THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

October 18, 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-086-2022, Payment in Lieu of Taxes ("PILOT") – Agreement for the Haven Largo[1] Project

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CR-086-2022 (*Proposed by:* The Chair of the Council at the request of the County Executive; *Introduced by:* Council Members Hawkins, Harrison, Taveras, Glaros, Medlock, and Turner)

Assigned to the Government Operations and Fiscal Policy (GOFP) 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 NORE Fund - Landover Owner, LLC (the "Owner).

Fiscal Summary

Direct Impact:

Expenditures: No additional expenditures

[1] The project that is the subject of this PILOT Agreement is not Haven Largo; it is the Verona at Landover Hills project.

Revenues: Forgone tax revenues totaling approximately $9,628,868 over a 15-year period.

Indirect Impact:

Potentially favorable.

Legislative Summary:

CR-086-2022, proposed by the Chair at the request of the County Executive and sponsored by Council Chair Hawkins, Vice Chair Harrison, and Council Members Taveras, Glaros, Medlock, and Turner, was introduced on July 12, 2022, and referred to the Government Operations and Fiscal Policy Committee (GOFP). CR-086-2022 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 Verona at Landover Hills 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

Discussion/Policy Analysis:

The Verona at Landover Hills project ("Project")[2] is located at 4085 Warner Avenue, Landover Hills, Maryland, and is a seven hundred twenty-seven (727) unit garden style apartment complex. Under the proposed agreement, for the fifteen (15) year term, Landover Owner, LLC ("Owner") will reserve five-hundred forty-five (545) units for family households whose incomes are at or below eighty percent (60%) of the Area Median Income ("AMI")[3]. The remaining one hundred eighty-two (182) units will be rented at market rate. The unit mix will consist of two-hundred fifty-five (255) one-bedroom units, three hundred ninety-six (396) two-bedroom units, and seventy-six (76) three-bedroom units. CR-086-2022 would authorize the County to accept a payment in lieu of taxes equal 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).

According to staff in the Department of Housing and Community Development, the Project's annual real property assessed value is approximately $74,273,233, and the County real property tax that will be due on the Project is an estimated $742,732.00 ($1,022.00/unit) in the first year. The PILOT reduces the aggregate tax burden on the entire seven hundred and twenty-seven (727) unit Project to twenty-five percent (25%) of that amount, or $185,938; this is equivalent to a zero dollar ($0) per unit tax burden on the five-hundred forty-five (545) affordable units. Under the agreement, the County would be forgoing real property tax revenue of approximately $556,794, or $1,022 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

[2] Verona at Landover Hills
[3] 2022 Maryland Income and Rent Limits (Pg. 6), 60% limit would equate to $76,842 income limit for a three-person household and a max gross rent of $1,921

the Comprehensive Housing Strategy[4]. The Project Information Sheet (Attachment A-2) notes that the project is "naturally occurring affordable housing" (NOAH). As such, the Project Description notes that "the market rate portion of the Project will initially have pricing similar to the affordable portion, the Project's location in an area with high demand may push market rate rents upward at a faster clip than the affordable portion." As such, this project will not increase the availability of affordable housing, per se, but instead will ensure that existing naturally occurring affordable housing remains affordable for the term of the PILOT agreement.

Fiscal Impact:

Direct Impact

Adoption of CR-086-2022 will have an adverse fiscal impact in the form of forgone tax revenue. As described above, accepting the PILOT on the entire Project of $185,938 will result in a loss of approximately $556,794 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 $9,628,868.00 over the 15-year period that the PILOT agreement remains in effect.

However, should CR-086-2022 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 60% AMI. Additionally, due to the appeal of renovation and fixed rent, the property may attract new residents.

Indirect Impact

Adoption of CR-086-2022 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)?
- 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.

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[4] Draft Comprehensive Housing Strategy Report

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