




June 13, 2023

**FISCAL AND POLICY NOTE**

TO: Jennifer A. Jenkins  
Council Administrator

William M. Hunt  
Deputy Council Administrator

THRU: Josh Hamlin p.p.   
Director of Budget and Policy Analysis

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

RE: Policy Analysis and Fiscal Impact Statement  
CR-041-2023, Payment in Lieu of Taxes (“PILOT”) – Agreement for the Cottage  
City Towers Apartments

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**CR-041-2023** (*Proposed by:* The Chair of the Council at the request of the County Executive)  
(*Sponsored by:* Council Members Harrison and Ivey)

Assigned to the Committee of the Whole

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**A RESOLUTION CONCERNING PAYMENTS IN LIEU OF TAXES (“PILOT”) AGREEMENT** for the Cottage City Towers Apartments for the purpose of approving the terms and conditions of a Payment in Lieu of Taxes (“PILOT”) Agreement between Prince George’s County, Maryland (the “County”) and an entity to be formed by Developer: HAPGC Affordable Housing Development Corporation, LLC C/O Housing Authority of Prince George’s County (the “Owner”).

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**Fiscal Summary**

**Direct Impact:**

*Expenditures:* No additional expenditures

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*Revenues:* Forgone tax revenues totaling approximately \$3,351,766 over a 30-year period.

**Indirect Impact:**

Potentially positive.

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**Legislative Summary:**

CR-041-2023<sup>1</sup>, proposed by the Chair at the request of the County Executive and sponsored by Council Members Harrison and Ivey, was introduced on May 9, 2023, and referred to the Committee of the Whole (COW). CR-041-2023 would approve the terms and conditions of a Payments in Lieu of Taxes (“PILOT”) Agreement between Prince George’s County, Maryland (the “County”) and an entity to be formed by Developer: HAPGC Affordable Housing Development Corporation, LLC C/O Housing Authority of Prince George's County (the “Owner”) for the Cottage City Towers (“Project”).

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**Current Law/Background:**

Section 7-503 of the Tax-Property Article of the Annotated Code of Maryland authorizes the County to exempt certain real property from County property taxes in certain circumstances. 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 thereof enters into an agreement with the governing body of the county and, where applicable, the municipal corporation where the real property is located, wherein such parties agree that the owner shall pay a negotiated amount in lieu of the applicable county or municipal corporation tax.
- 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 governmental programs described in (a)(2)(ii) of this paragraph 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

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<sup>1</sup> [CR-041-2023](#)

maintained for lower-income persons to remain as housing for lower-income persons for a term of at least five (5) years.

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### **Resource Personnel:**

- Aspasia Xypolia, Director Department of Housing and Community Development
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### **Discussion/Policy Analysis:**

The Cottage City Towers Project (“Project”)<sup>2</sup> is located at 4142 Bunker Hill Road, Cottage City, Maryland, and is part of the Developer’s plan to rehabilitate a 100-unit public housing for a 6-story elevator-served apartment building that was constructed in 1974. Under the proposed agreement, for the 30-year term, HAPGC Affordable Housing Development Corporation, LLC C/O Housing Authority of Prince George’s County (“Owner”) will reserve one hundred (100) units for households whose incomes are at or below 60% of the Area Median Income (“AMI”)<sup>3</sup>. It should be noted that Attachment B (Page 5) mistakenly states that the affected area is the Baltimore Metropolitan Statistical Area, which should instead be the Washington DC Metro Area. The unit mix will consist of a mix of studios/efficiencies and one-bedroom units. CR-041-2023 would authorize the County to accept a payment in lieu of taxes equal to a \$0.00 payment per affordable unit in year one, which will escalate by two percent (2%) per year during the term of the PILOT agreement. The Project is being proposed by HAPGC Affordable Housing Development Corporation, LLC C/O Housing Authority of Prince George’s County (“HAPGC” or the “Developer”) to rehabilitate the Project to provide housing to Eligible Households as described in the details of the PILOT.

The Project is expected to cost \$32,370,880. Financing includes approximately \$11,898,307 from an investor member in connection with Low-Income Housing Tax Credits (“LIHTC”) awarded by CDA; Tax-Exempt Bonds totaling approximately \$8,207,406; approximately \$4,420,000 from the Capitalized Ground Lease and Seller Note; approximately \$3,500,000 in loans by the Community Development Administration (“CDA”)<sup>4</sup>; and approximately \$2,500,000 from the County’s Housing Investment Trust Fund (“HITF”)<sup>5</sup> Program loan; approximately \$1,097,429 from the Deferred Developer Fee; approximately \$747,638; and approximately \$100 in General Partner Equity<sup>6</sup>. The 30-year value of the County PILOT is approximately \$8,262,077.

The Developer for the project is seeking to improve the physical quality of the property and has engaged with the National Affordable Housing Trust<sup>7</sup> (“NAHT”) to serve as a consultant throughout the rehabilitation process. The Developer plans to rehabilitate major systems such as

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<sup>2</sup> [Cottage City Towers](#)

<sup>3</sup> [Department of Housing and Urban Development - FY 2023 Income Limits Documentation System](#)

<sup>4</sup> [Community Development Administration - Maryland](#)

<sup>5</sup> The HITF loan is before the Council for approval via [CR-046-2023](#).

<sup>6</sup> [Project Financing Estimate \(Page 7\)](#)

<sup>7</sup> [National Affordable Housing Trust](#)

HVAC, replace piping in an advanced state of deterioration, make electrical system upgrades to accommodate planned updates to items in the building, invest in insulation and more efficient systems. New kitchens, baths, and doors will be installed throughout the building. There will be changes to the common area which will include proposed amenities such as on-site management, community rooms, computer center, library, laundry room, patio with park benches, park grills, and picnic tables. The PILOT will remain in effect for thirty (30) years.

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value is approximately \$8,262,077, and the County real property tax that will be due on the Project is an estimated \$82,621.00 (\$826.00/unit) in the first year. The PILOT results in the aggregate tax burden on the entire 100-unit Project being at zero percent (0%) of that amount, or approximately \$0; this is equivalent to zero dollars (\$0) per unit tax burden on the one hundred (100) affordable units. Under the agreement, the County would be forgoing real property tax revenue of approximately \$82,621, or approximately \$826 per affordable unit, in year one<sup>8</sup>.

Increasing the availability of affordable housing, both through construction of new housing and the rehabilitation of existing housing, is a stated objective of the Council, and a key component of the Comprehensive Housing Strategy<sup>9</sup>.

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### **Fiscal Impact:**

#### *Direct Impact*

Adoption of CR-041-2023 will have an adverse fiscal impact in the form of forgone tax revenue. As described above, accepting the PILOT on the entire Project of \$0 will result in a loss of approximately \$82,621 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 \$3,351,766.00 over the 30-year period that the PILOT agreement remains in effect.

However, should CR-041-2023 not be adopted the Owner may raise rents, making the units unaffordable to tenants at 60% AMI. Additionally, due to the appeal of fixed rent and modern housing, the property may attract new residents.

#### *Indirect Impact*

Adoption of CR-041-2023 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.

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<sup>8</sup> [Cottage City Towers - PILOT Analysis](#)

<sup>9</sup> [Draft Comprehensive Housing Strategy Report](#)

**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?
  - What is the timeline of the rehabilitations being planned? What would the impact of delays in rehabilitation efforts be on providing housing?
  - What will be the unit mix once the project is completed?
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**Effective Date of Proposed Legislation:**

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

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