CITY OF TAKOMA PARK

HOUSING & COMMUNITY DEVELOPMENT

July 24, 2024

Housing Tax Credit Program Proposals

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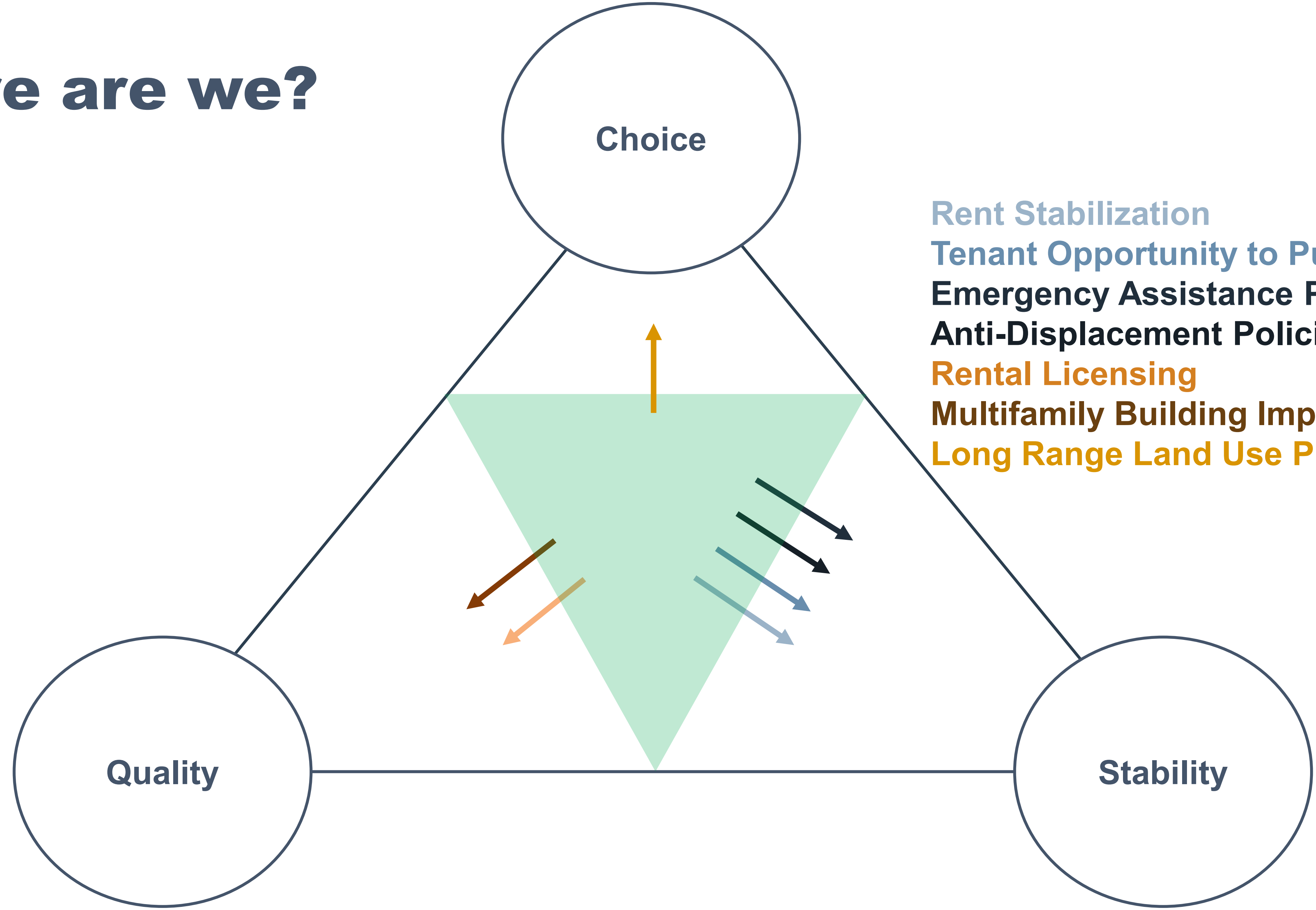
AGENDA

