October 2, 2019

[redacted]

Re: Findings on research and analysis of the Jersey City Agreements for Payments in Lieu of Tax ("PILOTs") as part of the Operational Efficiency Audit

[redacted]

Pursuant to the additional resolution and expansion of the scope of services of our request for proposal ("RFP") and the final resolution authorizing by the Members of the Board of Education, PKF O'Connor Davies, LLP (the "Firm") was retained to review documents, analyze available data and interview personnel as part of an Operational Efficiency Audit. The purpose of the operational study was to review specifically identified areas and disciplines within the Jersey City Public Schools (the "District") in order to determine whether the various departments are appropriately staffed to meet the service delivery, compliance and technology needs of the District and whether the various systems (Payroll, Budget, Personnel, Purchasing, Student Data and other areas) are meeting the current and foreseeable future needs of the District. The RFP identified 13 key areas that were to be considered during our engagement.

BACKGROUND:

The State of New Jersey has reduced the funding and financial support for the District by approximately $75 million.

The District is in need of additional funding sources to replace the reduction in State funding and support.

The City of Jersey City has over many years granted payment in lieu of tax agreements ("PILOT agreements") with various property owners wherein no tax is levied on the properties with PILOT agreements for the school tax of the City of Jersey City thereby creating a gap between education service requirements and related costs with no support by the property owners for the costs associated with education of students in Jersey City.

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The District expanded the scope of services of the original contract to include additional audit procedures to audit the past and future PILOT abatements to determine if they are in compliance with the terms of the agreements and the additional tax due to the City of Jersey City if such agreements are in default. Obviously, if PILOT Agreements were no longer valid, the properties'conversion to a regular tax levy would result in the Jersey City Board of Education's entitlement to additional tax revenue, as well as reduce the tax burden on the citizens of Jersey City.

Our procedures performed and the preliminary findings are as follows:

PROCEDURES AND FINDINGS:

We obtained the list of all Pilot Agreements in effect in Jersey City from the User Friendly Budget Report. There were 179 Pilot Agreements in total. The PILOT report lists the Project Name; assessed value of the land and improvements; the PILOT Billing, (payments pursuant to the PILOT Agreement formula) and the tax if the property was subject to the full tax assessment as other propertied are assessed in the City. We then prepared a chart utilizing the PILOT report list and calculated the difference between the PILOT Billing and the fully assessed tax. We sorted the PILOTs in ascending order of the difference between the PILOT amounts and the Full assessed tax as if applying the City's regular tax rates to identify the properties with the largest differences between the PILOT billing and the fully assessed tax. For the total of all of the 179 PILOT agreements the regular tax levy exceeds the PILOT billings by $65,442,000 per year.

We selected to investigate the top 19 Jersey City properties under tax abatement programs (PILOTs) which represented the largest difference between the PILOT Billing and the fully assessed tax. The said properties all share the characteristic that their PILOT agreement payment versus what their fully assessed tax payments; that their variance exceeded $1,000,000. The variance for the top 19 properties selected indicated that the PILOT billing was below the fully assessed tax by $41,395,000 per year which represented 63% of the total variances for all 179 PILOTs. Generally, the Jersey City Board of Education would receive approximately 25% of the fully assessed tax on properties in Jersey City. Therefore the potential lost school funding attributable to the top 19 PILOT's was $10,348,000 per year.

Prior Budget Year's Payments in Lieu of Tax (PILOT) - Long Term Tax Exemptions							
Project Name	**Project Address**	**Project Affiliates**	**Type of Project**	**PILOT Billing**	**Assessed Value**	**Total Tax Rate (If Billed in Full)**	**Variance Tax PILOT**
PORTSIDE URBAN RENEWAL			Other	2,542,219	108,490,000	8,462,220	5,920,001
MONACO SOUTH	465 Washington Blvd	Mack-Cali Realty Corp	Other	886,768	72,701,900	5,670,748	4,783,980
NOC V	575 Washington Blvd	LeFrak	Comm./Indust.	2,282,484	52,715,800	4,059,644	1,777,160
NC HOUSING ASSOCIATES #100 CO.			Other	1,064,149	33,769,400	2,634,013	1,569,864
NEWPORT OFFICE CENTER IV U.R.	11th Street	LeFrak	Comm./Indust.	2,972,734	57,576,100	4,490,936	1,518,202
SUMMIT APARTMENTS INC			Aff. Housing	124,201	20,071,800	1,565,600	1,441,399
2854 KENNEDY LLC	2854 Kennedy Boulevard	Alpert	Other	178,652	18,970,000	1,479,660	1,301,008
CAL-HARBOR V URBAN RENEWAL	Hudson Street	Mack-Cali Realty Corp	Comm./Indust.	3,810,334	94,006,100	7,332,476	3,522,142
SECOND ST.WATERFRONT U.R.			Other	2,177,757	50,828,000	3,964,584	1,786,827
70 COLUMBUS	70 Columbus Drive	Panepinto	Other	1,117,077	36,564,200	2,852,008	1,734,931
GRAND LHN I URBAN RENEWAL LLC	18 Park Avenue	Kushner	Other	1,032,122	32,450,000	2,531,100	1,498,978
THE MORGAN			Other	1,107,731	30,319,400	2,364,913	1,257,182
PLAZA X U.R.	Hudson Street	Mack-Cali Realty Corp	Comm./Indust.	1,884,057	38,700,000	3,018,600	1,134,543
30 HUDSON URBAN RENEWAL L.L.C.	30 Hudson Street	Goldman Sachs	Comm./Indust.	4,528,626	123,987,200	9,548,254	5,019,628
NOC VII	480 Washington Blvd	LeFrak	Comm./Indust.	2,835,755	62,604,200	4,821,149	1,985,394
PORTOFINO TOWERS	1 2nd Street	Peter Mangin	Other	2,626,640	52,417,300	4,088,549	1,461,910
RIALTO CAPITAL URBAN RENEWAL	30 Baldwin Avenue	Filopoulos	Other	1,336,643	34,094,300	2,659,355	1,322,713
PORT LIBERTE	23 Chapel Avenue	Toll Brothers	Other	2,559,209	48,519,350	3,784,509	1,225,300
JAMES MONROE	45 River Drive St	Lefrak	Other	3,633,778	61,128,500	4,768,023	1,134,246
			TOTAL:	**$38,700,934**	**$1,029,913,550**	**$80,096,343**	**$41,395,408**

