agreements (885 Bloomfield Avenue and 383 Bloomfield Avenue) will not make payments until after they are completed making no impact to immediate budgetary decisions.

8: Will the Township move quickly to discuss sharing PILOT funds with the Board of Education?

YES. The discussions remain ongoing.

Longer Answer: The Township remains committed to a strong partnership with the schools and will maintain an open discussion on PILOT sharing. At the same time, new PILOT projects will not produce revenue for another 12-36 months, providing time to evaluate the legal, financial and operational implications of a potential sharing arrangement. The Township and Board can engage in thoughtful and productive conversations and develop the best possible revenue sharing mechanism in a manner that is fiscally responsible.

9: Has the Township Council committed to sharing PILOT funds with the Board of Education?

NO. The Council has not yet made a permanent commitment to share PILOT revenue.
Longer Answer: Individual Council members have expressed interest finding an appropriate manner in which PILOT revenue from new projects could be shared with the schools. The Council has not, however, established a permanent revenue-sharing structure. Any decision requires consideration of the Township's financial needs, legal requirements, the specific PILOT agreement involved, and the long-term effect on municipal services and taxpayers. For example, the Township currently provides a host of services directly to the school district and lost municipal revenue could negatively impact the school in a direct manner and this must be part of the consideration.

10: How transparent is the redevelopment and PILOT process?

The redevelopment and PILOT process includes multiple public reviews, presentations, and opportunities for public comment.

Longer Answer: The studies to determine whether a property is an area in need of redevelopment (and thus subject to PILOT consideration) are presented to both the Verona Planning Board and the Verona Township Council by the Township's professional planner. The studies are posted online for viewing by the public. There are multiple opportunities for public comment when the study is discussed.

Further, there are additional presentations, discussions, and opportunities for public comment when the redevelopment and financial agreements are drafted, revised, and adopted.

11: Would sharing of PILOT revenue solve the Board of Education's budget challenges?

NO. PILOT sharing could provide additional revenue but it would not change the school district's levy-cap limitations or eliminate underlying budget pressures.

Longer Answer: The Board of Education must establish an annual budget within the requirements of State law. Its options include making reductions or other budgetary adjustments to remain within the applicable levy cap, identifying other available revenues, or seeking voter approval through a referendum for additional funds where permitted by law. A referendum provides a direct opportunity for voters to decide whether they are willing to support additional school spending through an increased tax levy. PILOT revenue is a municipal revenue source; sharing it can provide additional school funding, but it does not change the underlying levy calculation. Further, it diverts municipal revenues away from municipal services creating a chain-effect in which municipal taxes must be raised to cover the Township's revenue shortfall.

More specifically, the anticipated PILOT revenue from new projects is much less than needed to close the district's revenue gap which has been created by state actions and the cost of employee benefits.

Further, any PILOT sharing will need to be done by Council resolution on an annual basis. Thus, the Board cannot rely on these funds for operating needs as a future Council could discontinue any appropriation as part of the budget process.

12. What options are available to the Board of Education if its budget needs exceed the applicable levy cap?

The Board can make budget adjustments, remain within the applicable cap, identify other revenues, or seek voter approval through a referendum where permitted by State law.

Longer Answer: New Jersey law establishes the framework for school district budgeting and the tax levy cap. The district may make reductions or other adjustments to remain within the allowable levy, use available revenues, and, where permitted, submit a separate proposal to voters for additional funds. A referendum is the statutory democratic process through which voters can decide whether to authorize additional school funding above the district's otherwise authorized tax levy. This process gives the community a direct voice in whether it is willing to support additional spending through higher taxes.

13. Does relying on PILOT revenue instead of a referendum affect public involvement?

Potentially, yes. A referendum puts the question of additional school funding directly before voters; a municipal revenue transfer does not.

Longer Answer: When a school district seeks additional funding through a referendum, voters are asked directly whether they support the additional tax levy or funding proposal. If municipal PILOT revenue is instead transferred to the schools, the district receives additional funding without increasing its tax levy and without asking voters to approve that additional funding through a referendum. The community should understand whether additional school funding is being generated through the school district's own budget and voter-approved processes or through a reallocation of municipal resources.

14. Should the Township and Board of Education budgets be viewed independently?

YES. The municipal and school budgets are separate budgets with separate responsibilities and statutory processes.

Longer Answer: The Township and Board of Education are separate governmental entities. Each has its own budget, responsibilities, revenue sources and legal requirements. For the public to understand how each government raises and spends money, each budget should be evaluated on its own merits. The Township should remain accountable for municipal services and fiscal decisions, while the Board of Education should remain accountable for educational programs and the school budget. The organizations can cooperate and share services, but cooperation should not obscure which governing body is responsible for a particular taxation and the resulting budget decision.

