



Howard County

Internal Memorandum

Subject: Testimony on Council Resolution No. __-2023, a Resolution approving a Payment in Lieu of Taxes Agreement for Waverly Winds, LLC

To: Brandee Ganz, Chief Administrative Officer

From: Kelly Cimino, Director of Department of Housing and Community Development
K. Cimino

Date: October 24, 2023

Summary

Resolution __-2023 supports approval of the terms and conditions of a Payment In Lieu Of Taxes Agreement (PILOT) by and between Howard County, Maryland and Waverly Winds, LLC, a limited liability company, (WW9) for the re-development of a 55-unit mixed-income rental housing development in Columbia.

Background

WW9 plans to construct and operate a 55-unit mixed-income rental housing development on the site of the current Waverly Winds apartments. The existing community is more than 50 years old, and the units are not energy efficient or accessible. The new building will provide 9 units for households that earn at or below 80 percent of Area Median Income (AMI), 28 for those that earn at or below 50 percent of AMI, and 18 market rate units. Combined with the WW4 development, the project will create a mixed-income community for 123 new and existing residents.

WW9 received approval for public financing from the Maryland Department of Housing and Community Development in the form of equity financing from 9% Low Income Housing Tax Credits in the approximate amount of \$11,966,500.

In addition to the funding source listed above, WW9 is seeking additional funding from Howard County for the project in the form of a PILOT. There are several financing challenges facing the project including elevated interest rates, shifting capital markets and volatility in construction prices from inflation. A PILOT will reduce operating expenses and allow the developer to finance an additional \$1.87M to complete construction. The developer is proposing a PILOT payment of \$300/unit or \$16,500/year. To the extent funds are available in any given year, most likely after Year 16, WW9 will make a surplus payment equal to the lesser of available cash or 2% of base revenues as well as residual receipts of available cash up to the amount of the



Howard County

Internal Memorandum

total county tax bill. As a condition of the PILOT, the County requires the owner to restrict the occupancy of income-restricted units for 40 years. By its terms, the PILOT terminates upon a foreclosure or a default under the PILOT or the lower income covenants.

Fiscal Impact

Should the PILOT be approved, the County will receive a property tax payment of \$134,028 in Year 1. WW9 has demonstrated that the proposed PILOT is necessary to make the project financially feasible.

The County tax revenue for WW9 would be \$6,988,516 over 20 years. If a PILOT is approved, the revenue to the County for the same period will be \$3,351,787. This represents a net revenue loss of \$3,636,729. However, compared to the existing PILOT agreement currently in place, there will be a net tax revenue gain of \$377,181 for the total project (CR 96-2019). The detailed fiscal analysis will be provided to the County Auditor.

Conclusion

A ‘Memo to HCDB – Waverly Winds Redevelopment – Developer’s Request for PILOT 10.05.23.’ is attached. The developer presented the PILOT request to the Housing and Community Development Board on October 12, 2023. The Board recommended approval of the developer’s PILOT request because (1) the developer is adding market rate units to convert the development from a 100% affordable project to a mixed-income project; (2) the development is in a high opportunity area for new and existing residents; (3) the project received competitive LIHTC twinning credits from MD DHCD; (4) the project’s LTV is 80%, the loan repayment term is 17 years with a 35-year amortization, the debt service coverage ratio is 1.15% and the developer is deferring a portion of the developer fee for at least 15 years; (5) if the PILOT is not approved, there will be a financing gap, which means the project will not be able to proceed; (6) this redevelopment project has the support of the current residents, neighboring communities, Village of Wilde Lake board, Columbia Association and CHHI; and (7) based on the application submitted, the Developer appears to have accessed all available funding and maximized debt for the project.

If there are any questions, please contact my office. Thank you for your consideration.

