May 27, 2022

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

RE: Policy Analysis and Fiscal Impact Statement
CR-043-2022, Payment in Lieu of Taxes ("PILOT") Agreement for the Carillon Project

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CR-043-2022 (*Proposed by:* The Chair of the Council at the request of the County Executive; *Introduced by:* Council Members Hawkins, Streeter, Turner, Medlock, Glaros, Franklin, and Harrison)

Assigned to the Committee of the Whole

A RESOLUTION CONCERNING PAYMENTS IN LIEU OF TAXES ("PILOT") AGREEMENT FOR THE Carillon 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 RPAI Capital Centre II, L.L.C., an affiliate of Kite Realty Group Trust, successor to Retail Properties of America, Inc. ("Developer").

Fiscal Summary

Direct Impact:

Expenditures: No additional expenditures.

Revenues: Approximately $95,000,000 in foregone real property tax revenues over the period of 2022 - 2049.

Indirect Impact:

Likely positive, potentially significant.

Legislative Summary:

CR-043-2022, proposed by Council Chair Hawkins by request of the County Executive and sponsored by Council Members Hawkins, Streeter, Turner, Medlock, Glaros, Franklin, and Harrison was introduced on May 17, 2022, and referred to the Committee of the Whole. CR-043-2022 would approve the terms and conditions of a revised Payments in Lieu of Taxes ("PILOT") Agreement between Prince George's County, Maryland (the "County") and RPAI Capital Centre II, L.L.C., an affiliate of Kite Realty Group Trust, successor to Retail Properties of America, Inc. ("Developer") concerning different phases of the Carillon Project in Largo, Maryland.

Current Law/Background:

Section 7-516[1] of the Tax-Property Article of the Annotated Code of Maryland, as amended (the "Act") authorizes the County to exempt or partially exempt an Economic Development Project within the meaning of the Act from County real property taxes under certain conditions The Act also permits the County to enter into a PILOT agreement or multiple PILOT agreements for different phases of the Economic Development project. Specifically, the law permits such exemptions if:

- the owner or owners of the economic development project demonstrate to the satisfaction of the County Executive and County Council of Prince George's County:
    - that the county or its designated agency has conducted an economic analysis of the project, including:
        - a detailed description of the project and the development budget, including the identification of all sources of debt and equity financing;
        - a multiyear cash flow pro forma of the project detailing all incoming and outgoing cash flow revenues, operating expenses, debt service, taxes, capital expenditures, and any other cash outlays;
        - the projected return on investment for the owner or owners;
        - a determination that the project is an economic development project that meets the requirements of this section; and
        - any other relevant analysis;
    - the public benefit that the project will provide, including:

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[1]Prince George's County Code, § 7-516. Prince George's County

        - the number of jobs expected to be created, directly or indirectly, as a result of the project and the percentage of those jobs expected to be held by Prince George's County residents;
        - the wage rates and benefit packages for the jobs expected to be created;
        - other Prince George's County tax revenues, exclusive of real property taxes, that the project is expected to generate during the term of the payment in lieu of taxes agreement, including income, admissions and amusement, personal property, hotel, parking, energy, and other taxes;
        - the encouragement of economic development;
        - the general promotion and improvement of Prince George's County and its facilities;
        - the general promotion and improvement of Prince George's County and its facilities;
        - any other relevant benefits;
    - the financial necessity for an exemption authorized under this section; and
    - that the private capital being invested in the economic development project includes an equity investment that is:
        - commensurate with the overall undertaking; and
        - for a hotel or an office building, an amount greater than or equal to 10% of the combined equity and debt investment; or
            - for an off-street parking facility, an amount greater than or equal to $250,000;
- the owner or owners of the economic development project and the governing body of Prince George's County enter into a payment in lieu of taxes agreement or multiple payment in lieu of taxes agreements for different phases of the economic development project that specify:
    - an amount that the owner or owners shall pay to the county each year in lieu of the payment of county real property taxes during the term of the agreement that is not less than the sum of:
        - the taxes on the property before the construction or rehabilitation of the project; and
        - 25% of the county real property taxes related to the economic development project that would have otherwise been due absent the agreement;
    - the term of the agreement, not to exceed 15 years from the date a certificate of occupancy is first issued for the project or the date a certificate of occupancy is first issued for any phase of the project that is covered by the agreement; and
    - that each year after the expiration of the agreement, full property taxes shall be payable on the property;
- prior to or no later than 18 months from the date of entering into the payment in lieu of taxes agreement, construction of the project or any phase of the project that is covered by the agreement has commenced and all conditions for the financing required for the construction of the project or phase of the project that is covered by the agreement have been satisfied or waived; and
- the authorizing resolution states that the project may not involve gambling activities.