- Background
  1. New Rental Construction Credit
  2. Missing Middle Housing Construction Credit
  3. Affordable Housing Preservation Credit
  4. Housing Reinvestment Credit
- Discussion/Question & Answer

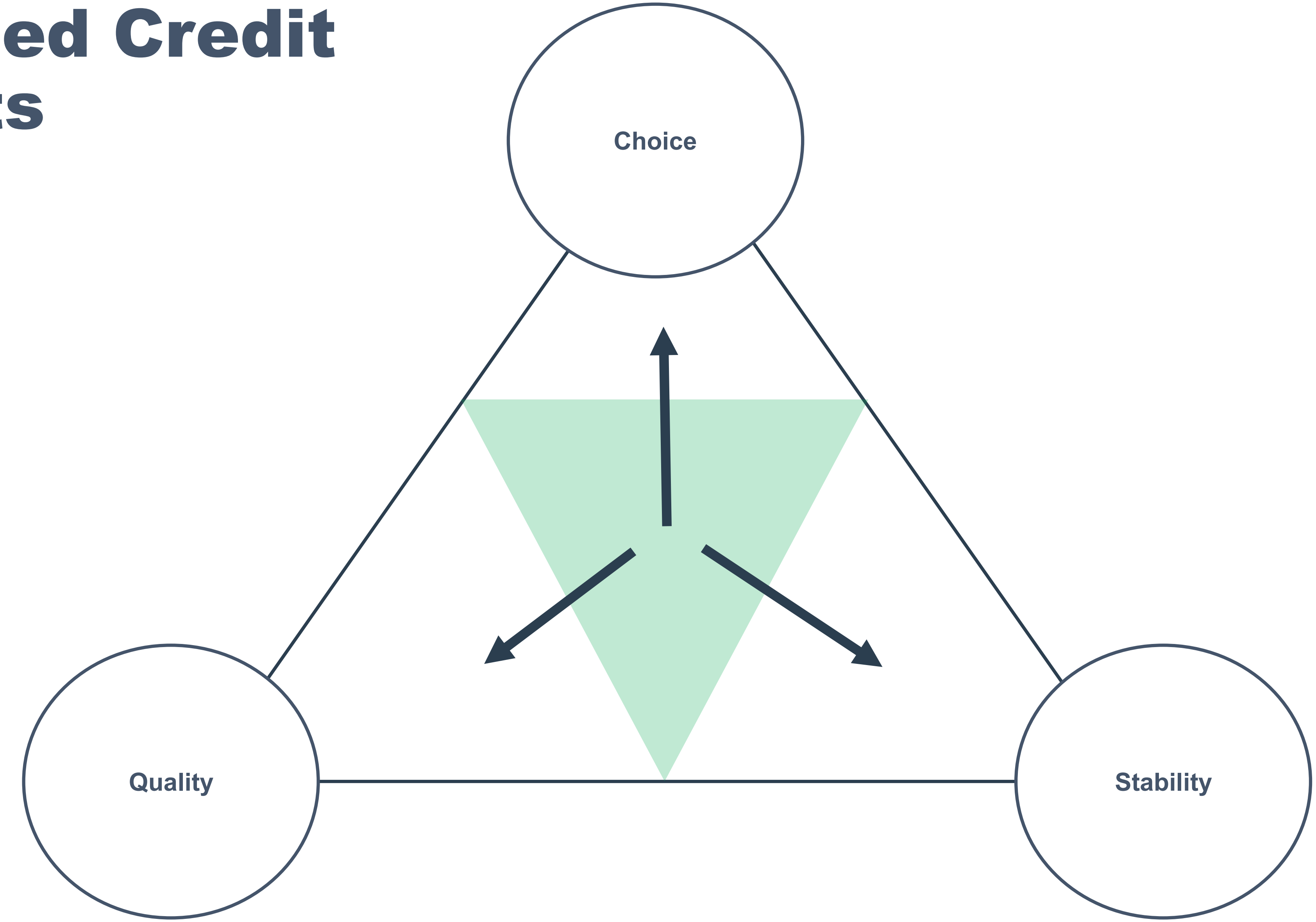
Goal: Provide guidance on policy options for HCD to draft an ordinance for Council Vote.

