





June 9, 2023

FISCAL AND POLICY NOTE

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

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

FROM: Arian Albear 
Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Impact Statement
CR-046-2023 Housing Investment Trust Fund (HITF) for Cottage City Towers

CR-046-2023 (*Proposed and presented by:* Council Chair at the request of the County Executive)

Assigned to the Committee of the Whole (COW)

A RESOLUTION CONCERNING HOUSING INVESTMENT TRUST FUND (“HITF”) FOR HOUSING AND COMMUNITY DEVELOPMENT for the purpose of committing and allocating the amount of two million, five hundred thousand dollars (\$2,500,000) in Prince George’s County Housing Investment Trust Fund (“HITF”) Program funds to the Cottage City Towers project, an eligible activity, for gap financing necessary for the preservation of affordable housing.

Fiscal Summary

Direct Impact

Expenditures: \$2,500,000 in expenditures from the Housing Investment Trust Fund.

Revenue: None likely.

Indirect Impact

Potentially favorable.

Legislative Summary:

CR-046-2023¹, proposed by Council Members Dernoga, Watson, Ivey, Harrison, Hawkins, Franklin, Olson, and Fisher at the request of the County Executive, was presented on May 16, 2023, and referred to the Committee of the Whole (COW). CR-046-2023 would provide the Cottage City Towers project in Councilmanic District 5 with a \$2,500,000 loan for gap financing for refurbished affordable housing.² The project will acquire and rehabilitate 100 units with rents restricted to 60% or less of Area Median Income (AMI) over a 40-year period.

Project Information

Developer: HAPGC Affordable Housing Development Corporation, LLC C/O Housing Authority of Prince George's County.
Owner: An entity to be formed by the Developer.
Description: 100 rehabilitated units in a six-story, elevator-served apartment building, with rents restricted at 60% or less of the AMI.

Background/Current Law:

The Housing Investment Trust Fund, a non-lapsing fund, was created through legislation, CB-021-2012³, and further amended under CB-057-2017⁴, and is codified in Subtitle 10, Division 19 of the County Code. The purposes of the Fund are to:

1. Develop effective strategies to strengthen County neighborhoods impacted by foreclosures consistent with the County's Five-Year Consolidated Housing and Community Development Plan;
2. Provide for gap financing to enable the County to support the development of new construction and preservation of existing workforce and affordable housing;
3. Provide for housing counseling, rental, down payment, and closing costs assistance for eligible persons to retain or purchase vacant, abandoned, and foreclosed properties;
4. Acquire, rehabilitate, resell, or lease-purchase of vacant, abandoned, and foreclosed properties to eligible residents, not-for-profit organizations, and for-profit affordable housing providers;
5. Provide for land banking of vacant, abandoned, and foreclosed properties;
6. To otherwise reduce and minimize the occurrence of foreclosures by coordination and use of County, State, and Federal resources and program; and
7. To increase and preserve the supply of safe and affordable homeownership opportunities for the purpose of growing the County's tax base revenue.

¹ [CR-046-2023](#).

² More information on Loan Terms under Appendix A at the end of this document.

³ [CB-021-2012](#).

⁴ [CB-057-2017](#).

The Fund may also assist, in the form of loans and grants, to finance programs to meet the goals stated above for the benefit of existing and potential homeowners or renters, not-for-profit organizations, and for-profit affordable housing providers.

The Fund is currently financed from a variety of sources, which may include:⁵

1. Current expense funds;
2. Contributions, donations, or appropriations by the United States, Maryland, or any other political jurisdiction, or private entity;
3. Interest income;
4. Fees or other charges levied on loan or grant recipients;
5. 20% of the recordation tax collected (of no less than \$10 million);⁶ and
6. Any other funds designated and provided by the County.

