

# Economic Development - Tools and Incentives

September 14, 2017  
PSFM Committee



Rushern L. Baker, III  
County Executive

# Agenda

- Major Tools and Incentives
- Tax Increment Financing
- Payment in Lieu of Taxes – Economic Development
- Market Comparison – DC Region
- Payment in Lieu of Taxes – Workforce Housing
- Sample Project
- Summary



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# Major Tools and Incentives

## Why Are Tools and Incentives Needed?

- DC Region is a very competitive market for private investment - private sector has many choices in the Region
- Bridge Market Realities:
  - ❖ Attract private investment that could obtain higher profitability margins in other jurisdictions
  - ❖ Retain an existing business that received an incentive offer from a surrounding jurisdiction
  - ❖ Attract private investment in an underserved community
  - ❖ Assist in financing public infrastructure costs
  - ❖ More competitive in attracting Federal leases
  - ❖ Attract an industry/sector that generally receives an incentive to locate/build in a jurisdiction (e.g. power plants, workforce housing)

## Types of Tools and Incentives

- Payments in Lieu of Taxes (PILOTs)
- Tax Increment Financing
- Special Taxing District
- Enterprise Zone Tax Credits
- Revitalization Tax Credits
- EDI Fund
- Fee Waivers (System Development Charge, Public Safety Surcharge)
- County Bonds (GO, Moral Obligation, Revenue, etc.)
- Regional Institutions Strategic Enterprise (RISE) Zones



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# Tax Increment Financing

## Tax Increment Financings –2011 to Present

- Prince George's County has created seven (7) tax increment financing districts over the past 6 ½ years – 5 priority TOD locations and 2 along major transportation corridors
- The 5 TOD districts were created in order to “Jump Start” private investment in the County's priority TOD sites
  - ❖ Result – all 5 priority TOD locations have major developments underway or in the immediate pipeline
- To date, the County has only issued bonds or developer-held notes for two (2) projects – Town Center at Camp Springs and Suitland-Naylor Road

# Tax Increment Financing – 2011 to Present

<b>Economic Development - Tax Increment Financing – January 2011 to Present</b>					
<b>Project/Area</b>	<b>Priority TOD</b>	<b>TIF District Approved</b>	<b>Bonds Authorized</b>	<b>Bonds Approved</b>	<b>Bonds Issued</b>
<b>Town Center at Camp Springs**</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>\$11,100,000</b>	<b>\$4,900,000</b>
Town Center at Camp Springs**	Yes	Yes	Yes	\$10,000,000	\$0
<b>Suitland-Naylor Road**</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>\$28,000,000</b>	<b>\$28,000,000</b>
New Carrollton Metro**	Yes	Yes	No	\$0	\$0
Prince George's Plaza**	Yes	Yes	No	\$0	\$0
Largo Town Center**	Yes	Yes	No	\$0	\$0
Westphalia Town Center	No	Yes	No	\$0	\$0
South Lake (former Karington)	No	Yes	No	\$0	\$0
**Priority TOD location					
Note: As of September 8, 2017					





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# Payments in Lieu of Taxes – Economic Development

## PILOTs – Economic Development – 2011 to Present

- Only 3 PILOTs for economic development projects have been approved by the County Council, including the recently approved PILOT for the Urban Atlantic New Carrollton Metro Station project in June 2017
- All three (3) PILOTs were at priority TOD locations, and leveraged approximately \$1.2 billion in private investment

# Payments in Lieu of Taxes – Economic Development

<b>Economic Development - Payments in Lieu of Taxes - December 2010 to Present</b>				
Project/Area	Priority TOD	PILOT Approved	PILOT Payment (%)	PILOT Payments Triggered
Carrollton Station	Yes	Yes	25.0%	Yes
Safeway at University Town Center	Yes	Yes	40.0%	Yes
Urban Atlantic - New Carrollton Metro Station (1)	Yes	Yes	25.0%	No
Note: As of September 8, 2017				
1 - Phase 1 only				

# Impact of Economic Development PILOTS

Impact of Economic Development PILOTS							
	Base Value - RPT (1)	PGC RPT Base	FY 2018 AV - RPT	AV - Increase	RPT Rate	% to PGC	PGC RPT Received
Carrollton Station	\$3,066,500	\$29,438	\$45,408,200	\$42,341,700	\$0.960	25.0%	\$131,058
Safeway at UTC	\$2,075,100	\$16,871	\$20,708,300	\$18,633,200	\$0.861	40.0%	\$81,043
Urban Atlantic New Carrollton (2)	\$0	\$0	\$0	\$0	\$0.960	25.0%	\$0
<b>Total</b>	<b>\$5,141,600</b>	<b>\$46,309</b>	<b>\$66,116,500</b>	<b>\$60,974,900</b>			<b>\$212,102</b>
<b>% Increase in RPT Received</b>							<b>358.0%</b>
Notes:							
1 - Tax-exempt property prior to the private development							
2 - Project has not completed construction phase							

- 2 active PILOTs have generated \$61.0 million in additional real property value, and a 358% increase in real property taxes as of FY 2018



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# Market Comparison – DC Region