Once we identified the properties with the largest variance we researched the exact address of the property as the name on the list did not always have the address and then made requests to the City for additional documents.

An OPRA request was made for the PILOT agreements and auditor's reports (a required report in all PILOT agreements) for years 2016, 2017 and 2018 on the said properties on May 8th 2019. The PILOT agreements were not sent until 6/28/2019, providing only 18 of the 19 agreements requested. The auditor's report would follow several weeks later (7/23/19) providing 11 of the 18 properties auditor's reports.

Out of the 11 auditor's report, no reports included the 2018 financial information or auditor's reports and only 7 out of the 11 had 2017 financial information in the auditor's reports. All had the 2016 financial and auditor's reports. Jersey City was unable to provide any 2018 reports. Pursuant to the PILOT Agreement the audit reports are required to be filed with the City within 90 days after the close of the calendar or fiscal year end by each entity. We visited the Tax collector's office and inquired of the City personnel responsible for overseeing the collection of PILOT payments and they stated that they use the most recent auditor's report on file and bill taxes based on that, and when they do finally receive the new auditor's report then they reconcile the amounts.

Six out of the seven properties that Jersey City could not supply were tax abated condominium properties. And pursuant to those PILOT Agreements, their taxes are based on a percentage of project cost, as well as a percentage of condo sales. Jersey City could not provide information about condo sales, or project cost, which would be necessary for them to properly bill the developer/owner.

One of the properties in our selection was Provost Square I Urban Renewal (The Morgan) at 160 Morgan St a rental property, which the PILOT agreement states that the annual service charge is 14% of rental revenue. There is no auditor's report on file, so there is no way to know what the figure to bill pursuant to the agreement.

According to market reports from Avison Young, Jersey City has seen vacancy rates drop and absorption rates to climb. This is an indicator that the Jersey City commercial real estate is strong, and would not require and tax abatement/incentivizing programs for developers.

Our review of the audit reports revealed that for GSJC 30 Hudson Urban Renewal, LLC property reported for 2016 Rental Income of $52 million and Expense reimbursements of $43 million for Total Revenue of $95 million. The Operating Expenses were reported as $43 million by the entity. Since the Reimbursed Expense Revenue for 2016 exceeded the total Operating Expenses of the entity for 2016, we recommend that the City perform its own audit of the books and records and leases of the subject property to determine if any of the Reimbursed Expense Revenue of $43 million is actually revenue for use of the square footage of the retail and other tenants rather than the classified Reimbursed Expense. Any revenue for use of the space for retail and other space would be included in the computation for the Annual Service Charges at 15%. If the retail and other space users are paying reimbursed expenses in excess of the actual operating expenses for the space they use then the amounts paid in excess of the expenses should be reported as additional revenue subject to the Annual Service Charge of 15%.

On August 19, 2019 we submitted a new OPRA request to the City to provide all 179 PILOT Agreements and audit reports for years 2016, 2017 and 2018.

We visited Jersey City Hall on August 27, 2019 and met with personnel responsible for review of the collection of the PILOT payments regarding questions raised about the records and timeliness of billing changes due to audit reporting by the property owners.

None of the documents requested in our August 19, 2019 letter were provided.

We visited Jersey City Hall on September 5, 2019 to follow up on our August 19, 2019 OPRA request. The Tax Collectors Office referred us to the City Clerk's Office for answers as to when the documents would be provided. The City Clerk's Office referred us to the Legal Department. We went to the Legal Department to seek clarification about when the documents would be provided and how to possibly streamline the process and discussed that a meeting might be beneficial to discuss the areas of concern and possibility of added revenues due the City pursuant to the PILOT Agreements and lack of compliance with reporting.

At this Date we have not received the documents requested in our August 19, 2019 letter.

As a result of the questions raised, and in order to ensure the accuracy of the preliminary areas of non-compliance, we recommend a meeting between representatives of the Jersey City School District and the City to discuss the issues and determine the accuracy of the PILOT Billings. This meeting could resolve any outstanding questions or issues concerning compliance by the entities with their PILOT Agreements with the City.

We thank you for the opportunity to assist you in this matter.

Please do not hesitate to contact us if you have any questions or comments.

Sincerely,

Keith S. Balla

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PKF O'Connor Davies, LLP