Resource Personnel:

- Jose C. Sousa - Assistant DCAO, Economic Development

Discussion/Policy Analysis:

The Carillon Project is located at 801 Capital Centre Blvd, Largo, MD, and is a project seeking to redevelop an aging retail venue into a mix of retail, residential, hospitality, and office space adjacent to the Largo Town Center Metro Station. The Project was previously the subject of a PILOT agreement pursuant to the adoption of CR-092-2019[2], which dealt with a singular fifteen (15) year PILOT agreement. CR-043-2022 would rescind CR-092-2019 and allow all eleven (11) phases of the Project to be eligible for new fifteen (15) year PILOT agreements. Each phase of the Project is deemed eligible for a PILOT agreement once each Phase Commencement Notices are executed and delivered upon[3]. Below is a comparison between the projected development under the CR-043-2022 proposal and current construction planned based on CR-092-2019:

	Resolution	Proposed Development (Acres)	Multi-Family Units	Condominium Units	Sq Ft. Retail Space	Sq. Ft Office Space	Hotel Rooms	Parking Spaces	Assessed Value - Base
	CR-092-2019	38.7	1,493	183	248,460	719,000	300	5,404	$ 58,969,867
	CR-043-2022	38.7	1,736	-	169,750	407,000	300	3,819	$ 37,752,600
Change		-	243	(183)	(78,710)	(312,000)	-	(1,585)	$ (21,217,267)

The Developer has proposed to develop the Property into a mixed-use project over the course of eleven (11) separate phases expected to be substantially completed in 2034, which would consist of approximately 407,000 square feet of office space, 300 hotel rooms, approximately 169,750 square feet of retail/restaurant space, 1,736 multi-family units, and 3,819 spaces in structured parking. The Project is projected to add at least 100 full-time, permanent jobs upon completion, 51% of the jobs are expected to be held by County residents and have a combined capital investment of equity and debt of approximately eight hundred and thirty-two million ($832,000,000). CR-043-2022 would authorize the County to accept a payment in lieu of taxes equal to twenty-five percent (25%) of County real property taxes related to the Project. The Project is expected to cost nine hundred and seventy-three million, five hundred and sixty-nine thousand, six hundred and ninety-five dollars ($973,569,695), prior to any exclusions. The 12-year value of the County PILOT is valued at approximately ninety-five million dollars ($95,00,000). Below is overview of the eleven (11) phases eligible for a new PILOT agreement:

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[2] Prince George's County Council - Reference No. CR-092-2019

[3] MASTER PAYMENT IN LIEU OF TAXES AGREEMENT - Section 3.06. Multiple PILOT Agreements under the Act - Page 8

