Office of the County Auditor
Auditor's Analysis - REVISED

Council Resolution No. 145-2021

Introduced: September 8, 2021
Auditors: Owen Clark and Michael A. Martin

Fiscal Impact:

Using projected financial statements from the developer that were provided to our Office by the Administration, our Office estimates the fiscal impact of this Payment in Lieu of Taxes (PILOT) agreement to the County to be:

- A loss in County property tax revenue of $3.3 million when compared to the development's projected full tax assessment for the first 20 years of the agreement.
- A loss of $16,157 in property tax revenue compared to the projected payment from the existing PILOT agreement for the first 20 years of the proposed development.

Documentation for each of the above fiscal impacts can be provided to the Council upon request.

For context on the projected minimum PILOT revenues from this development on a "per unit" basis, the total proposed Roslyn Rise development (153 mixed income rental units) projects annual PILOT revenue in its first year of operations to be $173 per unit, compared to a projection of $352 per unit for PILOT revenues collected in the same year for the existing development (58 affordable housing units).

During our review of this PILOT agreement we determined the following:

- The projected financial statements assume rental rates will be used for 20 affordable units that are 8 to 12 percent lower than the maximum low-income housing tax credit (LIHTC) rental rates.
    - In response to an inquiry, the developer indicated that their investor requires these rental rates to be set 8 to 10 percent below the LIHTC maximum rents.
- Surplus Cash and Residual Receipts are intended to offset lost County revenues. However, none of these revenues are projected until Fiscal Year 2040. In addition, these revenues are only able to be paid after certain other obligations are paid, whose amounts are dependent on investor agreements that have not yet been finalized and are not controlled by the developer. Due to this uncertainty, our Office has deferred on attempting to project Surplus Cash and Residual Receipts revenues associated with this agreement.

Our Office has reviewed the potential fiscal impact of approving an Adequate Public Facilities Ordinance (APFO) waiver. Using projected financial statements from the developer that were provided to our Office by the Administration. Our Office estimates this fiscal impact to be:

- One-time revenues from the school facilities surcharge, building excise tax and building permit revenues of $290,450, $149,439, and $24,860, respectively.
- Fire tax and ad valorem revenues of $31,500 and $10,500, respectively.
- Annual pupil costs of $93,000.
- Local income tax revenues from the new housing units that our Office is unable to estimate due to the varying income levels of the development's future tenants.

Note: This fiscal impact from the APFO waiver only includes pupil costs of the Howard County Public School System and does not include any possible capital costs or operating costs associated with the new development.

<u>Purpose:</u>

This resolution would authorize the County to enter into a PILOT agreement with Roslyn Rise Nine, LLC (the Company), relating to a proposed housing development.

This development will be a 59-unit mixed-income housing complex referred to as one half of Roslyn Rise Apartments.

The Administration has indicated that without this PILOT agreement, the Company would not meet the Debt Service Coverage Ratio to make this project economically feasible.

The project has already received approval from the Maryland Department of Housing and Community Development (DHCD) for LIHTC projected to result in equity financing of $13.8 million in the project.

The terms of the PILOT agreement include the following:

- Minimum annual payment by the Company of 4.5 percent of its gross rental income minus the amount of any County fire tax and ad valorem.
- Additional payments from the Company's Surplus Cash and Residual Receipts.
- A term of 40 years, assuming the project was developed as agreed.
- Termination of the PILOT agreement if the Company violates its agreement with the DHCD to provide low income housing.

Per the Administration, this development is expected to fail the school capacity testing. **The Company is requesting a waiver of the APFO requirements based upon the criteria of the Special Affordable Housing Opportunities provision.**

<u>Other Comments:</u>

Our Office questioned why this agreement's Surplus Cash calculation rate was set at 2 percent, while both Robinson Overlook (via CR96-2021) and Community Homes (via CR97-2021) were set at 4 percent. In response, the developer indicated they would consider a revision if this was a concern for the Council.

The development team indicated that their plan is to close on the State financing for this project and the project associated with CR144-2021 in December 2021.

Regarding the relocation of residents and occupancy of the current residential property to be redeveloped, the development team stated:

- Residents are primarily being relocated in Columbia, though some are choosing to relocate further away. The developer is paying for any rent increases and moving costs associated with a tenant's relocation.
- Half of the existing residents are moving away permanently or elsewhere in the developer's portfolio of properties in Columbia.
- Half of the existing residents will be relocated to non-Enterprise managed properties in Columbia.
- In anticipation of the redevelopment, the property started allowing for natural attrition in Fall 2020. This means they have not been backfilling units as residents naturally exit the property.

NOTE: The Administration confirmed that for the 25 units to receive HAP rental subsidy payments, the reduced rents paid by the tenants of these units will be backfilled by subsidy payments paid to the property. This will result in rental income from these units that is commensurate with the market rate.

Attachment A includes total sources and uses of funds relating to this project.

Attachment A to CR145-2021

SOURCES OF FUNDS

Private Loan	$	10,292,000
CCHI Subordinate 1st Mortgage		2,608,818
CCHI Soft Loan		1,300,000
Low Income Housing Tax Credit Proceeds		13,800,000
Developer's Equity		774,015
Other Equity		304,707
Total Sources of Funds	**$**	**29,079,540**

USES OF FUNDS
TOTAL DEVELOPMENT COSTS

Construction or Rehabilitation Costs	$	16,911,685
Fees Related to Construction or Rehabilitation		2,158,385
Financing Fees and Charges		2,744,624
Acquisition Costs		3,860,242
Total Development Costs	$	25,674,936
Total Developer's Fee		2,500,000
Total Syndication Related Costs		185,000
Total Guarantees and Reserves		842,981
Total Uses of Funds	**$**	**29,202,917**