THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

June 17, 2022

FISCAL AND POLICY NOTE

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin
Director of Budget and Policy Analysis

FROM: Malcolm Moody - *MM*
Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Impact Statement
CR-050-2022, Payment in Lieu of Taxes ("PILOT") Agreement for Glenarden Hills Phase 3, 4% Project (DR-1)

CR-050-2022 (*Proposed by:* The Chair of the Council at the request of the County Executive; *Sponsored by:* Council Members Hawkins, Harrison, Streeter, Turner, Taveras, Glaros, Dernoga, and Ivey

Assigned to the Committee of the Whole (COW)

A RESOLUTION CONCERNING PAYMENTS IN LIEU OF TAXES ("PILOT") AGREEMENT FOR Glenarden Hills Phase 3, 4% Project for the purpose of approving the terms and conditions of a Payments in Lieu of Taxes ("PILOT") Agreement between Prince George's County, Maryland (the "County") and Glenarden Hills Phase 3, Four, LLC (the "Owner").

Fiscal Summary

Direct Impact:

Expenditures: No additional expenditures

Revenues: Foregone tax revenues totaling approximately $7,196,354 over a 40-year period.

Indirect Impact:

None likely.

Legislative Summary

CR-050-2022, proposed by Council Chair Hawkins by request of the County Executive and sponsored by Chair Hawkins, Vice-Chair Harrison, and Council Members Streeter, Turner Taveras, Glaros, Dernoga, and Ivey was introduced, on May 3, 2022, and referred to the Committee of the Whole (COW). CR-050-2022 would approve the terms and conditions of a Payments in Lieu of Taxes ("PILOT") Agreement between Prince George's County, Maryland (the "County") Glenarden Hills Phase 3, Four, LLC (the "Owner") concerning the 8405 Hamlin Street, Lanham, Maryland project.

Current Law/Background

Section 7-506.1[1] of the Tax-Property Article of the Annotated Code of Maryland, as amended, authorizes that real property can be exempt from county and municipal corporation property tax. Specifically, the law permits such exemptions if:

- the real property is owned by a person engaged in constructing or operating housing structures or projects.
- the real property is used for a housing structure or project that is constructed or substantially rehabilitated under a federal, State, or local government program that:
  - ✓ funds construction or insures its financing in whole or in part; or
  - ✓ provides interest subsidy, rent subsidy, or rent supplements;
- the owner and the governing body of the county and, where applicable, the municipal corporation where the real property is located agree that the owner shall pay a negotiated amount in lieu of the applicable county or municipal corporation property tax; and
- the owner of the real property:
  - ✓ agrees to continue to maintain the real property as rental housing for lower income persons under the requirements of the government programs described in paragraph (2)(ii) of this subsection; and
  - ✓ agrees to renew any annual contributions contract or other agreement for rental subsidy or supplement; or
  - ✓ enters into an agreement with the governing body of the county or municipal corporation to allow the entire property or the portion of the property which was maintained for lower income persons to remain as housing for lower income persons for a term of at least 5 years.

[1] § 7-506.1. Subsidized housing

- If the structure and facilities of the real property are used predominantly for residential purposes, the real property may contain service facilities to serve its occupants and the surrounding neighborhood.

Resource Personnel

- Aspasia Xypolia, Director, Department of Housing and Community Development (DHCD)
- Pamela A. Wilson, Housing Development Program Manager, DHCD

Discussion/Policy Analysis

The Glenarden Hills Phase 3, 4% Project is located at 8405 Hamlin Street, Lanham, MD and is a one hundred fourteen (114) unit mixed-income apartment community for families, all of which will provide housing for low-income to moderate-income residents. Under the proposed agreement, for the forty (40) year term, the Owner will use the forty-one (41) one-bedroom units, fifty-seven (57) two-bedroom units, and sixteen (16) three-bedroom units for low-to-moderate-income families earning up to sixty percent (60%) of the Area Median Income (AMI). Twenty-eight (28) one-bedroom units will be reserved for households whose income is up to sixty percent (60%) of the AMI and thirteen (13) units will be available at market rate. Five (5) two-bedroom units will be reserved for households whose income is up to thirty percent (30%) of the AMI, forty-five (45) two-bedroom units will be reserved for households whose income is up to sixty percent (60%) of the AMI, seven (7) units will be available at market rate. One (1) three-bedroom unit will be reserved for households whose income is up to thirty percent (30%) of the AMI, fifteen (15) units will be reserved for households whose income is up to sixty percent (60%) of the AMI.

One-bedroom units will range from one thousand two hundred and twenty dollars ($1,220) to one thousand two hundred thirty-four dollars ($1,234). Two-bedroom units will range from five hundred and fifty-one dollars ($551) to one thousand seven hundred and forty-eight dollars ($1,748), and three-bedroom units will range from six hundred and fifty-two ($652) to one thousand seven hundred and eight dollars ($1,708).