15. If the Township shares existing PILOT revenue with the schools, does that create new public money?

NO. It reallocates money that otherwise would be used for essential services found within the municipal budget.

Longer Answer: A transfer of existing municipal revenue to the Board of Education does not create new revenue for the community. The school district receives additional funding, but the Township has a corresponding reduction in the revenue available for municipal purposes. The Township would then have to address that reduction through other revenues, reductions in municipal spending, deferred projects, reduced reserves or increased reliance on property taxes. Moving money from one public budget to another does not eliminate the underlying cost.

16. Can the Board of Education participate in all PILOT negotiations?

NO. PILOT negotiations are handled by the Township and its professional advisers.

Longer Answer: Negotiating PILOTs are not the purview of the Board of Education. These negotiations require specific subject matter expertise that Township Council members, administration, and experts possess. Due to attorney-client privilege, the Township Council cannot share legal strategy with the Board. There is no mechanism in New Jersey law that requires or allows Boards of Education to be involved.

17. Does the Township provide financial support to the Board of Education?

YES. The Township provides substantial services and other budget relief to the Board of Education each year.

Longer Answer: The Township and school district have collaborated over many years to provide budget relief for the schools. This has included the ongoing development of a memorandum of agreement between the bodies on shared service. The majority of the services in this agreement are provided by the Township to the school district, including all lawn and field maintenance and snow removal. This saves the district hundreds of thousands of dollars in personnel or contractors, disposable equipment costs, and amortized capital investment annually. In addition, the Township provides dumpsters, trash collection, trucking, and tipping of garbage to the Board of Education at no cost, which reduces their budget liabilities by another six-figure amount. There are further items provided, including use of fields, school security software, public safety coverage at BOE events, and more. A conservative estimate of the value of the services provided by the Township is between $425,000 and $734,000 annually.

Additionally, the Township proudly provides safe walking routes to all schools. The cost for staffing crossing guards at key intersections is estimated at $199,000 annually. The Township bears the full cost of such services.

Additional Township-provided services include tax assessment, revaluation, defense of tax appeals, and billing and collection of the taxes. The annual average for these services is approximately $765,000. By applying the relative percentages of the tax levy, the Board of Education benefits from an approximate allocation of $440,000 (57.54%) but this cost is instead borne solely by the Township.

Further, approximately 1% of property taxes go unpaid in each year. The Township budgeted a Reserve for Uncollected taxes in 2025 for $1,500,000. Through collection efforts, the Township anticipated Receipts from Delinquent Taxes in 2025 in the amount of $475,000, leaving a 2025 shortfall of $1,025,000. The Board of Education's respective share of the Reserve for Uncollected Taxes less Receipts from Delinquent Taxes is approximately $590,000 (57.54%). The Township has carried the entirety of all such costs.

Similarly, over the last 10 years (2015-2024), the Township has been caused to pay $428,147.36 in tax refunds despite only receiving 25.01% of those taxes. The Board of Education originally received $246,367.12 of the original taxes that were ultimately refunded solely from Township funds for an average annual benefit over $24,000.

The Township is already providing substantial budget relief to the Board. The total annual value of services as noted above is conservatively estimated to be between $1,678,000 and $1,987,000.

18. Does Verona benefit from PILOT agreements, financially or otherwise?

YES. PILOTS provide Verona with revenue while helping manage the community impacts of new development.

Longer Answer: PILOT agreements provide both a financial benefit to Verona and a way to manage the impact of new development. By using PILOTs as part of its development strategy, the Township can generate revenue while helping to limit some of the potential costs associated with new construction, including increased demand for public safety services, infrastructure, and other municipal resources.

Additionally, 95% of PILOT payments support Verona and 5% go to Essex County. Traditional taxation results in nearly 16% of property taxes being paid to the County. As a result, PILOT agreements can provide Verona with a greater share of the revenue generated by new development while helping the Township manage its fiscal and community impacts and continue honoring support to the Board of Education.

19. Do PILOT properties pay any property tax?

YES. PILOT properties continue to pay taxes on the land assessment.

Longer Answer: Developers and property owners with PILOTs continue to pay ad valorem taxes on land assessment. PILOTs only replace improvement assessments.

20. Why is the Township negotiating with developers in the first place?

The Township negotiates with developers to meet its state affordable housing obligations while limiting the impact on the community.