Where are we?



Rent Stabilization
Tenant Opportunity to Purchase
Emergency Assistance Program
Anti-Displacement Policies
Rental Licensing
Multifamily Building Improvement
Long Range Land Use Plan

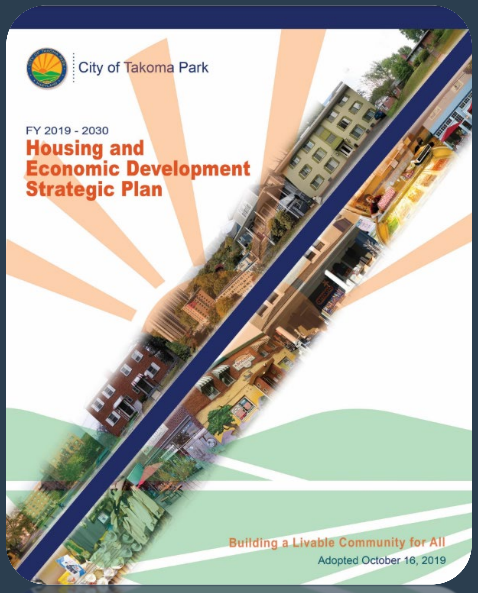
Proposed Credit Impacts



Why Tax Credits?

- Provide predictable financial support that can be used in obtaining financing
- The credit value is proportional with private investment in the City
- Tax Credits allow for higher subsidies than the City could provide with a grant or loan
- Housing Reserve Fund and General Fund Dollars are limited and are required up front

Background



- Implements Objectives **1.1.B**; **1.3.D**, **2.1.C**, and **2.2.B** of the Housing and Economic Strategic Plan adopted in 2019
  - **1.1.B:** *Provide **support for multifamily buildings that include housing affordability protections for a majority of their units through direct or indirect government assistance such as Payment in Lieu of Taxes (PILOT) agreements, grants, tax credits, etc.**; develop criteria for PILOT agreements and work to extend housing affordability agreements.*
  - **1.3.D:** ***Provide support to property owners and business owners through means such as grants and tax credits to allow such owners to maintain their property**; such grants and tax credits should be targeted to those situations meeting criteria set by Council.*
  - **2.1.C:** ***Encourage and facilitate ways to allow purchase or rental of singlefamily homes by people of moderate incomes**, through initiatives such as broadening down payment assistance programs, increasing available tax credits, encouraging use of accessory dwelling provisions, encouraging donations of property, exploring shared equity arrangements with outside partners, and educating residents and real estate professionals about these opportunities.*
  - **2.2.B:** ***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.*

#1: New Housing Tax Credit
#2: Missing Middle Housing Construction Credit
#3: Affordable Housing Preservation Credit
#4: Housing Reinvestment Credit

PROPOSAL

Goal: Incentivize new housing in the City of all kinds.

A by-right 15-year tax credit for any property constructing 10 or more **net new** residential Units.

Units benefiting from the credit would **provide additional housing** for local workers and families, **raise additional revenue** for City Services, and **provide a greater subsidy** than traditional City grants.

Strategic Plan Goal: ***2.2.B:*** *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.*

PROPOSED TAX CREDIT STRUCTURE

Year	1-10	11	12	13	14	15	16 +
Incremental Credit Value	100%	80%	60%	40%	20%	10%	None

After a property is developed, it will have an increased tax assessment. The credit would be **for the additional value created** by the project

For the first 10 years, the property would only pay the property tax they had been paying before they built the new housing

The property tax would then increase over 5 years until the credit expires

ADJUSTING FOR REDEVELOPMENT

For projects that are for the redevelopment of a property, the Credit would be scaled to **only provide incentives for new units created**.