Resource Personnel:

Aspasia Xypolia, Director Department of Housing and Community Development

Discussion/Policy Analysis:

CR-046-2023 would provide the Cottage City Towers project with additional funding for a total of \$2,500,000, or 7.72% of the project’s total funding. Per Attachment B, this would use one-quarter of HITF available funds for the fiscal year.⁷

The project’s conjoining Payment In Lieu of Taxes (PILOT) agreement (CR-041-2023)⁸ for \$0 would defer \$4,990,458 in cumulative taxes over a 40-year period. The terms of the PILOT agreement include annual payments of \$0 per unit with a 2% annual escalation on the assessed real property value.⁹ As such, the total County subsidy, from both sources, for the project would be \$7,490,458 for a period of 40 years.

40-Year Tax Burden	40-Year PILOT Payments	40-Year Deferred Tax
\$4,990,458	\$0	\$4,990,458

⁵ Code of Prince George’s County, [Sec. 10-296. – Financing the Fund.](#)

⁶ The Recordation tax source was added under CB-004-2021 and took effect on June 30, 2022.

⁷ CR-045-2023, [Attachment B.](#)

⁸ [CR-041-2023.](#)

⁹ Note: The PILOT Agreement erroneously notes a 60% AMI in the Baltimore Metropolitan Statistical Area rather than a 60% AMI in the “Washington-Arlington-Alexandria Metro Area.” DCHD is aware and will correct it in their final draft.

As the development is a Public Housing conversion, rents are determined by HUD and agreed upon through a contract. The tenant’s portion of the rent is determined by the chart below:¹⁰

Median Income	Unit Description		Number of Units	Unit Size (Net leasable Sq. Ft.)	Tenant Utilities*	Contract Rent	Rent Subsidy	Rent Subsidy Source	Income Per Unit	Monthly Income	Annual Income
	Bedrooms	Baths									
50%	zero	1	40	479		\$969.12		HUD RAD	969	\$ 38,765	\$ 465,178
50%	zero	1	14	479		\$803.00	770	HUD	1,573	22,022	264,264
50%	1	1	46	576		\$814.00	781	HUD	1,595	73,370	880,440

Notably, while the chart above, provided by DHCD, shows rents at 50% of AMI, the legislation is set to 60% or less of AMI.

Affordable housing is a critical issue in an area with rising home values and a lack of housing in general. This project would rehabilitate 100 units at 60% or below of the DMV-regions Area Median Income (AMI). Notably, Prince George’s County’s median household income is already well below the area median, as defined by the U.S. Census Bureau. According to the American Community Survey, the median income for the “Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area” is \$110,355¹¹ and the median income for Prince George’s County is \$90,182.¹² The County median household income, therefore, is already 81.7% of the Area Median Household Income (AMI).



Figure 1: U.S. Census Bureau's DC-VA-MD-WV Metro Area

\$110,355 - \$90,182 = \$20,173 (81.7% of AMI) difference in household income.

¹⁰ Communication with DHCD.

¹¹ Census Reporter, [Washington-Arlington-Alexandria Metro Area](#).

¹² Census Reporter, [Prince George’s County](#).

2023 Adjusted Home Income Limits, as published by HUD, can be found in the chart below:¹³

2023 Adjusted Home Income Limits								
Program	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
30% Limits	31,650	36,200	40,700	45,200	48,850	52,450	56,050	59,700
50% Limits	52,750	60,300	67,850	75,350	81,400	87,450	93,450	99,500
60% Limits	66,300	72,360	81,420	90,420	97,680	104,940	112,140	119,400
80% Limits	66,750	76,250	85,800	95,300	102,950	110,550	118,200	125,800

As such, while this project will create some affordable housing for the DC Metro and the County.

Fiscal Impact:

- *Direct Impact*

Adoption of CR-046-2023 would represent a negative impact of \$2,500,000 to the Housing Investment Trust Fund. The loan carries a 2% simple interest during the permanent loan period. Loan payments are due only after payment of all Senior Loan debt. More information on the loan terms can be found at the end of this document, under Appendix A.