Longer Answer: The state's newest affordable housing mandate has forced Verona to negotiate with developers in order to meet our constitutional affordable housing obligation. The Township worked to lower our obligation amount through legal challenges, vacant land adjustments, maximization of bonus credits and other planning mechanisms allowed by the courts. These housing obligations have been presented several times by Township professionals during regular township council meetings. The Township is constitutionally obligated to satisfy the resulting affordable housing mandate. The Township has vigorously negotiated with developers to reduce unit and bedroom counts in order to reduce impact on the community. For instance, the original proposal from the developer at 885 Bloomfield Avenue was for 60 units and was ultimately negotiated down to 28 for-sale townhouse units.

21. Who approved the development of 21-25 Grove Avenue? Will they receive a PILOT? Will they contribute any affordable housing units?

The Zoning Board approved the variances; the Township Council has not discussed a PILOT for the property; the project yields 2 affordable housing units.

Longer Answer: The Township Council was not involved in the development of 21-25 Grove Avenue. The developer applied for and was granted variances by the Verona Zoning Board of Adjustment. The Council has not discussed this development other than its inclusion within the Housing Element and Fair Share Plan (HEFSP), nor does the governing body approve all developments in town. However, this project is identified in the Township's HEFSP as one of the compliance mechanisms to meet our affordable housing obligations – 2 units on this project will yield a total of 3 credits, due to utilization of bonus credits. There have been no discussions regarding a PILOT with the developer of that property. However, it should be noted that the absence of a PILOT for this project will not increase the school's tax levy.

22. Does the Township have the same budget pressures as the Board of Education?

YES. The Township also faces rising costs, State budget limitations and significant infrastructure needs.

Longer Answer: The Township has faced similar budget concerns due to rising health benefit costs and the 2% appropriations cap. The Township has engaged in strategic budgeting to maintain services in this environment. All budget hearings are held during open session of regular Township Council meetings with appropriate department heads in attendance.

Services provided by the Township to the Board are a significant budget driver for the municipality due to personnel and equipment costs.

The Township continues to face expensive infrastructure challenges that the current Council has been forced to address. Allocating more PILOT funds to the schools means that the tax impact of necessary projects will be higher. This must also be considered in our discussions.

23. What happens if the council votes down the PILOT at 383 Bloomfield Avenue?

Denying the PILOT could make the current project financially infeasible and could lead to a different project with greater density and community impact.

Longer Answer: The Township's professionals have reviewed the financial projections for the proposed project and determined that it meets the criteria for a PILOT agreement. Without a PILOT, the project has proven to be not financially feasible under its current design.

The Township must also consider its obligations under the State's affordable housing requirements. As part of the most recent mandate, the Township will be subject to a midpoint review in 2030. During this midpoint review, the State will evaluate the Township's progress in meeting its housing obligations. If sufficient progress has not been made, the State or the courts could require additional concessions from the Township to facilitate affordable housing, including increased density, greater building heights, reduced on-site parking requirements, or additional financial incentives for developers.

The Township's goal is therefore to negotiate reasonable agreements that allow the community to retain as much control as possible over the size, design, and impact of development while meeting its affordable housing obligations.

24. Why can't the Township negotiate with a developer to construct a new public safety building like in Cedar Grove?

Verona has been committed using its negotiations power to minimize development impact, working to reduce units and bedroom counts, which results in smaller projects

Longer Answer: The K. Hovnanian development in Cedar Grove included approximately 460 Units, which resulted in the part of the negotiations involving including the developer constructing the South End Firehouse.

Recent projects in Verona include 29 units at 885 Bloomfield Avenue and 33 units at 383 Bloomfield Avenue. Projects kept this small could not result negotiations for the construction of a public safety building.

However, the Township can use PILOT income to pay off future capital bonds to construct a public safety facility, reducing the impact on property owners.

The Bottom Line

- PILOT agreements do not reduce or determine the Board of Education's annual tax levy.
- The school district's annual levy is established through the same statutory process whether PILOTs exist or do not exist.
- The municipal and school budgets are separate and should remain understandable and accountable as separate budgets.
- Sharing PILOT revenue can provide additional school funding, but it is a reallocation of municipal revenue and does not create new money or increase the school tax levy.
- PILOT revenue can be temporary or limited by the term of an agreement and should not be treated as a permanent solution to recurring structural budget challenges.
- State law provides the Board of Education with budget options, including remaining within the applicable levy cap, making reductions or other adjustments, identifying other revenues, and seeking voter approval through a referendum where permitted.
- A referendum provides voters with a direct opportunity to decide whether they support additional school funding through the tax levy.

Note: This document is intended as a public-facing explanation. Specific legal, financial and tax treatment can vary by project and should be reviewed under the applicable agreement and New Jersey law.