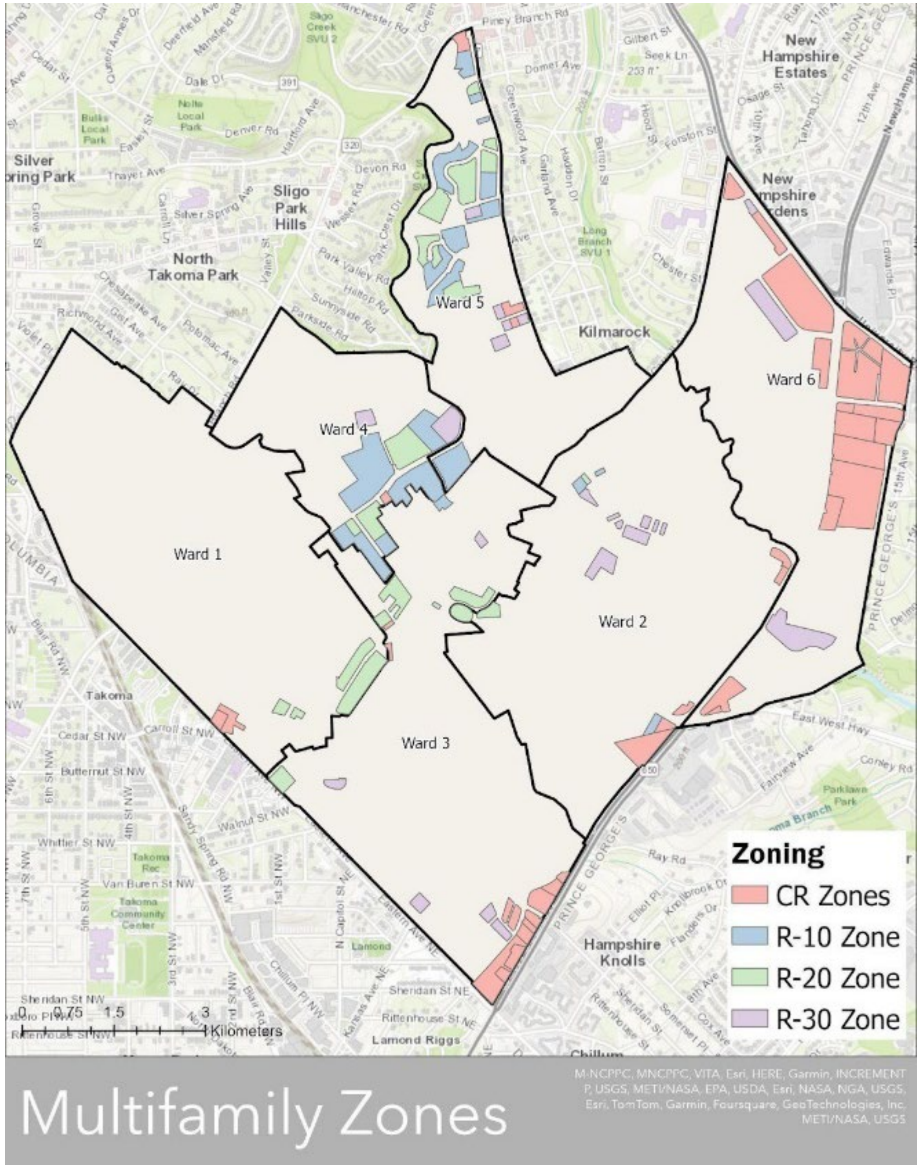
Example: A 90-unit building is redeveloped into a 100-unit building.

The adjustment would be the **net number of new units (10) divided by the project size (100).** So credit would be 10% (10/100) of what it could be.

If a building or property is only adding units (such as adding a new structure), the project size would only be the units created and the builder could claim the full credit.

ANALYSIS

- 390 Parcels are zoned for Multifamily Development
- 80% are currently developed
- Depending on project size, the value of the credit could be between **$500,000 to $1.3 million** (most City grants range between $200,000 and $300,000)
- A credit would provide a subsidy equivalent of between $5,000 - $15,000 per unit (a unit typically costs between $450,000 and $600,000)
- Projects would still be required to meet the development review and public benefit requirements of any multifamily development and would pay annual stormwater and rental license fees, **this would not change any permitting/county planning processes**



AFFORDABLE vs MARKET RATE

- 93% of the City’s rent stabilized homes are naturally affordable to households making 50% if the area median income (classified as very low income by HUD)
- 89% of the City’s homes were built before 1980
- The credit aims to incentivize new housing production across a range of income levels

