

**Office of the County Auditor**  
**Auditor's Analysis**

**Supplemental Budget & Appropriation Ordinance No. 3 - Fiscal Year 2022**

Introduced: February 7, 2022

Auditor: Owen Clark

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Fiscal Impact:

**Immediate Fiscal Impact**

The fiscal impact of this legislation is a spendable County appropriation of \$6,560,000.

This amount is currently appropriated in the Fiscal Year 2022 Operating Budget as General Fund Contingency. Of this amount:

- \$2,500,000 was appropriated using PayGo funds in FY 2022 with the intent to provide the initial funding for a Housing Opportunities Trust Fund.
- \$4,060,000 has been appropriated in the General Fund Contingency since FY 2021 and is in the General Fund's committed fund balance, with a restriction that it be used for housing initiatives due to the funding source being Moderate Income Housing Unit (MIHU) fee in lieu revenues.

If passed, the Administration has stated this legislation would be used to support the following initiatives:

- \$2,500,000 to provide gap financing towards a mixed income residential redevelopment project called Ranleagh Court.
- \$1,200,000 to provide gap financing towards a new mixed income residential development project called Patuxent Commons.
- \$2,860,000 to provide funding for MIHU program, the Settlement Down Payment Loan Program (SDLP), and the Homeownership Assistance Program (HAP).

The Administration has indicated that without the proposed gap financing, the developers of the mixed income residential developments above would not meet the debt service coverage ratio of 1.15 that is needed to make the project economically feasible.

**Future Fiscal Impact**

Our Office's review of the projected financial statements of both proposed developments indicated each developer is anticipating they will enter a Payment in Lieu of Tax (PILOT) agreement with the County for the abatement of real property tax.

**NOTE:** The below noted fiscal impacts of each development do not include potential capital or operating costs associated with the new development. Additionally, we have an open inquiry regarding potential understatements in the estimated school facilities surcharge and building excise tax amounts noted below for each project.

### **Patuxent Commons**

Per the Administration, Patuxent Commons is preparing to request a waiver of the APFO requirements based upon the criteria of the Special Affordable Housing Opportunities provision. **Legislation for a proposed PILOT agreement and APFO waiver are planned for March 2022.**

While terms of a PILOT agreement are not yet executed, the projected financial statements provided to our Office indicate that it will result in minimum payments of \$633,000 over its first 20 years, representing a \$1.17 million abatement of County property tax revenues.

Additionally, using projected financial statements from the developer that were provided to our Office from the Administration, this development's fiscal impact is estimated to include:

- One-time revenues from the school facilities surcharge, building excise tax, and building permit/fee revenues of \$192,593, \$176,987, and 96,381, respectively.
- Annual Fire tax and ad valorem revenues of \$15,645 and \$5,303, respectively.

Annual pupil costs of \$583,000 will be based on the most recent pupil cost projection and the Administration's estimated student yields.

Our Office is unable to estimate the local income tax revenues from the new housing units due to the varying income levels of the development's future tenants.

### **Ranleigh Court**

As noted above, the developer for this project may also require a PILOT agreement for a fee in lieu of County property tax payments in addition to the gap financing. Our Office has not been provided the details associated with this agreement and is currently unable to provide its fiscal impact.

Additionally, using projected financial statements from the developer that were provided to our Office from the Administration, this development's fiscal impact is estimated to include:

- One-time revenues from the school facilities surcharge, building excise tax, and building permit/fee revenues of \$280,682, 169,532, and \$130,070, respectively.
- Annual Fire tax and ad valorem revenues of \$32,522 and \$11,556, respectively.
- Our Office's understanding is that the existing PILOT agreement associated with the current Ranleigh Court development will be terminated when this redevelopment project commences.

Our Office has not received an estimate from the Department of Planning and Zoning of the anticipated student yields in conjunction with this proposed development, therefore, we are unable to estimate the anticipated annual pupil costs at this time.

Our Office is unable to estimate the local income tax revenues from the new housing units due to the varying income levels of the development's future tenants.

Purpose:

The purpose of this legislation is to transfer \$6,560,000 from the General Fund, Contingency Reserve to the Department of Housing and Community Development's Community Renewal Fund to support the follow initiatives:

- \$2,500,000 to finance a mixed income residential redevelopment project called Ranleigh Court, which is receiving Low Income Housing Tax Credit financing.
- \$1,200,000 to finance a new mixed income residential development project called Patuxent Commons, which is receiving Low Income Housing Tax Credit financing.
- \$2,860,000 to provide funding for MIHU program, the Settlement Down Payment Loan Program (SDLP), and the Homeownership Assistance Program (HAP).

Other Comments:

The MIHU Fee-In-Lieu funds of \$4,060,000 that were originally appropriated in FY 2021 to fund a residential development project called Dorsey Overlook.

