Office of the County Auditor
Auditor's Analysis

Council Resolution No. 185-2022

Introduced: October 3, 2022
Auditor: Lori Buchman

Fiscal Impact:

Using projected financial statements from the developer, our Office estimates the fiscal impact of the proposed Payment in Lieu of Taxes agreement's (PILOT) minimum payments to the County to be a loss in County property tax revenue of $3.6 million when compared to the development's projected full tax assessment for the first 20 years of the agreement.

In addition to the PILOT agreement, the County is providing a grant to the developer, Enterprise Community Development, Inc. (Enterprise), for gap financing of $2.5 million, which was approved in Supplementary Budget and Appropriation Ordinance 3 – Fiscal Year 2022.

Enterprise has indicated that due to increased construction costs and interest rates, in addition to the PILOT and existing grant agreement, they are requesting an additional $1 million in funding from the County's Department of Housing and Community Development (DHCD) to help fill the financing gap. DHCD has indicated that they will accommodate this request by reallocating Fiscal Year 2023 Moderate Income Housing Unit fee-in-lieu funds of $1 million from the budget appropriated for the Waverly Winds project, which is being delayed until Fiscal Year 2024 due to a delay in the State's Low Income Housing Tax Credit application. A new grant agreement for the $1 million will be drafted after approval of the resolution.

NOTE: *There will be a remaining financing gap of $2.5 million after receiving the PILOT agreement and the $3.5 million grant from the County. Enterprise states that they do not know how this gap will be funded.* ***If funding for this gap is not resolved, there is a potential that the fiscal impact may be an additional $2.5 million.***

The projected financial statements from the developer indicate that the County will receive surplus cash, beginning in year 15 of the agreement, totaling approximately $607,000 over the agreement's first 20 years. Our Office did not include this projected surplus cash revenue in our calculation of reduced property tax revenues because surplus cash is only paid after certain other obligations are met, which are dependent upon investor agreements that will not be finalized until just prior to closing on the project's financing in August 2023.

The County will receive one-time revenue of:

- Estimated transfer tax and recordation tax revenues of $51,250 and $20,500, respectively, based on the projected $4.1 million land acquisition. Additional recordation tax revenue

of $63,000 is estimated to be collected based on a private loan deed of trust related to the funding source for $12.6 million.
- School facilities surcharge and building excise taxes of $179,950 and $168,905, respectively, as provided by the Department of Inspections, Licenses and Permits.
- Building permit revenues in the amount of $27,000, as provided by the developer.

The County will receive annual revenues and expenses of:

- Additional special revenues: Fire tax, Watershed Protection and Restoration Fee, and ad valorem revenues of $27,258, $870, and $9,240, respectively, using projected financial statements from the developer.
- Local income tax revenues from the new housing units which our Office is unable to estimate due to the varying income levels of the development's future tenants.
- Additional annual pupil costs in the General Fund of approximately $51,000 based on the addition of forty-one new units.

Documentation for the above fiscal impact items can be provided to the Council upon request.

Purpose:

The proposed legislation would authorize the County to enter into a PILOT agreement with Ranleagh Court, LLC (Ranleagh), relating to a proposed mixed income rental housing redevelopment.

The redevelopment will replace forty-one existing income restricted affordable housing units with an eighty-two-unit mixed income rental housing development. The property is located at 6001 Turnabout Lane, Columbia (the Property).

Sixty-six units will be rented to households that earn at or below 80 percent of Area Median Income (AMI) of the Baltimore Metropolitan Statistical Area, of which thirty-one units will be rented to residents who earn at or below 50 percent of AMI. An additional sixteen units will be rented at market rates.

The terms of the Payment in Lieu of Taxes Agreement (PILOT) include the following:

- Minimum payment equal to three hundred dollars ($300) for each unit of the development, and the amount of County Fire tax, ad valorem charges, and any other charges that may appear on the Property's real property tax bill.
- Additional payments from Ranleagh surplus cash and residual receipts to the extent funds are available.
- A term of 40 years, assuming the project is developed as agreed.
- Termination of the PILOT agreement will occur if Ranleagh and all subsequent owners of the Property violate the agreement with the Maryland Department of Housing and Community Development to provide low-income housing.

The Administration has indicated that the PILOT agreement is necessary to make the redevelopment economically feasible by closing a financing gap of $1.9 million and to meet the required Debt Coverage Ratio.

Other Comments:

According to the Department of Planning and Zoning, this project has passed the School Capacity Test based on the current adopted School Capacity Chart and no APFO waiver is required.

NOTE: Our Office has an open inquiry with the Department of Planning and Zoning regarding the School Capacity Test. Our review of the May 2022 APFO School Capacity Chart shows that the assigned middle school is constrained for future residential development.

Residents will be offered the following two options for relocation during the development process:

- They can sever ties with Ranleagh and move off the property.
- Residents who chose to continue with their current lease will either be moved to another Enterprise Community in Columbia or Enterprise will assist them in entering into a corporate lease with a third-party community.

A letter of support from the County Executive was provided for this project. However, our Office noted that the letter was from April 2019 and referenced project details that are no longer relevant. In response to our inquiry, DHCD indicated that the State did not require an updated letter and that project plan changes during the development process do not change the County Executive's support for the project.

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

Attachment A

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SOURCES OF FUNDS

Capital One Commercial Banking - Private Loan	$ 12,600,000
Low Income Housing Tax Credit Proceeds	10,284,714
Rental Housing Works Funds loan	3,500,000
Community Homes Housing, Inc (CHHI) Subordinated Loan	3,123,735
Gap Funding provided by SAO-3	2,500,000
DHCD MIHU Fee-in-lieu Grant	1,000,000
Guaranteed Investment Contract Income	968,013
Deferred Developer's Fee	898,920
CHHI Accrued Interest[2]	182,075
Other[3]	140,000
Total Sources of Funds	**$ 35,197,457** [1]

USES OF FUNDS

Construction or Rehabilitation Costs	$ 21,189,944	
Fees Related to Construction or Rehabilitation	2,856,714	
Financing Fees and Charges	4,261,098	
Acquisition Costs	5,285,721	
Total Development Costs	$ 33,593,477	
Total Developer's Fee	2,500,000	
Total Syndication Related Costs	189,957	
Total Guarantees and Reserves	1,414,023	
Total Uses of Funds	**$ 37,697,457**	
82 units	$ 459,725	per unit

[1]There is a funding gap of $2.5 million

[2]This funding source is also shown as a funding use, included in Financing Fees and Charges

[3]Other funding comes from diverting principal and interest payments on the current first mortgage into a "relocation escrow account". This escrow account becomes a source for the redevelopment