The Project is planned to be developed in two phases and the developer intends to have several amenities such as a previously constructed community clubhouse which features a community space, a fitness center, on-site management and leasing suite, a resource center, locker rooms, a kitchenette, an outdoor patio with a grill area, and a tot-lot. A community lap pool, children's pool, community green space, and an athletic surface will be added as part of Phase 3.

The Project is expected to cost approximately thirty-eight million, two hundred fifty-seven thousand, fifty-four dollars ($38,257,054) including acquisition, infrastructure development and construction. Financing proceeds include a of Tax-Exempt Bonds totaling approximately thirteen million, four hundred sixty thousand, seven hundred forty-eight dollars ($13,460,748); a loan by the Community Development Administration ("CDA"), a unit of the Division of Development Finance of the Department of Housing and Community Development of the State of Maryland, under its Rental Housing Works program ("RHW Loan") totaling two million, eighty thousand dollars ($2,080,000); approximately five million, nine hundred thirty three thousand, seven hundred thirty-one dollars ($5,933,731) from a loan by the Redevelopment Authority of Prince George's County Infrastructure Funds; Seller Takeback Note totaling approximately one million, six hundred thirty four thousand dollars ($1,634,000); approximately nine million, five hundred seventy three thousand, two hundred sixty dollars ($9,573,260) from Bank of America, N.A. as the investor member in connection with Low-Income Housing Tax Credits ("LIHTC") awarded by the Maryland Community Development Administration ("CDA"), a unit of the Division of Development Finance of the Department of Housing and Community Development of the State of Maryland; deferred payment of approximately two million, four hundred forty thousand, seven hundred eight dollars ($2,440,708) from the developer's equity; return of Good Faith Deposit totaling approximately one hundred thirty four thousand, six hundred seven dollars ($134,607); and a Prince George's County Housing Investment Trust Fund ("HITF") Program loan of approximately three million dollars ($3,000,000).

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value after Development will be approximately $17,578,614, and the County real property tax that will be due on the Project is an estimated $156,098.10 ($1,369.28/unit) in the first year. The PILOT reduces the burden on the on ninety-four (94) units out of one hundred and fourteen (114) units in the Project to approximately $36,974; this is equivalent to a one hundred and two dollar ($102) per unit tax burden on the ninety-four (94) affordable units. Under the agreement, the County would be forgoing real property tax revenue of approximately $119,124, or $1,267.28 per affordable unit, in year one.

Increasing the availability of affordable housing, both through preservation of existing stock and the renovation of existing housing, is a stated objective of the Council, and a key component of the Comprehensive Housing Strategy[2].

As with CB-039-2022, the determination of "Eligible Households" under the CR-039-2022 agreement relies on the "median income as set from time to time by the United States Department of Housing and Urban Development for Section 8 Programs in the *Baltimore Metropolitan Statistical Area*"[3] (emphasis supplied) rather than the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area in which it is located.[4] This may be a significant distinction in determining eligibility for County households.

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[2] Comprehensive Housing Strategy
[3] CR-039-2022, Attachment B, page 4
[4] Per huduser.gov, "Prince George's County, Maryland is part of the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area . . ."

Fiscal Impact

Direct Impact

Adoption of CR-050-2022 will have an adverse fiscal impact in the form of foregone tax revenue. As described above, accepting the PILOT on the entire Project of approximately $36,974 will result in a loss of approximately $119,124 in the first year of the term. Factoring in the 2% estimated average annual increase in the property tax assessment, the total impact is estimated at $7,195,354 over the forty (40) year period that the PILOT agreement remains in effect.

However, should CR-050-2022 not be adopted the Owner may not be able to complete construction that will negatively impact current County residents. Alternatively, the Owner may raise rents, making the units unaffordable to tenants at 60% AMI. Additionally, due to the appeal of affordable housing and fixed rent, the property may attract new residents.

Indirect Impact

Adoption of CR-050-2022 may have a positive indirect fiscal impact upon the County to the extent that new residents generate additional economic activity, though the exact impact is unknown.

Appropriated in the Current Fiscal Year Budget

N/A

Items for Committee Consideration:

- Is the acceptance of the PILOT agreement a condition precedent of the completion of the development as proposed (*i.e.*, does it pass the “but-for” test)?
- Does encouraging this type of development provide a reasonable return, economic or otherwise, to the County for the forgone tax revenue?

Effective Date of Proposed Legislation:

The proposed Resolution shall become effective as of the date of adoption.

If you require additional information, or have questions about this fiscal impact statement, please call me.