In conjunction with the other Housing Investment Trust Fund resolutions and other expenses, FY 2023 will conclude with an HITF balance of \$2,745,283. Details on expenditures are below:¹⁴

¹³ U.S. Department of Housing and Urban Development (HUD), 2023 Home Income Limits, [Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area](#).

¹⁴ Communication with DHCD.

FY 2023 beginning balance		\$4,179,783
<u>FY 2023 Revenue</u>		
State grant		\$10,000,000
Recordation tax		\$10,800,000
<u>FY 2023 Expenses</u>		
Projects in Front of Council Spring 2023		(\$13,750,000)
Staff Salaries		(\$112,000)
Underwriting		(\$67,500)
Admin		(\$75,000)
Legal services		(\$20,000)
Program services		(\$675,000)
<u>Previously Committed</u>		
Villas @ Langley		(\$2,000,000)
Glenarden Hills		(\$3,000,000)
Atworth College Park Metro		(\$200,000)
Sovren at West Hyattsville Metro		(\$200,000)
Hamilton Manor		(\$1,000,000)
Enterprise Community Partners		(\$385,000)
Homeownership Preservation Program		(\$750,000)
FY 2023 ending balance		\$2,745,283

For reference, the chart below summarizes HITF funding in recent fiscal years, with 2023 Estimate numbers as of April 20, 2023.¹⁵

Category	FY 2022 Actual	FY 2023 Approved	FY 2023 Estimate	FY 2024 Proposed
Compensation	\$ 81,036	\$ 226,600	\$ 85,300	\$ 278,000
Fringe Benefits	35,487	56,600	26,600	86,900
Operating Expenses	1,351,193	21,756,300	8,300,500	15,301,000
TOTAL	\$ 1,467,716	\$ 22,039,500	\$ 8,412,400	\$ 15,665,900

- *Indirect Impact*

Adoption of CR-046-2023 may promote economic development through the creation of more apartments and businesses along public transit-oriented zones. If a substantial amount of the workforce employed in the construction project is from the area, this may result in more of the money staying within the jurisdiction.

- *Appropriated in Current Fiscal Year*

¹⁵ FY 2024 County Executive's Proposed Budget Book, [Department of Housing and Community Development](#).

Yes.

Effective Date of Proposed Legislation:

The proposed Resolution shall be effective upon its adoption.

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

Appendix A

HITF Loan Terms

Subordination:	The HITF Loan will be subordinated to Senior Loan(s) approved by the Department, and subject to terms of an agreed-upon Subordination Agreement with Senior Lender(s). Multiple Senior Loans are acceptable.
HITF Loan Term:	Generally coterminous with the term of the Senior Loan(s), but no less than 20 years.
HITF Loan Amortization:	Up to 40 years.
HITF Loan Interest Rate:	Two percent (2%) simple interest during permanent loan period; zero percent (0%) during construction. At the discretion of the Director of the Department, Maryland DHCD's Contingent Interest loan terms will be considered on a case-by-case basis.
Collateral:	The HITF Loan will be secured by a subordinate lien Deed of Trust recorded in the Land Records of Prince George's County. Alternative collateral arrangements may be approved by the Department.
Loan Payments:	No repayments of principal or interest on the HITF Loan shall be due during the construction period. Beginning with the permanent loan period, repayment of the Loan will be due from available Cash Flow after payment of all Senior Loan debt, and as further defined in the Loan Documents and determined by annual financial statements. The annual repayment amount on the HITF Loan will be the <u>lesser</u> of: 1) 75% of surplus cash flow after approved operating expenses and required annual Senior Loan payments, or 2) the amount necessary to fully amortize the Loan under the agreed-upon terms, or 3) such other amount as agreed to by the Department. The definition of surplus cash for purposes of repayment of the HITF loan is set forth in the Note. At the discretion of the Director of the Department, Maryland DHCD's Contingent Interest loan terms will be considered on a case-by-case basis.