The County anticipates the financing agreements with Ranleigh Court and Patuxent Commons will be in the form of a grant agreement that contains a covenant requiring each project's low-income housing offerings to be maintained for 20 years.

Regarding the redevelopment of Ranleigh Court, the Department of Housing and Community Development has provided the following information:

- This project would redevelop the existing 41-unit community to create an 82-unit mixed-income housing complex, of which 69 units will be for residents earning up to 80 percent of the HUD Baltimore AMI and 13 will be market rate units.
- Twenty-nine of the low-income units will be subsidized using the Housing Assistance Payment rental subsidy program, where the reduced rents paid by tenants will be backfilled by subsidy payments paid to the property.
- Financing for the project is scheduled to close in May 2023, at which point construction would begin, and the development should be placed in service by November 2024.
- Ranleigh Court is not in a currently closed school district and, therefore, may not be subject to the school capacity test per the County's Adequate Public Facilities Ordinance (APFO).
- Please see **Attachment A** for a listing of the financing sources and uses associated with this redevelopment project.

Regarding the development of Patuxent Commons, the Department of Housing and Community Development has provided the following information:

- This project would create a 76-unit mixed-income housing complex, of which 69 units will be for residents earning up to 60 percent of the HUD Baltimore AMI and 7 will be market rate units.
- Eleven of the low-income units will be subsidized using the HUD 811 rental subsidy program, which is provided to persons with disabilities, from ages 18 – 62, with income at or below 30 percent of the AMI.
- Twenty-five percent of the units are planned to be set aside for adults with disabilities.
- The County's gap financing is planned to be used towards the purchase of the development's land, which has a planned closing date of July 15, 2022.
- The Howard County Housing Commission is participating in this project as a General Partner, which was done with the intent to enable this project to be located in the Planned Office Research zoning district.
- A site development plan is planned to be submitted on October 15, 2022, at which point it will be subject to the Adequate Public Schools capacity test.
- Financing for the project is scheduled to close in February 2023, and the development should be leased up by November 2024.
- Please see **Attachment B** for a listing of the financing sources and uses associated with this redevelopment project.

This project may receive State Bond Bill proceeds of \$500,000 in FY 2023, after having already received \$500,000 of State Bond Bill funding in a prior year. We would like to point out that the project's Bond Bill Fact Sheet includes a schedule of Sources and Uses that indicates a lower amount of funding is needed for the project. *Our Office has an open inquiry about this discrepancy.*

## Exhibit A

### Ranleagh Court - Financing Sources & Uses

Sources	Amount
Private Loan	\$ 13,244,000
LIHTC Equity - 4 %	7,184,813
CHHI Subordinate Debt	3,200,000
Rental Housing Works	2,500,000
<b>County GAP Financing</b>	<b>2,500,000</b>
CHHI Subordinate Debt-Additional	1,000,000
Deferred Developer Fee	445,866
Interim Income	300,000
<b>Total Uses</b>	<b>\$ 30,374,679</b>

Uses	Amount
Construction or Rehabilitation Costs	\$ 17,392,139
Acquisition Costs	4,600,000
Financing Fees and Charges	2,774,735
Developers Fee	2,500,000
Construction or Rehabilitation Fees	2,191,524
Guarantees and Reserves	778,417
Syndication Related Costs	137,864
<b>Total Sources</b>	<b>\$ 30,374,679</b>

**NOTE: This schedule was provided to the Department of Housing and Community Development from the developer of the proposed development.**

## Exhibit B

### Patuxent Commons - Financing Sources & Uses

Sources	Amount
LIHTC Equity - 4%	\$ 13,412,380
First Mortgage	6,770,000
MD DHCD RHW	2,500,000
HUD 811	2,472,543
MD DHCD Green/Partnership Funds	2,300,000
DHCD MIHU FIL grant	2,000,000
MD Dept of Health	1,600,000
Weinberg	1,500,000
<b>County Gap Financing</b>	<b>1,200,000</b>
Deferred Developers Fee	1,192,149
MD State Bond Bill	1,000,000
MF Capital Magnet Funds	700,000
Federal Earmarks	500,000
<b>Total Sources</b>	<b>\$ 37,147,072</b>

Uses	Amount
Construction or Rehabilitation Costs	\$ 24,621,265
Acquisition Costs	4,200,000
Developer's Fee	2,800,000
Construction or Rehabilitation Fees	2,433,312
Financing Fees and Charges	2,254,943
Guarantees and Reserves	697,151
Syndication Related Costs	140,401
<b>Total Uses</b>	<b>\$ 37,147,072</b>

**NOTE: This schedule was provided to the Department of Housing and Community Development from the developer of the proposed development.**