

The Economic Impacts of Payment in Lieu of Tax (PILOT) Agreements on Local Economies

Payment in Lieu of Tax (PILOT) agreements serve as a pivotal tool for local governments to balance economic development objectives with fiscal stability. These arrangements, which allow property owners to make negotiated payments instead of conventional property taxes, have multifaceted effects on local economies, ranging from stimulating redevelopment to reshaping municipal revenue streams.

Stimulating Economic Development and Revitalization

PILOT agreements are frequently deployed to catalyze development in areas that would otherwise struggle to attract private investment. By offering tax abatements, municipalities lower the financial barriers for developers, particularly in blighted or underutilized zones. For instance, in New Jersey, PILOTs have been instrumental in advancing affordable housing projects, with 1,389 such developments governed by these agreements as of 2024^[1]. The town of Somerville, New Jersey, transformed vacant land into thriving residential complexes through PILOTs, generating \$1.29 million annually in new revenue while revitalizing its downtown^[1]. Similarly, Camden's 51-unit affordable housing project, supported by a 30-year PILOT, exemplifies how these agreements can address housing shortages while ensuring steady municipal income^[1].

The predictability of PILOT payments reduces financial uncertainty for developers, enabling them to secure financing for marginal projects. In Newton, New Jersey, PILOTs are structured to align with project stabilization phases, offering lower initial payments that increase over time^[2]. This phased approach supports project feasibility during critical early stages, fostering long-term economic activity.

Revenue Generation and Fiscal Planning

While PILOTs provide municipalities with a guaranteed revenue stream, their structure often diverges from conventional tax distributions. In New Jersey, PILOT payments allocate 95% of revenue to municipalities and 5% to counties, bypassing school districts entirely^[1]. This contrasts with traditional tax allocations, where schools receive over 50% of property tax revenue^[1]. Jersey City's experience highlights a tension: while PILOTs generated \$103 million in 2023, the absence of contributions to schools exacerbated funding shortfalls as state education aid plummeted from 75% to 16% of the district's budget between 2018 and 2024^[1].

Despite these challenges, PILOTs can enhance municipal coffers. Westfield, New Jersey, anticipates \$214 million in PILOT revenue over 30 years from a transit-oriented development, funding infrastructure upgrades and green spaces^[1]. The incremental nature of many PILOT agreements—where payments start at existing assessed values and escalate to full taxation over time—ensures jurisdictions eventually capture the full fiscal value of developed properties^[2].

Equity Considerations and Tax Burden Shifts

Critics argue that PILOTs may inadvertently shift tax burdens to existing residents. In Princeton, a PILOT-supported housing project sparked controversy as the school district faced strain without additional funding, prompting calls for revenue sharing^[1]. Similarly, Jersey City's heavy reliance on PILOTs coincided with a 50% property tax hike for residents between 2018 and 2024, partly to offset reduced school aid^[1]. These cases underscore the need for equitable revenue distribution mechanisms to prevent disproportionate impacts on taxpayers.

Moreover, the exclusion of fire and library districts from PILOT agreements in some jurisdictions ensures critical services remain funded at full levels, mitigating broader community dislocations^[2]. However, the voluntary nature of PILOTs in Canada, where Ottawa reported a CA\$95 million shortfall in 2024, illustrates risks when payments fall below assessed tax obligations^[3].

Risks and Accountability Challenges

PILOT agreements require robust oversight to prevent exploitation. Developers may underreport construction costs or revenue to minimize payments—a concern highlighted in New Jersey, where audits are mandated but not always rigorously enforced^[1]. For example, structuring leases with affiliated entities to undervalue properties or merging project expenses can distort payment calculations^[1]. Municipalities like Somerville counter these risks by conducting independent audits, ensuring compliance and transparency^[1].

Supporting Strategic Policy Goals

Beyond immediate fiscal impacts, PILOTs advance broader policy objectives. New York's specialized solar PILOT frameworks, which tie payments to system capacity (e.g., dollars per megawatt), align with state clean energy targets while safeguarding local revenues^[4]. Similarly, Host Community Agreements (HCAs) complement PILOTs by allowing jurisdictions to negotiate additional benefits, such as infrastructure investments or job creation pledges^[4].

In education-centric PILOT models, some municipalities allocate portions of payments to schools. While not universally adopted, such measures could alleviate funding gaps, as proposed in Princeton's collaboration with its school district^[1].

Conclusion

PILOT agreements exert profound and varied influences on local economies. By enabling development in underserved areas, they stimulate job creation and economic diversification. However, their revenue distribution mechanisms necessitate careful design to avoid undermining public services or exacerbating inequities. Jurisdictions that integrate PILOTs with comprehensive fiscal strategies—prioritizing transparency, equitable revenue sharing, and alignment with long-term goals—can harness their potential while mitigating risks. As demonstrated by successes in Somerville and challenges in Jersey City, the efficacy of PILOTs hinges on balancing developer incentives with community needs, ensuring these agreements serve as catalysts for inclusive growth.

1. <https://www.njtod.org/exploring-pilots/>
2. <http://newtontownhall.com/DocumentCenter/View/2658/PILOT-Presentation-Newton-September-2020?bidId=>
3. https://en.wikipedia.org/wiki/Payment_in_lieu_of_taxes
4. <https://wiss.com/the-nj-pilot-program-driving-economic-development/>