Cc: Christiana Rigby, Council Chair
Opel Jones, Council Vice Chair
Elizabeth Walsh, Councilperson
Deb Jung, Councilperson
David Yungmann, Councilperson
Michelle Harrod, Administrator
Craig Glendenning, County Auditor

To: Housing & Community Development Board

Through: Kelly Cimino, Director – *K. Cimino*

From: Tom Wall, Fiscal Specialist - *tfwall*

Date: October 5, 2023 - REVISED

Re: **Waverly Winds Redevelopment– Developer’s Request for PILOT**

This is a request for a recommendation from the Housing and Community Development Board (the “Board”) concerning an application from Enterprise Community Development, Inc. (the “Developer”) for a PILOT regarding the redevelopment of the Waverly Winds community in Columbia, Maryland.

Developer’s Proposal. Currently Waverly Winds is an existing 62 townhouse and stacked flat unit housing community that has served low-income residents for more than 50 years. However, because of its age, the current units, bereft of any amenities, have become inefficient, inaccessible, and difficult to maintain. To address this obsolescence, the redevelopment will result in a new, modern, higher-density, mixed-income community. Although functioning as one community, the redevelopment will result in the construction of two, four story elevator served apartment buildings - Waverly Winds 9 and Waverly Winds 4. This project will create an additional 61 units (spanning both buildings) that will serve low, moderate and higher-income households.

Unit Type	Current Count	Redeveloped Count
1-bd	6	50
2-bd	36	50
3-bd	11	14
4-bd	9	9
	62	123

Unit Type	Waverly 9	Waverly 4	Total Units
At or below 50% AMI	28	15	43
Up to 80% AMI	9	31	40
Market Rate	18	22	40
	55	68	123

The Waverly Winds redevelopment will necessitate the relocation of existing residents to temporary housing during the demolition of the old, and the construction of the new community.

The redevelopment (4% and 9%) will be supported with a first mortgage from Bellwether Enterprise and a construction loan from Bank of America. Additionally, sources include Rental Housing Works Funding and Low-Income Housing Tax Credits from the MD Department of Housing and Community Development, and soft debt from Community Home Housing Inc (CHHI).

Waverly Winds Sources			
	9%	4%	Total
1st Mortgage	10,731,662	10,432,984	21,164,646
Rental House Works	-	3,400,000	3,400,000
Howard Co Community Renewal	-	2,000,000	2,000,000
CDBG Section 108 (tentative)	847,357	986,325	1,833,682
CHHI	2,420,303	5,179,697	7,600,000
LIHTC	11,966,500	7,926,793	19,893,293
LIHTC 10% Increase (Requested)	1,196,650	-	1,196,650
Additional Source	1,603,784	1,563,828	3,167,612
Section 45L Equity	250,250	154,700	404,950
Relocation escrow	457,415	-	457,415
Deferred Developer Fee	750,000	635,000	1,385,000
Solar ITC	-	386,000	386,000
Solar Grant	-	21,850	21,850
Resident Services	500,000	-	500,000
Total Sources	30,723,921	32,687,177	63,411,098

Relocation of current residents is expected to be completed June 2024. Construction financing is slated to close in August 2024, and the construction end date is targeted to be February 2026.

Evidence of the PILOT approval will be required before the closing on the construction financing can occur.

Debt Ratio 9% Without a PILOT, the debt ratio coverage is an unfavorable 0.97. Reducing the annual tax payments through the PILOT brings the debt ratio to the required 1.15.

Waverly Winds 9% Sources			Waverly Winds 9% Debt Ratio		
	Without PILOT	With PILOT		Without PILOT	With PILOT
1st Mortgage	9,071,854	10,731,662	1st Mortgage		
Rental House Works	-	-	Rate	6.45%	6.45%
Howard Co Community Renewal	-	-	Amortized Years	35	35
CDBG Section 108 (tentative)	847,357	847,357	Loan Amount	10,731,662	10,731,662
CHHI	2,420,303	2,420,303	Annual Payment	773,200	773,200
LIHTC	11,966,500	11,966,500	Income	1,390,490	1,390,490
LIHTC 10% Increase (Requested)	1,196,650	1,196,650	Expenses		
Additional Source	1,603,784	1,603,784	Administration	137,210	137,210
Section 45L Equity	250,250	250,250	Utilities	35,922	35,922
Relocation escrow	457,415	457,415	Operating	104,553	104,553
Deferred Developer Fee	540,000	750,000	Insurance and Taxes	341,870	204,375
Solar ITC	-	-	Reserve	19,250	19,250
Solar Grant	-	-	Total Expenses	638,805	501,310
Resident Services	500,000	500,000	Net Operating Income	751,685	889,180
Total Sources	28,854,113	30,723,921	Annual Debt Payment	773,200	773,200
Gap		(1,869,808)	Debt/Income ratio	0.97	1.15

