THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

May 11, 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-044-2022, Payment in Lieu of Taxes ("PILOT") – Agreement for the Haven Largo Project

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CR-044-2022 (*Proposed by:* The Chair of the Council at the request of the County Executive; *Introduced by:* Council Members Hawkins, Streeter, Turner, Franklin, Glaros, Taveras, and Harrison)

Assigned to the Government Operations and Fiscal Policy Committee

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A RESOLUTION CONCERNING PAYMENTS IN LIEU OF TAXES ("PILOT") AGREEMENT for the Haven Largo Project 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 the 9701 Summit Circle Largo Owner, LLC (the "Owner).

Fiscal Summary

Direct Impact:

Expenditures: No additional expenditures

Revenues: Forgone tax revenues totaling approximately $3,058,018 over a 17-year period.

Indirect Impact:

Potentially positive.

Legislative Summary:

CR-044-2022, proposed by the Chair at the request of the County Executive and sponsored by Council Chair Hawkins, Vice Chair Harrison, and Council Members Streeter, Turner, Franklin, Glaros, and Taveras, was introduced on April 26, 2022, and referred to the Government Operations and Fiscal Policy Committee (GOFP). CR-044-2022 would approve the terms and conditions of a Payments in Lieu of Taxes ("PILOT") Agreement between Prince George's County, Maryland (the "County") and Largo Owner, LLC ("Owner") for the Haven Largo project ("Project").

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:

- Aspasia Xypolia, Director Department of Housing and Community Development

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Discussion/Policy Analysis:

The Haven Largo Project ("Project")[1] is located at 9701 Summit Circle, Largo, Maryland, and is a two hundred and forty-five (245) unit garden style apartment complex. Under the proposed agreement, for the seventeen (17) year term, Largo Owner, LLC ("Owner") will reserve ninety-eight (98) units for family households whose incomes are at or below eighty percent (80%) of the Area Median Income ("AMI")[2]. The remaining one hundred forty-seven (147) units will be rented at market rate. The unit mix will consist of fifty-five (55) one-bedroom units, one hundred fifty-eight (158) two-bedroom units, and thirty-two (32) three-bedroom units. CR-044-2022 would authorize the County to accept a payment in lieu of taxes equal to sixty percent (60%) of the amount that would otherwise be payable on the entire Project, equivalent to a zero-dollar ($0) payment per affordable unit during the term of the PILOT agreement.

The Project is expected to cost seventy-six million, twenty-five thousand, eight hundred eighty-seven dollars ($76,025,887), including acquisition, infrastructure development and rehabilitation. Financing includes a private mortgage loan totaling approximately fifty-four million, seven hundred thirty thousand dollars ($54,730,000) made by the Capital One Bank, NA ("First Loan"); approximately nineteen million, one hundred sixty-six thousand, two hundred ninety-eight dollars ($19,166,298) from an equity investor; and approximately two million, one hundred twenty-nine thousand, five hundred eighty-nine dollars ($2,129,589) from the developer equity. The 17-year value of the County PILOT is approximately thirty-eight million, two hundred and two thousand, one hundred and sixty-seven dollars ($38,202,167).

The Haven Largo project was acquired in March 24th, 2022 by AHC, Inc. and Insight Property Group, LLC (together, the "Development Team") through the Right of First Refusal ("ROFR") program in order to construct or rehabilitate the Project to provide housing to Eligible Households as described in the details of the PILOT, and is subject to rent restrictions on ninety eight (98) units for up to seventeen (17) years, though most of its units are priced at levels at the market rate. The Development Team for the Project has budgeted approximately two million dollars ($2,000,000) for capital improvements at the Project. The Development Team intends to make improvements that were recommended in a property condition report by a third party. Some improvements planned are replacing the rooves of the garages and apartment buildings whose rooves have not been replaced in recent years; recoating the pool; milling and resealing the parking lot; deep cleaning and repainting building exteriors; and replacing hot water heaters and replacing HVAC

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[1] Haven Largo Apartments
[2] 2021 Maryland Income and Rent Limits (Pg. 9), 80% limit would equate to $74,100 income limit for a three-person household and a max gross rent of $1,853

units throughout the property. The PILOT will remain in effect for seventeen (17) years which includes the extended affordability period.

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value is approximately $38,202,167, and the County real property tax that will be due on the Project is an estimated $382,021.67 ($1,559.27/unit) in the first year. The PILOT reduces the aggregate tax burden on the entire two hundred and forty-five (245) unit Project to sixty percent (60%) of that amount, or $229,213; this is equivalent to a zero dollar ($0) per unit tax burden on the ninety-eight (98) affordable units. Under the agreement, the County would be forgoing real property tax revenue of approximately $152,809, or $1,559 per affordable unit, in year one.

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[3].

Fiscal Impact:

Direct Impact

Adoption of CR-044-2022 will have an adverse fiscal impact in the form of forgone tax revenue. As described above, accepting the PILOT on the entire Project of $229,213 will result in a loss of approximately $152,809 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 $3,058,018.00 over the 17-year period that the PILOT agreement remains in effect.

However, should CR-044-2022 not be adopted the Owner may not be able to complete the necessary renovations that will negatively impact current County residents. Alternatively, the Owner may raise rents, making the units unaffordable to tenants at 80% AMI. Additionally, due to the appeal of renovation and fixed rent, the property may attract new residents.

Indirect Impact

Adoption of CR-044-2022 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.

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)?

[3] Draft Comprehensive Housing Strategy Report

- 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.