NEXT STEPS

1. Confirm minimum number of net new units to qualify
   - Currently, staff is considering a minimum to **10 new units**
   - A project of **20 or more units** must comply with the County's Moderately Priced Dwelling Unit (MPDU) Policy
2. Additional analysis around long term revenue impact

#1: New Housing Tax Credit
#2: Missing Middle Housing Construction Credit
#3: Affordable Housing Preservation Credit
#4: Housing Reinvestment Credit

Goal: Incentivize smaller scale, multi-unit ownership opportunities

PROPOSAL

A by-right 15-year tax credit for low to moderate income purchasers of projects that result in **1 or more net new units**.

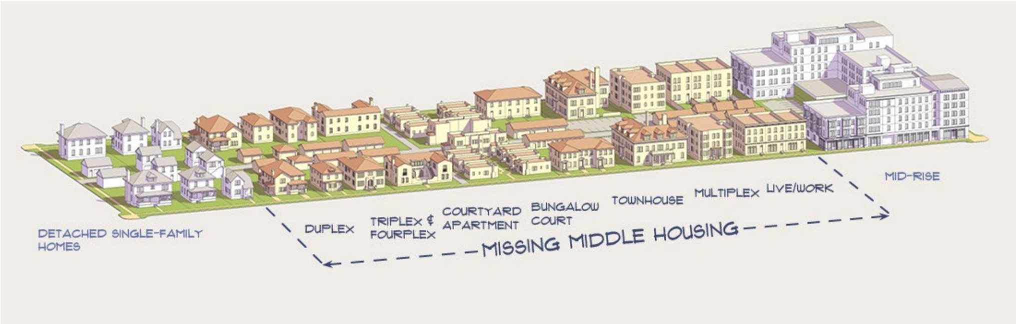
This would allow first time homebuyers to afford a starter home in the City and start up the ladder of housing opportunity.

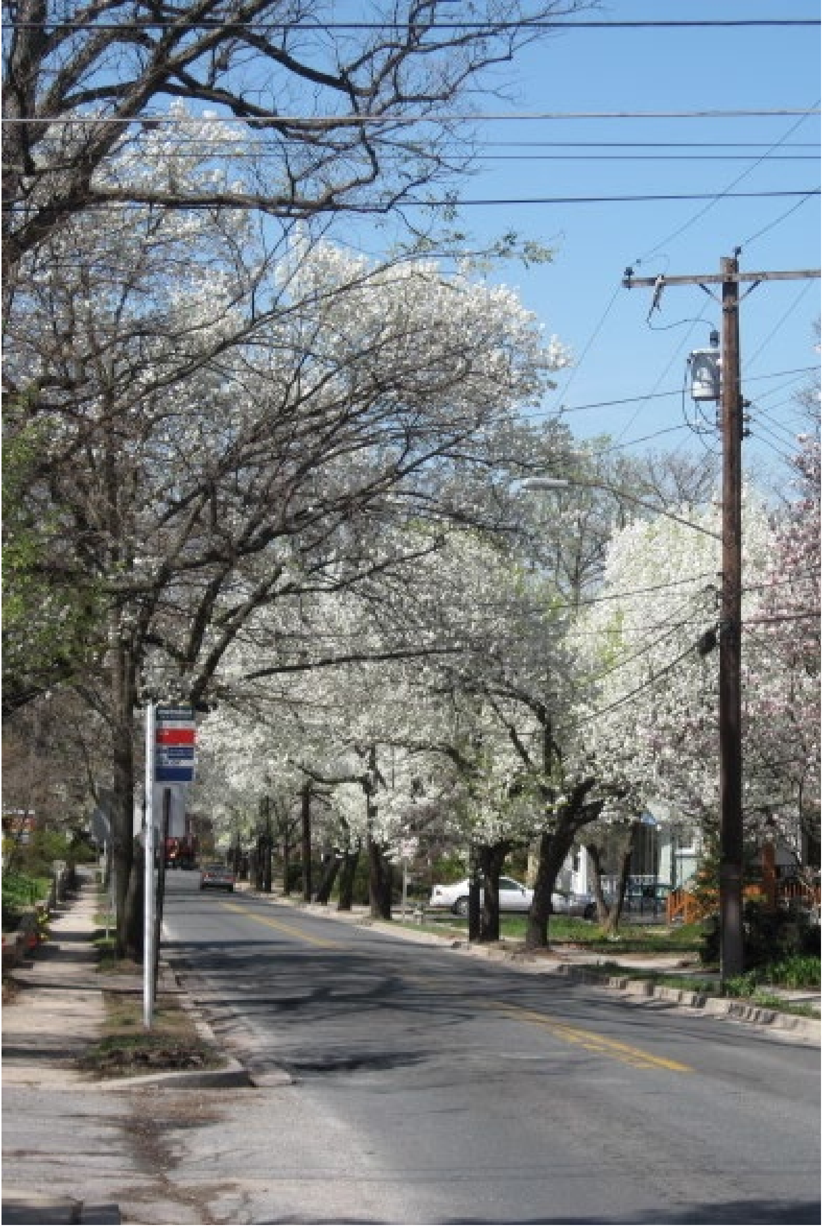
Strategic Plan Goal: ***2.1.C:*** *Encourage and facilitate ways to allow purchase or rental of singlefamily homes by people of moderate incomes, through initiatives such as broadening down payment assistance programs, increasing available tax credits, encouraging use of accessory dwelling provisions, encouraging donations of property, exploring shared equity arrangements with outside partners, and educating residents and real estate professionals about these opportunities.*