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DC Region - Market Comparison						
Jurisdiction	Class A Office (1)	Class B/C Office (1)	Class A Multi-Family (2)	Retail (3)	For-Sale Residential - Detached (4)	For-Sale Residential - Attached (5)
Prince George's County	\$23.14	\$21.24	\$1,815.00	\$21.83	\$361,211	\$247,501
District of Columbia	\$58.09	\$44.43	\$3,301.00	\$43.49	\$1,401,032	\$655,188
Montgomery County	\$30.94	\$26.27	\$2,265.00	\$29.97	\$736,982	\$369,514
Fairfax County	\$32.23	\$25.66	\$2,190.00	\$32.27	\$817,284	\$456,655
Arlington County	\$42.59	\$36.88	\$2,920.00	\$42.69	\$1,159,614	\$939,531
City of Alexandria	\$36.02	\$29.87	\$2,250.00	\$34.84	\$1,065,002	\$707,414
Prince Georges County - % of High	39.8%	47.8%	55.0%	50.2%	25.8%	26.3%
Prince Georges County - % of Low	74.8%	82.8%	82.9%	72.8%	49.0%	67.0%
Notes:						
1 - Per square foot - 3rd Quarter 2017, Co-Star						
2 - 2 bedroom - average monthly rent, Co-Star						
3 - Per square foot - 3rd Quarter 2017, Co-Star						
4 - 4 bedroom, detached - July 2017, RealEstate Business Intelligence (RBI)						
5 - 3 bedroom, attached - July 2017, RealEstate Business Intelligence (RBI)						
Sources: Co-Star, Economic Development Corporation, RBI						

## Bridging the Market Realities

- Across all categories – office, retail, multi-family, for-sale residential – market revenue-raising capacity in Prince George's County lags the DC Region
- As investors explore opportunities to generate returns, Prince George's County, on a very selective basis, has assisted private projects at priority TOD locations, and around critical employment assets and major transportation corridors
  - Priority TOD locations – Safeway at UTC, Carrollton Station, Urban Atlantic at New Carrollton Metro Station
  - Critical Employment Assets – Suitland Town Center, Westphalia
  - Major Transportation Corridors – Hampton Park, South Lake



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# Payments in Lieu of Taxes – Workforce Housing



## Workforce Housing – Why Public Incentives are Critical?

- Provides workforce housing opportunities for a significant number of Prince Georgians, including teachers, public safety personnel, healthcare workers, etc.
- Workforce housing projects almost always include low-income housing tax credits, HOME funds, PILOTs, and State grants
- Workforce housing incentives are essential to attracting private investment into projects that have limited “upside” market returns

## Payments in Lieu of Taxes – Workforce Housing

- Since 2011, Prince George's County has approved 20 workforce housing PILOTs that will add or renovate approximately 3,200 workforce housing units for our residents upon completion
- These 20 approved PILOT projects invested \$469.2 million in various communities across Prince George's County
- An additional workforce housing project will be considered by the County Council this fall for the Glenarden Phase 1 project



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# Sample Project

# Hypothetical Office Building

<b>Hypothetical Office Project</b>			
Square Feet	200,000	200,000	200,000
Land Cost	\$4,500,000	\$18,000,000	\$9,000,000
Total Project Cost/SF	\$300.00	\$300.00	\$300.00
Total Project Cost	\$64,500,000	\$78,000,000	\$69,000,000
<b>Equal Land Cost</b>	<b>A</b>	<b>B</b>	<b>C</b>
Rent/SF	\$22.00	\$59.00	\$31.00
Vacancy Rate	21.5%	12.5%	15.0%
Rental Income	\$4,400,000	\$11,800,000	\$6,200,000
Vacancy Loss	(\$946,000)	(\$1,475,000)	(\$930,000)
Operating Expenses	(\$1,208,900)	(\$3,613,750)	(\$1,844,500)
<b>Net Operating Income</b>	<b>\$2,245,100</b>	<b>\$6,711,250</b>	<b>\$3,425,500</b>
Return on Cost	3.5%	10.4%	5.3%
<b>Net Operating Income - 10 years</b>	<b>\$24,583,219</b>	<b>\$73,486,315</b>	<b>\$37,508,269</b>
2% annual growth			
<b>Return Gap - \$</b>		<b>(\$48,903,096)</b>	<b>(\$12,925,051)</b>
Return Gap - %		-66.5%	-34.5%

## Major Takeaways

- Yes, land costs in Prince George's County are more affordable than the DC Region as a whole...but, land costs only represent a small fraction of total project cost (from 5% to 15%)
- Lower lease rates, higher vacancy rates, and higher returns far outweigh any advantage in land costs in Prince George's County
- In order to bridge the private return gap, Prince George's County will have to consider targeted incentives to move large-scale mixed-use projects – priority TOD locations, redevelopment areas, and major transportation corridors – to completion



**Rushern L. Baker, III**  
County Executive

# Summary

## Summary

- Incentives should be viewed as a public-private partnership in order to “jump start” priority TOD locations, redevelop targeted communities, and spur development along major transportation corridors
- Incentives such as TIFs and economic development PILOTs should primarily focus on growing the County’s commercial tax base, and creating jobs
- Incentives are not an entitlement for developers and private investors, but are valuable tools to bridge the “return” gap that exists in Prince George’s County
- County incentives should always be viewed from the perspective of maximizing the County’s return on our investment
- Workforce Housing PILOTs are critical to providing quality, affordable housing opportunities for our residents