



## STAFF REPORT ON PROPOSED LEGISLATION

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To: Mayor Gavin Buckley  
From: Teresa Sutherland  
Date: July 19, 2019  
Subject: R-39-19: Payment in Lieu of Taxes (PILOT) – Towne Courts, LLC

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This resolution adopts a payment in lieu of taxes (PILOT) agreement between the City and Towne Courts, LLC for the development of a 42-unit family style apartment complex located on a 4.77 acre site at 2010 West Street. Of the 42 units:

- 7 will serve families at 30% of below of the area median income;
- 6 will serve families at 40% and below the area median income;
- 11 will serve families at 50% and below of the area median income;
- 13 will serve families at 60% and below the area median income; and
- 5 will be made available to households at market rate rents.

The project will provide eight 2-bedroom units and 34 3-bedroom units along with a freestanding community building. The property will be managed by Habitat America.

The City retained Arundel Community Development Services (ACDS) to assess the financial need for a PILOT. ACDS concluded “The review of the income and expenses clearly indicates that this project would not be financially stable, nor meet the underwriting requirements of the first mortgage lender, without the approval of a PILOT for the City of Annapolis property taxes...The PILOT will allow the property to meet all other expenses without compromising services or lender requirements and will ensure that the property remains affordable to low and very low income households for the next 40 years.”

The estimated value of the property as it is proposed to be developed (affordable housing, 42 units) is \$4.3 million, which would generate approximately \$32,000 of property taxes in the first year. The proposed PILOT is \$7,672 in the first year, which is \$24,238 less than the estimated property taxes.

The terms of the PILOT are:

- The first year payment will be \$7,672;
- Payments will increase by 4% annually;
- The 40-year term of the agreement coincides with the 40-year term of the Extended Use Covenant for Low Income Housing Tax Credits;
- The restrictions on the number of units that must serve households at or below certain area median thresholds is binding for the entire 40-year term;
- Beginning in 2035, Towne Courts, LLC, must submit audited financial statements and project

expenses every five years for the Finance Department to review and determine whether a PILOT is still needed;

- If the property is sold or transferred, other than in a foreclosure, City Council approval is required to continue the PILOT with the new owner.
- In the event of a default that lasts 180 days, the City may, by way of a first lien and real property tax lien, collect the real property taxes that would be due if there was no PILOT, less any payments that were made.

*Prepared by Teresa Sutherland, City Manager*