

CITY OF TAKOMA PARK
HOUSING & COMMUNITY DEVELOPMENT



October 9, 2024

Tax Credit Proposals Work Session

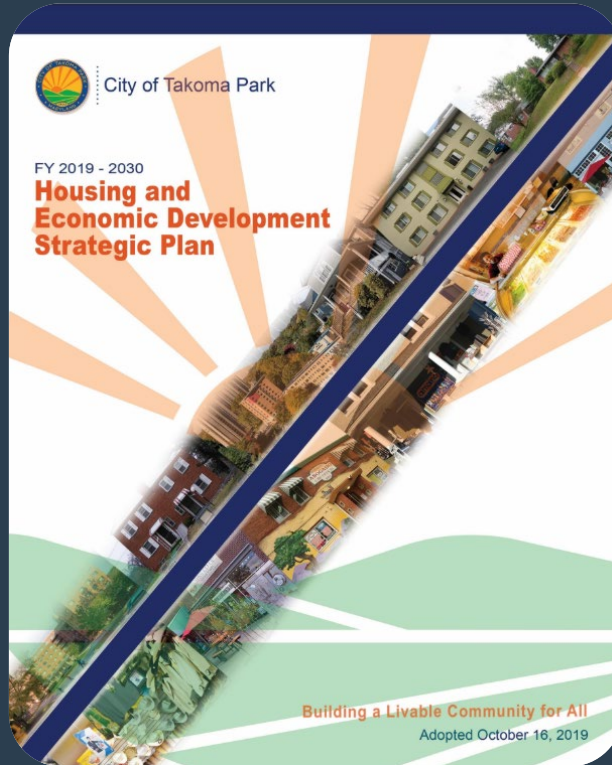
Devin McNally, Housing Manager



AGENDA

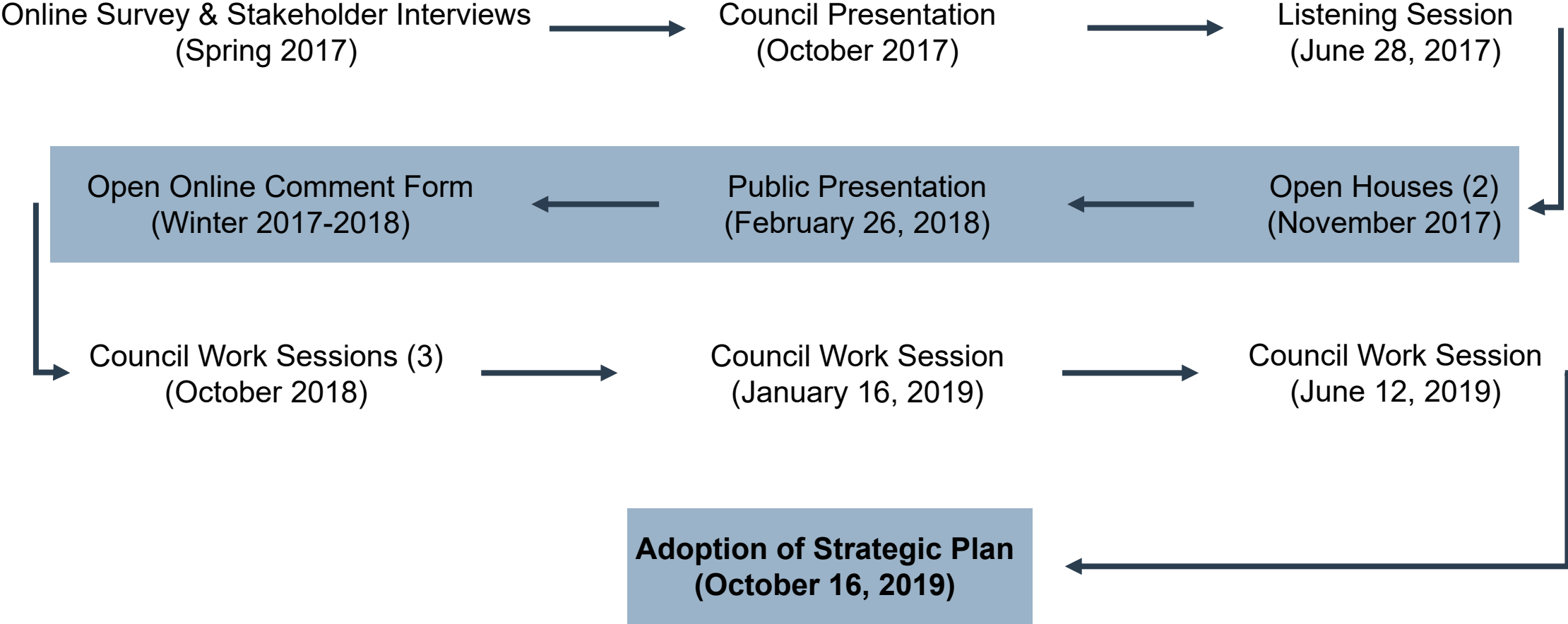
- Housing & Strategic Plan Overview
- Housing Tax Credits Overview
- Common Questions

