

# How Payment in Lieu of Tax (PILOT) Agreements Benefit New York Jurisdictions for Projects

Payment in Lieu of Tax (PILOT) agreements represent a critical financial mechanism that New York jurisdictions utilize to stimulate economic development while maintaining revenue streams. These agreements provide strategic benefits to municipalities, counties, and school districts by balancing immediate tax relief for developers with long-term fiscal planning for jurisdictions.

## Understanding PILOT Agreements in New York

PILOT agreements establish a structured payment system where eligible entities make negotiated payments instead of standard property taxes. In New York, these agreements apply to various development projects, creating mutually beneficial arrangements between developers and local governments.

## Legal Framework and Administration

Manufacturing, industrial, and not-for-profit companies may receive property tax incentives through agreements with government agencies in New York. The NYC Industrial Development Agency (IDA) and NYC Economic Development Corporation (EDC) are two prominent agencies that issue these agreements in New York City. Through these arrangements, properties receive exemption from standard property taxes and instead make a Payment in Lieu of Taxes<sup>[1]</sup>.

For most PILOT agreements, the Department of Finance (DOF) handles calculation, billing, and collection of payments, ensuring proper administration and oversight<sup>[1]</sup>. This centralized management helps maintain consistency and reliability in the PILOT program.

## Types of Projects Eligible for PILOT Agreements

PILOT agreements in New York apply to a diverse range of projects, with particular emphasis on:

- Manufacturing and industrial developments
- Not-for-profit organizations
- Renewable energy installations, particularly solar projects
- Commercial and residential real estate developments
- Economic revitalization initiatives

For solar energy projects specifically, New York has developed specialized frameworks. The NYSERDA Solar PILOT Toolkit assists municipalities considering PILOT agreements for community solar projects larger than 1 megawatt (MW)<sup>[2]</sup>. This toolkit includes a Model Solar

PILOT Law, a Model Solar PILOT Agreement, and a Solar PILOT Calculator to help jurisdictions navigate these specialized arrangements.

## **Financial Benefits to New York Jurisdictions**

PILOT agreements provide several direct financial advantages to New York jurisdictions that might otherwise struggle to attract development or secure stable revenue streams.

### **Guaranteed Revenue Stream**

One of the primary benefits of PILOT agreements is the establishment of a predictable, long-term revenue flow. Rather than facing uncertainty about tax collection or potential property vacancies, jurisdictions can count on scheduled payments throughout the PILOT term.

For solar projects, payments are commonly related to the system's size, calculated in dollars per megawatt<sup>[2]</sup>. This standardized approach simplifies planning and budgeting for jurisdictions. NYSEDA's research indicates that solar projects should be able to afford rates between 1% and 3% of the compensation developers receive for electricity generation<sup>[2]</sup>.

### **Incremental Revenue Growth**

PILOT agreements typically incorporate a progressive payment structure that benefits jurisdictions over time. As described by the Port Chester IDA, "Typically, businesses start by making payments equal to the existing assessed value of the property. Payment on the improvements increases incrementally each year until 100 percent of the assessed value is reached by the end of the PILOT term"<sup>[3]</sup>.

This graduated approach ensures that jurisdictions see increasing revenue as projects mature, usually over a 10-20 year period<sup>[3]</sup>. The phased structure allows developers to establish operations before bearing full tax burdens while guaranteeing jurisdictions eventual full valuation.

### **Distribution Among Taxing Entities**

PILOT payments follow specific distribution protocols among the various taxing jurisdictions. Payments are made to the village, school district, and county according to pre-determined schedules outlined in the Agency's Uniform Tax Exemption Policy<sup>[3]</sup>. This ensures that all relevant public entities receive appropriate shares of the PILOT revenue.

It's important to note that under New York State law, fire and library districts are excluded from PILOT agreements. Fire tax is always paid at 100% directly to the County, maintaining full funding for essential emergency services<sup>[4]</sup>.

### **Economic Development Benefits**

Beyond direct financial considerations, PILOT agreements provide strategic economic development advantages to New York jurisdictions.

## **Attracting Investment and Development**

PILOT agreements serve as powerful incentives for attracting new businesses and development projects. By offering phased-in taxes for a specified period, jurisdictions can compete effectively for investments that might otherwise locate elsewhere<sup>[3]</sup>.

The primary mission of entities like the Village of Port Chester Industrial Development Agency (VPCIDA) is to "promote real property investment in the Village for the purposes of advancing the job opportunities, health, general prosperity, and economic welfare of the people of the Village" <sup>[3]</sup>. PILOT agreements serve as a crucial tool for accomplishing these objectives.

## **Job Creation and Economic Growth**

When jurisdictions attract new development through PILOT agreements, they typically generate employment opportunities and broader economic activity. New businesses create jobs, increase local spending, and potentially attract complementary enterprises, creating a multiplier effect for the local economy.

## **Development of Underutilized Properties**

PILOT agreements can be particularly effective for encouraging development of properties that might otherwise remain vacant or underutilized. By reducing initial tax burdens, these agreements make marginal projects financially viable, transforming unproductive spaces into valuable community assets.

## **Renewable Energy Project Benefits**

New York's renewable energy goals have led to specialized PILOT structures for solar and other clean energy projects, offering unique benefits to jurisdictions.

## **Supporting Clean Energy Goals**

PILOT agreements for solar projects help jurisdictions support New York State's clean energy initiatives while maintaining tax revenue. Under Real Property Tax Law (RPTL) § 487, the increase in property value attributable to solar panel systems is typically exempt from property tax, but PILOT agreements allow jurisdictions to collect revenue without discouraging development<sup>[2]</sup>.

NYSERDA's Solar PILOT Toolkit provides a structured approach for jurisdictions, with two calculators to help determine appropriate rates. Calculator One assists in setting uniform jurisdiction-wide rates, while Calculator Two helps establish project-specific rates<sup>[2]</sup>. This flexibility allows jurisdictions to tailor agreements to local conditions and project economics.

## **Host Community Agreements**

In addition to PILOT payments, jurisdictions can benefit from Host Community Agreements (HCAs), particularly for renewable energy projects. While "PILOT payments must be distributed among taxing jurisdictions according to preset tax rates, HCAs offer an opportunity to retain

more benefits locally" <sup>[5]</sup>. These complementary agreements provide additional flexibility for securing community benefits.

## Conclusion

PILOT agreements offer New York jurisdictions a versatile tool for balancing economic development with fiscal responsibility. By providing tax incentives that attract investment while ensuring predictable revenue streams, these agreements help municipalities, counties, and school districts develop strategic approaches to growth.

The structured, incremental nature of PILOT payments provides jurisdictions with increasing revenue over time, eventually reaching full assessed value while giving developers the breathing room needed to establish successful operations. For specialized projects like solar installations, tailored PILOT frameworks help advance state energy goals while maintaining local revenue.

When properly negotiated and managed, PILOT agreements represent a win-win approach that stimulates economic activity, creates jobs, and provides sustainable funding for public services across New York's diverse communities.

\*\*

1. <https://www.nyc.gov/site/finance/business/benefits-payment-in-lieu-of-taxes-agreements-pilot.page>
2. <http://www.ongov.net/planning/documents/SolarEnergyRegulationHandouts.pdf>
3. <https://portchesternyida.gov/FAQ.aspx?QID=74>
4. <https://tiogacountyny.com/media/4fcnl25a/pilot-payment-summary.pdf>
5. <https://www.nyserda.ny.gov/-/media/Project/Nyserda/Files/Publications/Fact-Sheets/build-ready-local-government.pdf>