Montgomery County's HIF and PILOT Programs

Department of Housing & Community Affairs

November 4, 2019

Montgomery Housing Initiative Fund (HIF)

History

- Established in 1988, first funds in 1989. Prior to that known as the Condominium Conversion Fund.
- The HIF is a local Housing Trust Fund. Comprised only of local revenues.
- Many funding sources, including MPDU shared profits or alternative payments, condominium conversion taxes, 25% of the proceeds from the sale of County land, and some recordation taxes.
- For the past 10 years, the largest funding sources are County general revenues, and the proceeds of County taxable limited obligation bonds for affordable housing.

HOC's Metropointe Apartments, Wheaton

Montgomery Housing Initiative Fund (HIF)

The HIF

- Provides funds for the acquisition, construction or rehabilitation of affordable multifamily projects.
- Also used for county-sponsored projects (Bonifant Apartments, ArtSpace, Seneca Heights).
- Designed to increase affordable housing choices for low-income households through the development of housing.
- Funds are provided as loans not grants. Deed of Trust and Regulatory Agreement recorded in land records. In most instances, HIF funds are subordinate to other lenders.

Victory Haven
Damascus

Montgomery Housing Initiative Fund (HIF)

Over the past 10 years

- Loans totaling $318 million made to 141 projects.
- Created or preserved 6,500 affordable units.
- Leveraged $1.6 BILLION of money from other funding sources ($4.60 for every $1 of HIF money spent), supporting County affordable housing goals.
- Provided financing to properties as small as one unit to as large as 860 units.
- Properties all across the County- from Clarksburg to Takoma Park, from Fairland to Potomac.

MHP's Bonifant Apartments
Silver Spring

Montgomery Housing Initiative Fund (HIF)

Current Loan Review Process

- Loans requests accepted on a continuous basis.
- Proposals must be from experienced multifamily housing developers.
- All loans are analyzed and underwritten by DHCA Division of Housing staff to ensure cost estimates, design features, and affordability goals are reasonable, feasible, and meet County goals.

Montgomery Housing Initiative Fund (HIF)

Evaluating Changes

- **<u>Developer Roundtable</u>** will be held on November 20.
- For stakeholders in affordable housing development to review DHCA's priorities and our underwriting approaches.
- Looking at how we use our financial tools.
- Soliciting suggestions from the development community concerning our application process (rolling or deadline submissions); how we can better support their ability to compete for and develop properties; and how we can improve collaboration and communication.
- We will listen to suggestions, answer questions and discuss solutions.

Montgomery Housing Initiative Fund (HIF)

Underwriting Example – Victory Crossing

- 105 Independent-Living Senior Housing Units
- Co-located on County land next to Third District Police Station, saving some development costs. Land is leased from County.

- Total Development Costs: $27,373,500

  $260,670 per unit (relatively low)

Montgomery Housing Initiative Fund (HIF)

Underwriting Example – Victory Crossing Without Affordable Financing

Average rents would need to be **$2,450**

Assumptions:

- 1.25 Debt Service Coverage
- Paying off all "must pay" debt ($26.4 million)
- 7% interest rate (Rent = $2,250 if 6%)
- No PILOT, same rather low Annual Operating Expense
- Note: Rent amount based on very low operating and construction expenses

How To Achieve:	30% AMI rents	$ 683 (1 bedroom)
	60% AMI rents	$1,638 (2 bedroom)

Montgomery Housing Initiative Fund (HIF)

Underwriting Example – Victory Crossing Financing to Achieve Affordability

Bond Financed Loan:	$11,305,000 (46% of total costs)
LIHTC Equity:	$ 5,840,000
HIF Subordinate Loan	$ 5,000,000
MD DHCD Subordinate Loan	$ 2,500,000
Victory Housing Loan	$ 2,325,000
HIF Rental Assistance Funds	$ 400,000

Plus – Project-based rental subsidies from HOC for 30 units

Payment in Lieu of Taxes Agreements (PILOTs)

Requirements – Since the 1970s

- Provides for a <u>negotiated payment</u> that lowers the cost of real property and special area taxes **<u>in return</u>** for a property owners' commitment to provide affordable housing.
- An agreement negotiated with rental property owners for reduced taxes.
- Regulated by State law and County regulations.
- PILOTs only for properties with other federal, state or local financing.
- PILOTs are not an entitlement. The County must review and approve PILOT applications.

MHP's Parkview Towers
Takoma Park

Payment in Lieu of Taxes Agreements (PILOTs)

Control Periods and Affordability:

- State law requires that a property must have affordable rental housing to be approved for a PILOT.
- The length of the PILOT is tied to the affordability period of other financing on the project.
- The PILOT agreement references the affordability requirements of the other financing agreements.

