Takoma Park City Council Meeting – February 28, 2024
Agenda Item 2

Work Session
Presentation of a Proposal for a New Multifamily Housing Tax Credit.

Recommended Council Action
Support the establishment of a Multifamily Housing Tax Credit to be implemented in the upcoming Fiscal Year.

Context with Key Issues
Staff propose to implement a new Multifamily Housing Tax Credit beginning in the 2025 fiscal year. This by-right tax credit would give a 15-year credit on the improved assessed value of any property that is constructing ten (10) or more residential units. The credit would offer a 100% incremental credit for the first ten (10) years, before gradually decreasing over the final five (5) years.

Project Background
The City of Takoma Park has one of the more unique housing markets in the Country. While the cost of the City's single-family homeownership market continues to increase along with regional housing prices, our forty-year old Rent Stabilization law has successfully kept the rental market in the City deeply affordable. The 2023 Annual Housing Report outlines in more detail the current state of the City's housing market. A few key data points to note from the Report include:

- Of the 3,217 licensed rental units in the City, approximately 50% are deed-restricted, low-income units (subsidized by programs such as the Low-Income Housing Tax Credit);
- The median monthly rent for a rental unit in Takoma Park is $1,198, nearly $700 less than the median rent for Montgomery County;
- 93% of Takoma Park rental units would be considered affordable for low-income (sub-50 AMI) residents and 99% of units meet Montgomery County's definition of naturally occurring affordable housing;
- Since 2010, there have been 61 permits issued for new housing construction, exclusively for single-family dwellings and ADUs.

Within this context, the 2019 Housing & Economic Development Strategic Plan identifies the housing priorities of preserving, producing, and protecting housing units in the City of Takoma Park. Under the "Produce" recommendations, the Plan outlines the following strategy: "Encourage moderate and higher density development and redevelopment through means such as supporting applications during the development review process and providing or encouraging financial assistance for projects."

Additionally, the Fiscal Year 2025 Council Budget Priorities also emphasize the need for addressing multifamily housing construction in the City:

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"Advance the City's housing efforts by updating housing policies (i.e. payment in lieu of taxes (PILOT) and Community Development Block Grant (CDBG) funds, incentivizing multi-family rehabilitation (i.e. energy efficiency, electrification and building improvements), and addressing matters regarding code enforcement and multi-family onsite property management."

Staff researched forms of housing incentives available in the DC Metropolitan area. A list of subsidies is in Table 1.

Table 1. Housing & Development Incentives in the DC Metropolitan Area

Jurisdiction	**Type**	**Details**
Montgomery County	Payment in Lieu of Taxes (PILOT)	3 types, 2 based on affordability (For affordability period); 1 for WMATA Property (15 years) Focus is specific TOD or Affordability
Montgomery County	Housing Initiative Fund (HIF)	Grant/Cash Flow Notes to affordable housing projects
City of College Park	Revitalization Tax Credit Program	2 Levels (5-year lower credit, 15-year higher credit); geographic focus
Prince George's County	Housing Investment Trust Fund	Provides Workforce Housing Gap Financing with an emphasis on supporting the development of new construction, rehabilitation, and preservation of existing workforce and affordable housing while targeting households earning up to 120% of the area median income (AMI).
City of Alexandria	Predevelopment Loan	Loan for predevelopment for Affordable housing
City of Alexandria	Housing Opportunities Fund	Grants and loans for affordable housing projects and activities consistent with the goals and principles of the Housing Master Plan and City Strategic Plan.
Arlington County	Affordable Housing Investment Fund	AHIF is the County's main financing program for affordable housing development providing loans to affordable housing developments

District of Columbia	DC EDF Unit	PILOTS/TIFS/Abatements to support development. Total subsidy amount depends on an analysis of the project
District of Columbia	Housing Production Trust Fund	Loans/Grants for affordable housing production

Based on research, staff believe a tax credit could provide a reasonable incentive in line with other programs in the area. In developing the MFHTC, staff attempted to keep credit values and timelines consistent with neighboring jurisdictions. Uniquely, the City's credit would not incentivize solely affordable housing. Due to the high concentration of affordable housing already in the City, staff feel any credit should be available to market rate and workforce development projects as well.

Tax Credit Structure

The Multifamily Housing Tax Credit (MFHTC) would be a by-right tax credit to promote the construction of new housing units in the City. To be eligible for the MFHTC, a project would have to:

1. Be located in the City of Takoma Park
2. Create at least ten (10) net new units of residential housing
3. Submit a MFHTC application and receive certification prior to the issuance of construction permits by Montgomery County

The MFHTC would credit the property for the incremental change in the assessed value due to development. If property appraised for $1 million at the time of the approval of the credit (A City tax bill of $5,522), and the new assessed value of the property was $2 million (A City tax bill of $11,044), the 'credit' would cover the difference between the current bill and the new bill (in this case, a credit of $5,522) if the project was all new units. To ensure the MFHTC does not encourage redevelopment and displacement of existing tenants, the credit amount would be scaled to only cover net new units. The scale would be the total number of new units divided by the total units in the project. So, in the case of a redevelopment of a 100-unit project in which only 10 units were new, the credit would be 10% of the possible credit that could have been.

