



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

November 2, 2016

MEMORANDUM

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: David H. Van Dyke *DHV*
County Auditor

FROM: Inez N. Claggett *INC*
Senior Legislative Auditor

RE: Fiscal Impact Statement
CR-079-2016 PILOT for the Woods at Addison Apartments

Pursuant to your request, we have reviewed CR-079-2016 to estimate its fiscal impact on Prince George's County, Maryland.

CR-079-2016 approves the terms and conditions of a Payments in Lieu of Taxes (PILOT) Agreement (the "Agreement") by and between SP Woods LP (Owner) and the County.

The Owner proposes to acquire the Woods at Addison Apartments, a rental housing project, located at 6500 Ronald Road, Capitol Heights, Maryland (the "Property" or "Project"), for rehabilitation and subsequent operation. The Project is comprised of two hundred twenty-five (225) multi-family apartment units, along with related facilities. The Owner will designate one hundred and eighty (180) units for rent to households with income at or below sixty percent (60%) of the Area Median Income. The remaining forty-five (45) units will be rented at market price. The Project will consist of forty-one (41) one-bedroom units, one hundred fifty-eight (158) two-bedroom units, and twenty-six (26) three-bedroom units. Attachments A-1 to A-3 to the Resolution provide a description of the Project along with the anticipated financing estimate. Attachment A to the Resolution provides the terms of the proposed thirty (30) year PILOT Agreement.

The average proposed rent is \$1,390 per month for the three-bedroom units, \$1,125 per month for the two-bedroom units, and \$1,005 per month for the one-bedroom units. These rental amounts are in accordance with the current rent structure and therefore, no residents should be displaced should the rehabilitation occur as planned.

According to Office of Finance, Treasury Division, the current annual County tax burden of the Property is approximately \$177,133, which includes the County's supplemental real property tax for education. Factoring in an annual 1% increase, the County would receive real property taxes equating to approximately \$6,161,564 (see Attachment A) over a 30 year period.

If adopted, the proposed PILOT agreement shall become effective on the date of execution of the PILOT agreement and the obligation to pay negotiated payments in lieu of taxes shall commence as of the effective date. The PILOT agreement shall remain effective until the termination date as defined within the Resolution. Under the agreement, the Owner agrees to pay an annual PILOT payment of \$59,829, per year, which shall increase by 2% each year, after the first full calendar year following the effective date. All other agency taxes are to be paid in full, each year. Over a 30 year period, the estimated PILOT payment totals \$2,427,148 (see Attachment A). Upon transfer, or conveyance of the Property, due to a foreclosure or deed in lieu of foreclosure, the exemption from payment of real property taxes shall expire and all deferred real property taxes (the accumulation of the annual assessed real property tax less the total amount paid as minimum annual payments) shall be due.

Within five (5) days of execution of the PILOT agreement, the Owner shall submit copies of the Property's Regulatory Agreement to the Director of the Office of Finance and the Director of the Department of Housing and Community Development (DHCD). An administrative fee of \$37,500 shall also be remitted to the Director of DHCD, within five (5) days of execution and delivery of the Regulatory Agreement, for deposit to the County's Housing Trust Fund. On an annual basis, twenty-five percent (25%) of Net Cash Flow and/or Net Capital Proceeds of the Project (the County's Profit Sharing) actually received by the general partner of the Owner, shall be paid to the County's Housing Trust Fund. This provision shall terminate upon the termination or expiration of the PILOT agreement and is capped on an annual basis equal to the lesser of the difference between the amount of the ordinary County portion of real property taxes exempted by the PILOT agreement, and the agreed upon annual PILOT payment. Staff within the Department of Housing and Community Development have estimated that, based upon the agreed upon terms of the PILOT, payments to the County's Housing Trust Fund will begin in year 4 of the agreement. Over the course of the 30 year PILOT, total payments made to the County's Housing Trust Fund are estimated to be approximately \$2,596,849 (see Attachment A).

Adoption of CR-079-2016 will result in a negative fiscal impact to the County. Assuming the real property assessment after rehabilitation remains constant, at today's value, if the PILOT agreement is approved, the County will forgo approximately \$3,734,416 (see Attachment A) in tax revenue over a 30 year period. This amount is the difference between the Project's estimated annual County real property tax and the annual PILOT payment, combined over a 30 year period. An estimate of the Property's assessed value after rehabilitation was not provided, therefore, the forgone value of County real property taxes after rehabilitation compared to the estimated value of the 30 year PILOT payments, could not be determined. However, should the PILOT agreement not be approved, the Owner may decide not to continue with rehabilitation of the Property, and the County would forgo any indirect economic benefits derived as a result of the improvements made to the Property, and that may occur within the surrounding community.

Adoption of CR-079-2016 will result in positive fiscal impact related to the County's Housing Trust Fund. Receipts are anticipated to be realized beginning in year four (4) of the PILOT agreement and would equate to a total of \$2,596,849 over the term of the agreement. However, it should be noted that affordable housing projects rarely operate for the full term of the initial underwriting. Typically, after fifteen (15) years, the Project's Owners will refinance or sell, and apply for tax credits, to assist in the

Robert J. Williams, Jr.

Page 3

rehabilitation of the Project. As a result, the estimated total may not be fully realized within the County's Housing Trust Fund.

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

**PILOT Agreement Analysis
Woods at Addison Apartments**

Attachment A

Year	Current Real Property Taxes (without PILOT Agreement)	Estimated Real Property Taxes with PILOT Agreement	Payments to the Housing Trust Fund
1	\$ 177,133	\$ 59,829	\$ -
2	178,905	61,026	-
3	180,694	62,246	-
4	182,501	63,491	4,721
5	184,326	64,761	9,712
6	186,169	66,056	14,700
7	188,031	67,377	19,680
8	189,911	68,725	24,651
9	191,810	70,099	29,607
10	193,728	71,501	34,545
11	195,665	72,931	79,433
12	197,622	74,390	84,325
13	199,598	75,878	89,187
14	201,594	77,395	94,014
15	203,610	78,943	98,803
16	205,646	80,522	103,548
17	207,703	82,132	108,245
18	209,780	83,775	112,887
19	211,878	85,451	117,470
20	213,996	87,160	121,987
21	216,136	88,903	126,434
22	218,298	90,681	130,803
23	220,481	92,494	135,087
24	222,685	94,344	139,281
25	224,912	96,231	143,377
26	227,161	98,156	147,367
27	229,433	100,119	151,244
28	231,727	102,121	155,000
29	234,045	104,164	158,626
30	236,385	106,247	162,114
Total	\$ 6,161,564	\$ 2,427,148	\$ 2,596,849
	A	B	

Difference between A and B above \$ (3,734,416)