#2: Missing Middle Housing Construction Credit

‘Missing Middle’

- Typically smaller sized (~1,200 – 1,500 square feet)
- Not currently allowed in R-60 zones
- Examples
  - Townhouse – a single family dwelling unit that shares a wall (or is only separated by an air gap) with its adjoining neighbour.
  - Duplex – two units in one structure that may share the same parcel. They may or may not be sellable.
  - Triplex – three units instead of two.
  - Multiplex – a single structure with multiple units (i.e. fourplex, fiveplex, etc.)
  - Cottage Court – typically 5-20 units around a common area.





STAFF PROPOSAL

Year	1-10	11	12	13	14	15	16 +
Incremental Credit Value	100%	80%	60%	40%	20%	10%	None

This credit would go to the buyer of the property

For the first 10 years, the property would only pay the property tax they had been paying before they built the new housing

The property tax would then increase over 5 years until the credit expires

NEXT STEPS

1. Decide the **minimum number** of **net new units to qualify**
   - Currently staff are proposing **1 net new unit**
2. Set the **Maximum income** for a buyer to qualify
   - Currently staff are proposing **120% AMI** (Usually the maximum for moderate income grants and applications).

AMI Level	2 Person Household Income	4 Person Household Income
80% (Low Income)	$78,250	$97,800
100% (Median Income)	$97,800	$154,700
120% (Moderate Income)	$117,400	$185,600
150% (Workforce)	$146,700	$232,000

#1: New Housing Tax Credit
#2: Missing Middle Housing Construction Credit
#3: Affordable Housing Preservation Credit
#4: Housing Reinvestment Credit

PROPOSAL

Goal: Safeguard the current provision of difficult to provide housing types.

A by-right tax credit for **deed-restricted, affordable housing** which provide specific housing units (extremely low income, seniors, individuals with disability, transitional housing).

The tax credit would remain in effect for the duration of the affordability requirement.

Strategic Plan Goal: ***1.1.B:*** *Provide support for multifamily buildings that include housing affordability protections for a majority of their units through direct or indirect government assistance such as Payment in Lieu of Taxes (PILOT) agreements, grants, tax credits, etc.; develop criteria for PILOT agreements and work to extend housing affordability agreements.*

PROPOSED TAX CREDIT STRUCTURE

The credit amount would be based on the **share of qualifying units** (capped at 50% of the tax bill) confirmed through regulatory agreements.

The buildings would be required annually to submit documentation (just like with rent stabilization exemption).

The credit would continue as long as the building is under the regulatory agreement(s).