Our Strategic Plan



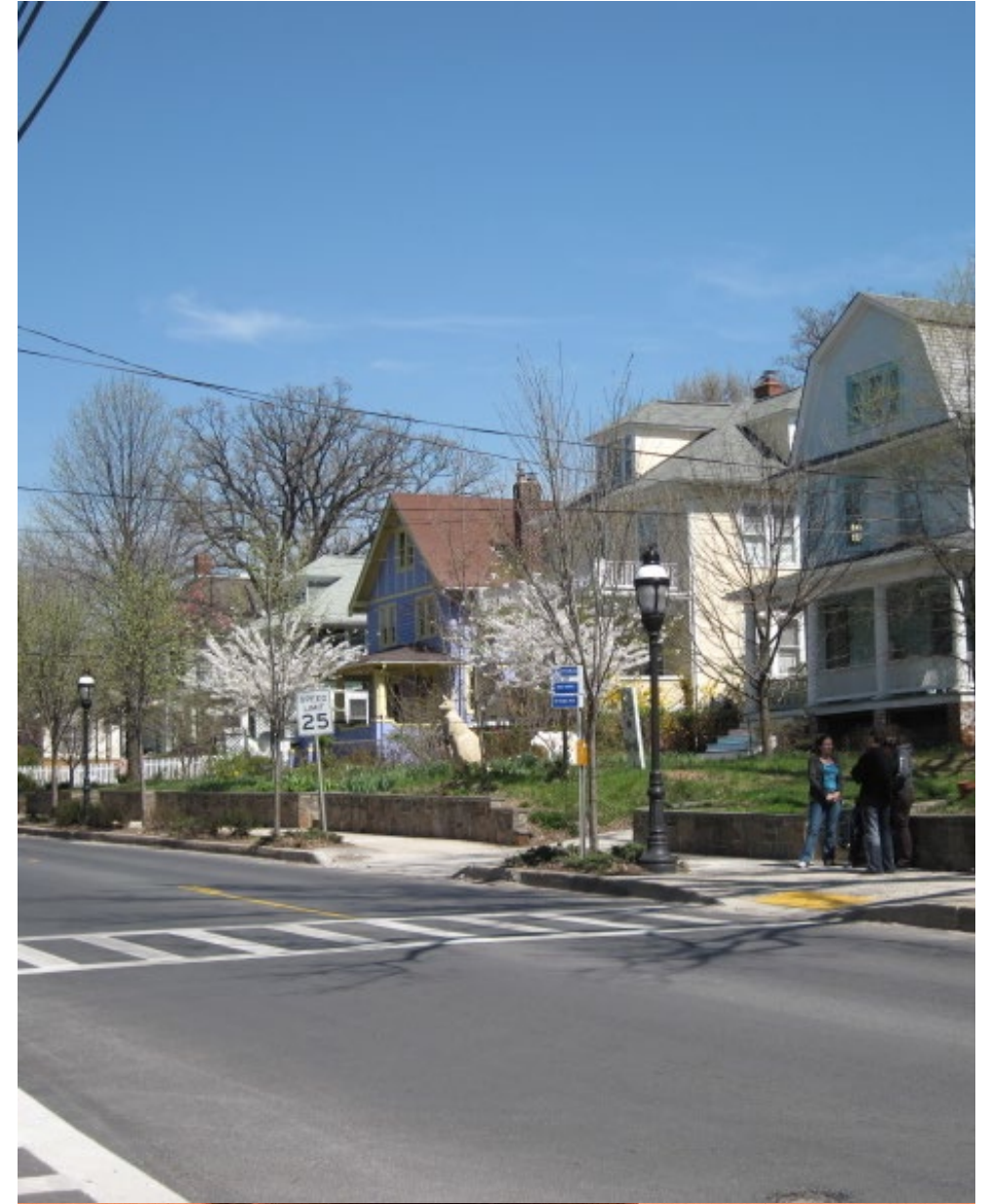
- Began February 2016 (Resolution 2016-04) & Adopted in October 2019 (Resolution 2019-47)
- Sets Housing Policy for the Decade (2019 – 2030) through 3 Goals:
 - **PRESERVE** existing businesses and affordable housing in Takoma Park, including in revitalizing areas.
 - **PRODUCE** more housing and opportunities for businesses to start and grow across the income spectrum and in neighborhoods across the City to meet the diverse housing and economic needs.
 - **PROTECT** renters, homeowners, and local businesses from discrimination and displacement, and protect our environment from destruction.
- 32 Policies related to Housing
- Implementation is part of Council's Priorities for 2023-2024 session