Table 2 outlines the proposed annual credit rate. The credit would not begin until the building was completed and issued a use and occupancy certificate. This would incentivize the project to be completed.

Table 2. Proposed MFHTC Structure

Year	**1-10**	**11**	**12**	**13**	**14**	**15**	**16-Onward**
Incremental Credit Value	100%	80%	60%	40%	20%	10%	0% - Credit Expiration

To understand the impact of this proposed credit, staff created two sample projects that might take advantage of MFHTC. The project details are summarized in Table 3 and are based on staff assumptions on existing development sites, current construction costs and market rent returns, and comparable projects.

Table 3. Sample Development Projects

	Project A	Project B
Project Description	Redevelopment of an existing institutional (tax-exempt) property into a residential development	Redevelopment of an existing commercial property into a mixed-use development
New Residential Units	75	100
Current Assessed Value	$3,500,000	$3,500,000
Current Annual Property Tax Bill	$0	$19,327
Projected Post-Construction Assessed Value	$12,000,000	$35,000,000

Calculating the exact impact of MFHTC on the City's finances is difficult given the unique nature of individual projects. However, since the credit is only on the incremental assessed value of a property, the City would not be foregoing existing tax revenue. Instead, the credit would impact the future revenue potential of a parcel. While this credit would forgo future revenue as outlined in the Tables below, most of this revenue is likely illusory. The City of Takoma Park has not seen development projects that would qualify for the proposed MFHTC in over forty years, it is reasonable to assume that projects taking advantage of the MFHTC would not be proposed without the credit in place.

Table 4a. Sample Development Projects

Project A	Years 1-5	Years 6-10	Years 10-15	Years 16-20
Tax Revenue with No Redevelopment	$ -	$ -	$ -	$ -
Potential Total Tax Revenue from Redevelopment	$ 351,805	$ 407,838	$ 472,796	$ 548,100
Credit Value	$ (351,805)	$ (407,838)	$ (193,553)	$ -
Actual Tax Revenue	$ -	$ -	$ 279,243	$ 548,100

Table 4b. Sample Development Projects

Project B	Years 1-5	Years 6-10	Years 10-15	Years 16-20
Tax Revenue with No Redevelopment	$ 102,610	$ 118,953	$ 137,899	$ 159,863
Potential Total Tax Revenue from Redevelopment	$ 1,026,097	$ 1,189,527	$ 1,378,988	$ 1,598,625
Credit Value	$ (923,487)	$ (1,070,575)	$ (508,078)	$ -
Actual Tax Revenue	$ 102,610	$ 118,953	$ 870,910	$ 1,598,625

Table 5 outlines the impact of the proposed credit through the first twenty (20) years of a project. While the credit is 'larger' for the market rate scenarios, this is because the assessed value of an affordable housing property would be less and therefore the credit would be smaller. However, an affordable housing development would have subsidies from county, state, and federal sources.

Based on these scenarios, the credit will likely be somewhere between $5,000 and $15,000 per new unit for projects. Most new units cost between $240,000 and $540,000. However, the credit would have an equivalent value of between $500,000 and $1.3 million depending on the project, which is above typical City grants (generally between $200,000 and $300,000).

Table 5. City Impact and Estimated Subsidy

Project	Project A	Project B
20 Year Increase in Total Tax Revenue	$ 827,343	$ 2,171,774
Net Present Value (NPV) of Tax Credit	$ (545,526)	$ (1,270,814)
Total Credit Value per Unit	$ 7,273	$ 14,320

Council Priorities

Fiscally Sustainable Government

Community Development for an Improved & Equitable Quality of Life

Environmental Considerations

As a project update, this item has no direct environmental impact. Future development will have environmental considerations, including the environmental-certification of any new construction, impact on the forested area of the site, and additional impervious surface construction.

Fiscal Considerations

This proposal has no set fiscal impact. The impact would be a forgoing of potential tax revenue for a new housing development.

Racial Equity Considerations

New housing can provide both special housing to groups with housing needs (such as affordable housing, housing for seniors, and housing for individuals with disabilities) or provide housing to meet the growing need for housing in the region. The proposed credit seeks to incentivize new housing to provide additional housing options to residents while discouraging redevelopment which could displace communities of color.

Attachments & Links

PowerPoint Presentation
2019 Housing & Economic Development Strategic Plan
2023 Annual Housing Report Presentation