Seabury at Springvale Terrace
Silver Spring

Payment in Lieu of Taxes Agreements (PILOTs)

Total Amount of PILOTs Currently

- Each year, the budget sets a 10- YEAR limit on the allowed total annual property tax reduction approved through all non-Housing Opportunities Commission (HOC) PILOT agreements (new and existing).
- The Non-HOC PILOT cap for FY20 is $18,162,389.
- The amount of cap for the 10-year period can be adjusted annually in the budget.

How the Non-HOC PILOT cap is set:

- DHCA works with Finance each year to determine current amount of taxes abated with existing PILOTs. DHCA then estimates value of all pending and approved PILOTs, and estimates value of future PILOTs to calculate future PILOT cap needs.
- The value of all Existing, Signed, In Process and Pending PILOTs fully utilizes the current available PILOT cap; FY28 estimates show we might be only 1% below the cap for that year.
- Finance and OMB take the PILOT cap into account when assessing available resources for the annual County Operating Budget.

Cumulative Maximum for Non-HOC PILOT Tax Abatements	
FY 20	$18,162,389
FY 21	$19,070,508
FY 22	$20,024,034
FY 23	$20,624,755
FY 24	$21,243,497
FY 25	$21,880,802
FY 26	$22,537,226
FY 27	$23,213,343
FY 28	$23,909,743
FY 29	$25,105,230

FY20 – FY29 PILOT CAP

Payment in Lieu of Taxes Agreements (PILOTs)

Types Of Payment In Lieu Of Taxes (Pilot) Agreements Currently

- Senior Housing: Up to 100% tax abatement, covering all units.
- CHDO: Up to 100% tax abatement, covering all units, for certain nonprofit organizations.
- HOC: Up to 100% tax abatement, covering all units;
- "Section 8": Taxes reduced by amount of loss due to HUD Section 8 program. Adjusted annually.
- "Enterprise" Zone: Taxes reduced by 80% for the first five years, then down to 30% over next 5 years. Same formula as Enterprise Zone tax reductions for commercial properties.
- Rental Agreements: Taxes reduced by amount of loss due to keeping rents low on specified number of units. Amount established through the Rental Agreement/ Right of First Refusal process.
- MPDU: Taxes reduced by amount of loss of constructing high-rise MPDUs on-site. To make the building financially feasible. (NO LONGER WRITING MPDU PILOTS)
- Other Non-HOC: For each income-restricted unit, property taxes are reduced by about the average Montgomery County low-income homeowner tax credit, which currently is $1,347.

Payment in Lieu of Taxes Agreements (PILOTs)

Approval process:

- PILOTs are reviewed as part of the DHCA Multifamily Financing review process.
- While underwriting a project, DHCA Division of Housing Staff analyzes if the amount of proposed PILOT is needed.

Recent policy changes:

- Over past 4 years, staff began to change the analysis. Instead of using a standard formula, staff started looking at and setting the amount of PILOT abatement at the total needed. For acquisition properties, began recommending abating taxes only above the amount of taxes currently on the property.

Concerns raised:

- Led to confusion, uncertainty.
- Process not understood. Not consistent.
- Number and variety of PILOTs hard to understand.

Park Montgomery
On Piney Branch Road

Payment in Lieu of Taxes Agreements (PILOTs)

PROPOSED NEW: Types Of Payment In Lieu Of Taxes (Pilot) Agreements

- **Rental Agreements:** Taxes reduced by amount of loss due to keeping rents low on specified number of units for a specific period of time. Amount established through the Rental Agreement/ Right of First Refusal process.
- **All Other Non –HOC Properties:** Property taxes abated or each income-restricted affordable unit. Example: property with 75% of the units income-restricted would have 75% of its property taxes abated.
- **HOC-Owned Properties:** For affordable housing owned by HOC (or by an entity that HOC controls) - Up to 100% tax abatement on the entire property , because *HOC follows voluntary rent guidelines on all units * Any property cash flow goes toward HOC/County mission of serving lowest income (some with little or no income).

Payment in Lieu of Taxes Agreements (PILOTs)

Why Propose Changes?

- Create easily understood process that appears to be more fair
- Adds some certainty to the process
- Would still be subject to underwriting to make sure the assistance is necessary.

Next Steps?

- Talk to our partners at the Development Roundtable later this month.
- Analyze the effect of these changes on the PILOT cap.
- Prepare new regulations to be presented to the County Executive, and approved by the County Council.