			PRODUCT MIX		
PHASE	SUBSTANTIAL COMPLETION	TOTAL PHASE GROSS SF	MULTI-FAMILY UNITS	RETAIL (SF)	OFFICE (SF)
1	April 2023	131,000		24,000	107,000
2	December 2024	409,950	351 Units	22,600	
3	January 2025	87,700		23,700	64,000
4	July 2026	112,650		2,300	110,350
5 & 6	March 2028	483,250	475 Units	24,750	
7	January 2030	217,100	190 Units	34,600	
8	August 2031	123,250	115 Units	13,000	
9	May 2032	127,450		1,800	125,650
10	November 2033	254,250	250 Units	14,500	
11	December 2034	331,450	355 Units	8,500	
TOTAL		2,278,050	1,716 Units	169,750	407,000

The Developer has acknowledged the inclusion of County-Based Businesses ("CBBs"), County-Based Small Businesses ("CBSBs"), Minority Business Enterprises ("MBEs"), and County-Based Minority Business Enterprises ("CMBEs") in the Project. The Developer intends to implement programs to achieve contracting participation by CBBs, CMBEs, and MBEs. The Developer will use Best Efforts[4] to cause 35% or more of the costs of Phase 1 of the Project to be incurred pursuant to contracts with CBBs, CMBEs, CBSBs, and MBEs. At minimum 25% of incurred costs will be directed to contracts with CBBs, CMBEs, CBSBs, and MBEs and at least 20% of these CBBs, CMBEs, CBSBs, and MBEs -applicable costs will be directed to contracts with CMBEs. The County's MBE Compliance Manager has approved the MBE Plan.

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value after Development will be approximately $95,000,000, and the County real property tax that will be due on the Project is an estimated $8,779,000 in the first phase. Factoring in an annual 2% escalating factor, the County would receive real property taxes equating to approximately $240,800,000 over a 42-year period and eleven (11) phases.

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[4] Defined as actions taken by the Developer in a true and genuine attempt to achieve compliance with and to further the interest and purpose of its MBE Plan, without any design to deceive or defraud the County or intended beneficiaries of this MBE Plan or to otherwise undermine the interest of this MBE Plan.

Fiscal Impact:

Direct Impact

A PILOT agreement subsequent to the adoption of CR-043-2022 will result in an estimated ninety-five million dollars ($95,000,000) in foregone real property tax revenue between 2022 and 2049 after accounting for the PILOT payments.

Value of PILOT Incentive to Developer

Phase	PILOT Start	PILOT End	Foregone Real Property Tax Revenue less PILOT
Phase 1	Jan-23	Jan-38	$2,394,000
Phase 2	Sep-24	Sep-39	$14,271,000
Phase 3	Jan-25	Jan-40	$3,739,000
Phase 4	Jul-26	Jul-41	$7,340,000
Phases 5 & 6	Mar-28	Mar-43	$18,878,000
Phase 7	Jan-30	Jan-45	$9,145,000
Phase 8	Aug-31	Aug-46	$5,061,000
Phase 9	May-32	May-47	$8,313,000
Phase 10	Nov-33	Nov-48	$11,159,000
Phase 11	Dec-34	Dec-49	$14,726,000
Total			**$95,000,000**

PILOT agreement only affects the $0.96/$100 assessed value real property tax rate

However, the Project is expected to generate additional income tax revenue from new residents which, when combined with the PILOT payments minus public expenditures, will result in an estimated $356,442,000 in net new tax revenues over the period of 2022-2064. This net impact is expressed in the table below:

INCREMENTAL FISCAL BENEFITS		
	Real Property Tax (including PILOT, Schools)	$ 296,600,000
	Resident Income Tax	$ 378,700,000
		$ 675,300,000
INCREMENTAL FISCAL COSTS		
	General Fund Expenditures	$ (259,800,000)
	Board of Education Expenditures	$ (59,000,000)
		$ (318,800,000)
	TOTAL NET NEW TAX REVENUES	**$ 356,500,000**

However, should CR-043-2022 not be adopted the Developer may not be able to complete the project on the projected timeline or at all.

Indirect Impact

Adoption of CR-043-2022 is likely to have a significant positive indirect fiscal impact upon the County to the extent that new residents and businesses 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)?
- 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.