Examples		
Total Units	Eligible Units	Tax Credit
100	30	30%
50	26	50%
10	10	50%

NEXT STEPS

1. Decide the **annual subsidy**
   - **Staff are recommending subsidizing 30% AMI units, senior Units, transitional units, and Units for individuals with disabilities.**

Option	No. of Buildings	No. of Units	Est. 20 Year Cost	Est. Annual Cost
Buildings with Senior, Disabled, or 30% AMI Units	10	580	$2,000,000	$100,000
Buildings with Senior, Disabled, or 50% AMI Units	17	1,090	$2,700,000	$135,000
Buildings with Senior, Disabled, or 60% AMI Units	21	1,290	$5,100,000	$257,000

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PROPOSAL

Goal: Encourage proactive investment and upgrades in our multifamily buildings.

A competitive credit for multifamily properties that propose a project that meets the HUD definition of **substantial rehabilitation** (project cost of $6,500 per unit or more) and does not displace any residents.

Allocations would be based on affordability level, proposed scope, and history of citations/violations.

Strategic Plan Goal: ***1.3.D:*** *Provide support to property owners and business owners through means such as grants and tax credits to allow such owners to maintain their property; such grants and tax credits should be targeted to those situations meeting criteria set by Council.*

PROPOSED CREDIT STRUCTURE

- The credit would 50% of the Tax Bill
- The credit would last for 10 years to allow other buildings to take advantage of the credit.
- For large (100+ Units) buildings, the application would be on a **case by case basis** and would **be approved by Council**

Building Size	Minimum Project Cost	Annual Cost	50% Credit Amount	Subsidy Share
6 Units	$39,000	$5,678	$2,070	36%
15 Units	$97,500	$14,195	$5,500	39%
50 Units	$325,000	$47,318	$13,800	29%

NEXT STEPS

1. Decide the **annual subsidy**
   - Currently staff are proposing **$50,000**
2. Decide if this can be paired with the Affordable Housing Preservation Credit
   - Currently staff are proposing **to allow the Affordable Housing Preservation and the Housing Reinvestment Credit to be paired.**
3. Develop Application Criteria

Option	Annual Credit Allotment	Small Buildings (2-6 Units)	Medium Buildings (7-19 Units)	Medium Buildings (20 – 99 Units)
Option A	$50,000	2 every other year	1 every 5 years	1 every 10 years
Option B	$100,000	2 every year	1 every 3 years	1 every 5 years
Option C	$150,000	3 every year	1 every other year	1 every 3 years

Next Steps

- **August**
  - Staff will receive comment and refine proposals
- **October**
  - Staff will present an ordinance and analysis
- **February 2025**
  - Staff will finalize administrative regulations for credits
- **March/April 2025**
  - Staff will accept applications for the awarding of credits for FY 2026

CITY OF TAKOMA PARK

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	New Rental Construction	Missing Middle Housing Construction	Affordable Housing Preservation	Housing Reinvestment
Goal/Purpose	Encourage the creation of new rental housing.	Incentivize smaller scale/achievable homeownership opportunities.	Subsidize deed-restricted affordable housing for specific populations.	Incentivize the reinvestment in existing multifamily housing.
Eligibility Criteria	Net new rental units created	Net new homeownership units created Buyer income level	Deed restriction to provide low-income or needed housing	Substantial investment criteria
Credit Amount	Incremental difference between current tax bill and reassessed amount. (10 years full credit with 5 year scale up)	Incremental difference between current tax bill and reassessed amount. (10 years full credit with 5 year scale up)	Percentage Discount equal to the share of qualifying units, capped at 50% of the tax bill. Annually renewed/verified	50% off tax bill for 10 years.
Potential Annual Financial Impact	No existing revenue loss; forgone future revenue project dependent	No existing revenue loss; forgone future revenue project dependent	$100,000-$257,000 based on affordability criteria	$50,000-$150,000
Potential Housing Impact	TBD; fiscal estimates based on ~200 new units produced	TBD; fiscal estimates based on ~20 new units produced	580-1,290 affordable units preserved based on affordability criteria	275-850 units improved based on funding level

