THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

May 3, 2021

FISCAL AND POLICY NOTE

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin
Senior Legislative Budget and Policy Analyst

FROM: Isabel Williams
Senior Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Note
CR-040-2021, Payment in Lieu of Taxes ("PILOT") Agreement for 8230 Schultz Road

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CR-040-2021 (*Proposed by:* The Chair of the Council at the request of the County Executive; *Introduced by:* Council Members Hawkins, Taveras, Franklin, Davis, Streeter, Harrison, Turner, and Glaros)

Assigned to the Committee of the Whole

A RESOLUTION CONCERNING PAYMENTS IN LIEU OF TAXES ("PILOT") AGREEMENT FOR 8230 SCHULTZ ROAD 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 8230 Schultz Road, LLC (the "Owner").

Fiscal Summary

Direct Impact:

Expenditures: No additional expenditures

14741 Governor Oden Bowie Drive, Upper Marlboro, Maryland 20772
VOICE (301) 952-3431; FAX (301) 780-2097; TDD (301) 925-5167

Revenues: The revenue will increase by the amount brought in under the PILOT. Revenues on the currently undeveloped land would increase by the PILOT of approximately $9,000 per year after the project is completed with an escalation factor of 2% annually. However, revenues for the units subject to the PILOT agreement will be reduced by a total of approximately $83,659 per year for the 40-year term of the agreement, compared to projected property tax revenues in the absence of the agreement.

Indirect Impact:

Potentially positive.

Legislative Summary:

CR-040-2021, proposed by Council Chair Hawkins by request of the County Executive and sponsored by Councilmembers Hawkins, Taveras, Franklin, Davis, Streeter, Harrison, Turner, and Glaros, was presented to the County Council on April 6, 2021 and referred to the Committee of the Whole. CR-040-2021 would approve the terms and conditions of a Payments in Lieu of Taxes ("PILOT") Agreement between Prince George's County, Maryland (the "County") and 8230 Schultz Road, LLC (the "Owner") concerning the 8230 Schultz Road project in Clinton, Maryland.

Current Law/Background:

Section 7-506.1 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 maintained for lower income persons to remain as housing for lower income persons for a term of at least five (5) years.

Resource Personnel:

- Alexis Yeoman - Public Information/Legislative Affairs, Department of Housing and Community Development

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Discussion/Policy Analysis:

The 8230 Schultz Road project, if approved, would be located at 8230 Schultz Road, Clinton, MD, and is planned to consist of ninety (90) multifamily residential apartment for low- and moderate-income seniors, ages sixty-two (62) years and older. The Owner is an entity formed by the development team of Housing Initiative Partnership, Inc., and Parallax Development Group, LLC and Banc of America Community Development Corporation. The 3.51-acre site is designed as a four-story complex with seventy-two (72) of the ninety (90) units being one-bedroom and one-bathroom; eight (8) units being two-bedroom and one-bathroom; and ten (10) units being two-bedroom and two-bathrooms.

The Owner will reserve ten (10) units for low-to-moderate-income families earning forty percent (40%) of the Area Median Income (AMI), which translates into incomes of thirty five thousand, two hundred and eighty dollars ($35,280) for a household of one and forty thousand, three hundred twenty dollars ($40,320) for a household of two, with rents at eight hundred and seventy-three dollars ($873) per month for the one-bedroom units. Forty-four (44) units will be reserved for households whose income is at fifty (50%) of the AMI, which translates into incomes of forty-four thousand, one hundred dollars ($44,100) for a household of one, and fifty thousand, four hundred dollars ($50,400) for a household of two, with rents at one thousand, one hundred and nine dollars ($1,109) for the one-bedroom units and one thousand, three hundred twenty-six dollars ($1,326) for the two-bedroom units. Thirty-six (36) units will be reserved for senior households sixty percent (60%) of the AMI, which translates into incomes of fifty-two thousand, nine hundred twenty dollars ($52,920) for a household of one, and sixty thousand, four hundred eighty dollars ($60,480) for a household of two, with rents at one thousand, two hundred and seven dollars ($1,207) for the one-bedroom units and one thousand, four hundred and twenty-nine dollars ($1,429) for the two-bedroom units. The monthly utility allowances are estimated at seventy-two dollars ($72) for one-bedroom units, and ninety-one dollars ($91) for the two-bedroom units.

CR-040-2021 would authorize the County to accept a payment in lieu of taxes for each below-market rate unit of a residential multi-unit building. The 8230 Schultz Road project is expected to cost twenty-six million, seven hundred sixty-eight thousand, three hundred seventy-six dollars ($26,768,376), including the acquisition, infrastructure development, and construction. Financing proceeds include tax-exempt loan proceeds totaling approximately eight million, one hundred thousand dollars ($8,100,000) issued by the Freddie Mac Tax Exempt Loan (Freddie Tel), a new tax-exempt loan structure; approximately twelve million, forty-one thousand, three hundred and ninety-six dollars ($12,041,396) from the investment of investor member equity provided in connection with Low-Income Housing Tax Credits (LIHTC) awarded by the Maryland Community Development Administration (CDA); a Prince George's County HOME Investment Partnerships (HOME) Program loan of three million dollars ($3,000,000);[1] approximately two million, five hundred thousand dollars ($2,500,000) from a Maryland CDA Rental Housing Works (RHW) loan; a deferred development fee payment of approximately one hundred sixty-six thousand, nine hundred and eighty dollars ($166,980) from the developer's equity; approximately five hundred thousand dollars ($500,000) from a Federal Home Loan Bank; and approximately four hundred and sixty thousand dollars ($460,000) from a Seller's Note.

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value after Development will be approximately $9,265,933, and the County real property tax that will be due on the Project is an estimated $92,659 ($1,029.55/unit) in the first year. Factoring in an annual 2% escalating factor, the County would receive real property taxes equating to approximately $5,596,807 (A) over a 40-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 from completion of the construction, as defined within the PILOT agreement. The PILOT agreement shall remain effective until the termination date, as defined within the agreement. Under the agreement, the Owner agrees to pay an annual PILOT payment of $100 per affordable unit, or $9,000 per year, which shall increase by 2% each year. All other agency taxes are to be paid in full, each year. Over a 40-year period, the estimated PILOT payment totals $543,618 (B) with the remaining $5,053,190 (A-B) deferred.

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

Fiscal Impact:

Direct Impact

Development of the Project with the PILOT will result in approximately $9,000 in additional revenue to the County annually, or $543,618 over the next 40 years, factoring in an annual 2% increase. There is currently no County real property tax being assessed and collected on the undeveloped property.

Adoption of CR-040-2021 would result in an adverse fiscal impact for the County of approximately $5,053,190 related to the Project's PILOT Agreement, over a 40-year period. This

[1] The County HOME Program loan is subject to approval via CR-036-2021.

amount is the difference between the developed Project's cumulative annual County real property tax ($5,596,807) and the cumulative value of the annual PILOT payments ($543,618), combined over the 40-year period.

However, should CR-040-2021 not be adopted, the Owner may decide not to purchase and develop the Property as proposed and the County would receive no real property tax revenue from this property.

Indirect Impact

Adoption of CR-040-2021 may have a positive indirect fiscal impact upon the County to the extent that new residents generate additional economic activity.

Items for Committee Consideration:

- The County approved two (2) PILOTs in Clinton, MD in 2020 (Woodyard Station Apartments and Woodyard Station Senior Apartments) totaling $4,429,453.51 in foregone tax revenue.
- This project has significantly more foregone revenue than the previous PILOTs in passed in the County.
- 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.