Debt Ratio 4% Without a PILOT, the debt ratio coverage is an unfavorable 0.98. Reducing the annual tax payments through the PILOT brings the debt ratio to the required 1.15.

Waverly Winds 4% Sources			Waverly Winds 4% Debt Ratio		
	Without PILOT	With PILOT		Without PILOT	With PILOT
1st Mortgage	8,901,057	10,432,984	1st Mortgage		
Rental House Works	3,400,000	3,400,000	Rate	6.06%	6.06%
Howard Co Community Renewal	2,000,000	2,000,000	Amortized Years	35	35
CDBG Section 108 (tentative)	986,325	986,325	Loan Amount	10,432,984	10,432,984
CHHI	5,179,697	5,179,697	Annual Payment	718,512	718,512
LIHTC	7,885,594	7,926,793	Income	1,417,948	1,417,948
LIHTC 10% Increase (Requested)	-	-	Expenses		
Additional Source	1,563,828	1,563,828	Administration	179,482	179,482
Section 45L Equity	154,700	154,700	Utilities	31,624	31,624
Relocation escrow	-	-	Operating	121,607	121,607
Deferred Developer Fee	450,000	635,000	Insurance and Taxes	359,083	235,146
Solar ITC	386,000	386,000	Reserve	23,800	23,800
Solar Grant	21,850	21,850	Total Expenses	715,596	591,659
Resident Services	-	-	Net Operating Income	702,352	826,289
Total Sources	30,929,051	32,687,177	Annual Debt Payment	718,512	718,512
Gap		(1,758,126)	Debt/Income ratio	0.98	1.15

Fiscal Impact. When comparing the affects a PILOT against No PILOT extrapolated over 20 years, the net loss of tax revenue for Waverly 9 and Waverly 4 combined is estimated to be \$6,934,276.

Waverly Winds Fiscal Impact - PILOT vs No PILOT			
	4%	9%	Total
Proposed PILOT and Local Tax	3,231,969	3,351,787	6,583,756
No Pilot (20 Years)	6,529,516	6,988,516	13,518,032
Net Revenue Lost	(3,297,547)	(3,636,729)	(6,934,276)

If Waverly Winds continues with the existing PILOT program for the next 20 years, tax revenue will be approximately \$6,206,575. In comparison, the proposed PILOT will generate approximately \$6,583,756 in tax revenue, resulting in tax revenue gain of \$377,181.

Waverly Winds Fiscal Impact - New PILOT vs Existing PILOT			
	4%	9%	Total
Proposed PILOT and Local Tax	3,231,969	3,351,787	6,583,756
Existing PILOT and Local Tax			6,206,575
Net Tax Revenue Gain			377,181

Staff Analysis and Recommendation.

The Developer submitted applications and updated documentation for the projects, which meet the following criteria for a PILOT:

- The Developer is adding market rate units to convert development from a 100% affordable project to a mixed-income project.
- The development is in a high opportunity area for new and existing residents. The project received competitive LIHTC twinning credits from MD DHCD.
- If the PILOT is not approved, there will be a financing gap of approximately \$3.6M, which means the project will not be able to proceed.
- This redevelopment project has the support of the current residents, neighboring communities, Village of Wilde Lake board, the Columbia Association and CHHI, the former project owner.
- Based on the updated applications received, the Developer appears to have accessed all available funding and maximized debt on the project.

Based on these findings, staff recommends approval of the PILOT funding request.

cc: Carl DeLorenzo, Director of Policy and Programs
Constance Tucker, Principal Counsel