Indicators of Stability

Indicator	Maryland	Montgomery County	Takoma Park
Eviction Rate[1]	2.2%	0.7%	1.8%
Median Renter Tenure (Years) [2]	5	4	7
Median Rent[3]	$1,598	$1,957	$1,318
Median Mortgage[4]	$2,245	$2,843	$3,085

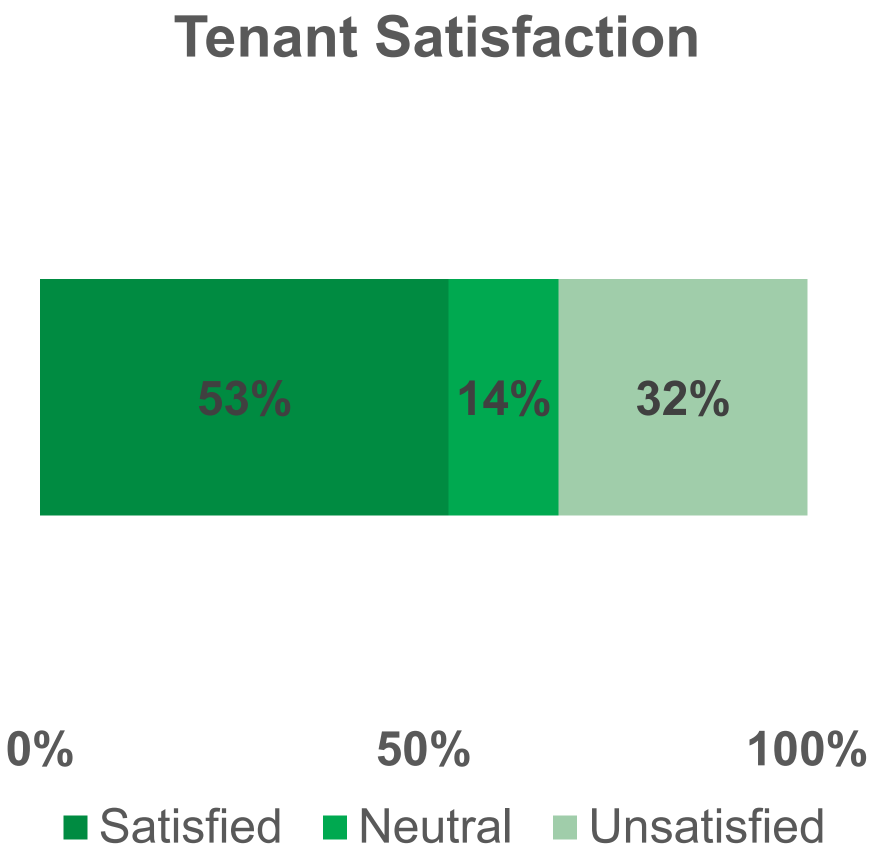
1. Per MD DHCD Landlord & Tenant Eviction Dashboard Data Combined with 2022 5-year ACS Estimates
2. 2022 5-year ACS Estimates
3. 2022 5-year ACS Estimates
4. 2022 5-year ACS Estimates

Indicators of Choice

Indicator	Maryland	Montgomery County	Takoma Park
Homeowner Rate[1]	68%	66%	51%
Housing Permits Since 2019 per 1,000 Homes[2]	-	6.8	5.0
SF Share of Homes[3]	73%	65%	49%

1. 2022 5-year ACS Estimates
2. Data captured from Montgomery County DPS Permitting Data by Permits Issued, rates only capture the number of permits and not the number of units permitted. Takoma Park has only had 1 Multifamily permit in the past 10 years
3. 2022 5-year ACS Estimates

Indicators of Quality



Indicator	Maryland	Montgomery County	Takoma Park
Share of Units built before 1980[1]	52%	50%	89%
Rehab Permits Since 2019 per 1,000 MF Homes[1]	-	10.7	10.9
Avg Violations per Rental Homes[1]	-	0.7	3.0

1. 2022 5-year ACS Estimates
2. Data captured from Montgomery County DPS Permitting Data by Permits Issued, rates only capture the number of permits and not the number of units permitted.
3. Data captured from Montgomery County DHCA Violation Data for the past 2 years combined with 2022 5-year ACS Estimates.