Strategic Plan Development and Outreach

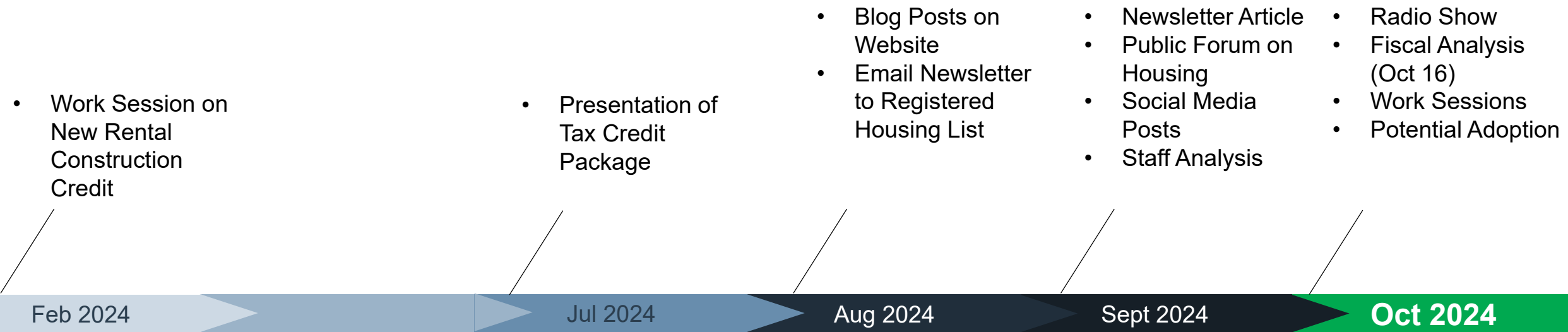


Our Current Housing Context

- No new Multifamily since 1980
 - Exemptions: Single Family, Owner-Occupied Duplexes, ADUs, Deed Restricted Affordable Housing
 - Fair Return Petition
- Housing Quality Issues
 - TOPL Support Program
- Need for Increased Choice
- Emergency Assistance Program
- Commission on Landlord Tenant Affairs (COLTA)
- Tenant Displacement
 - Condemnation (6.16.180)
 - Conversion/Rehabilitation (Chapter 53)



Where we are Today



Housing Tax Credits

A stylized sunburst graphic in shades of blue, positioned in the lower right quadrant of the slide. The sun is a semi-circle at the bottom, with rays extending upwards and outwards. The background is a solid dark blue color.

Why Tax Credits?

- Provide predictable financial support that can be used in obtaining financing
- The credit leverages private investment to provide public benefit
- 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
- Called out in Housing & Economic Development Strategic Plan



What about PILOTs?

- Previously, provided PILOTs (a reduction in the tax bill) for properties on a case by case basis
- 7 properties still have existing PILOTs (~\$60,000)
- Council directed staff to develop a process to equitably evaluate and award property tax credits



Missing Middle Tax Credit Proposal

Goal: Incentivize smaller scale, multi-unit ownership opportunities

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

Programs aimed at homeownership opportunities:
HomeStretch, Tenant Opportunity to Purchase Program, Collaboration with Partners (HIP, Habitat).

Staff recommends removing this credit based on pending County & State proposals addressing Missing Middle Housing

#1: *New Housing Tax Credit*

#2: Affordable Housing Preservation Credit

#3: Housing Reinvestment Credit

Proposal #1: New Housing Tax Credit

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

How it works: A by-right 15-year tax credit for any property constructing 10 or more **net new** residential units.

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

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

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

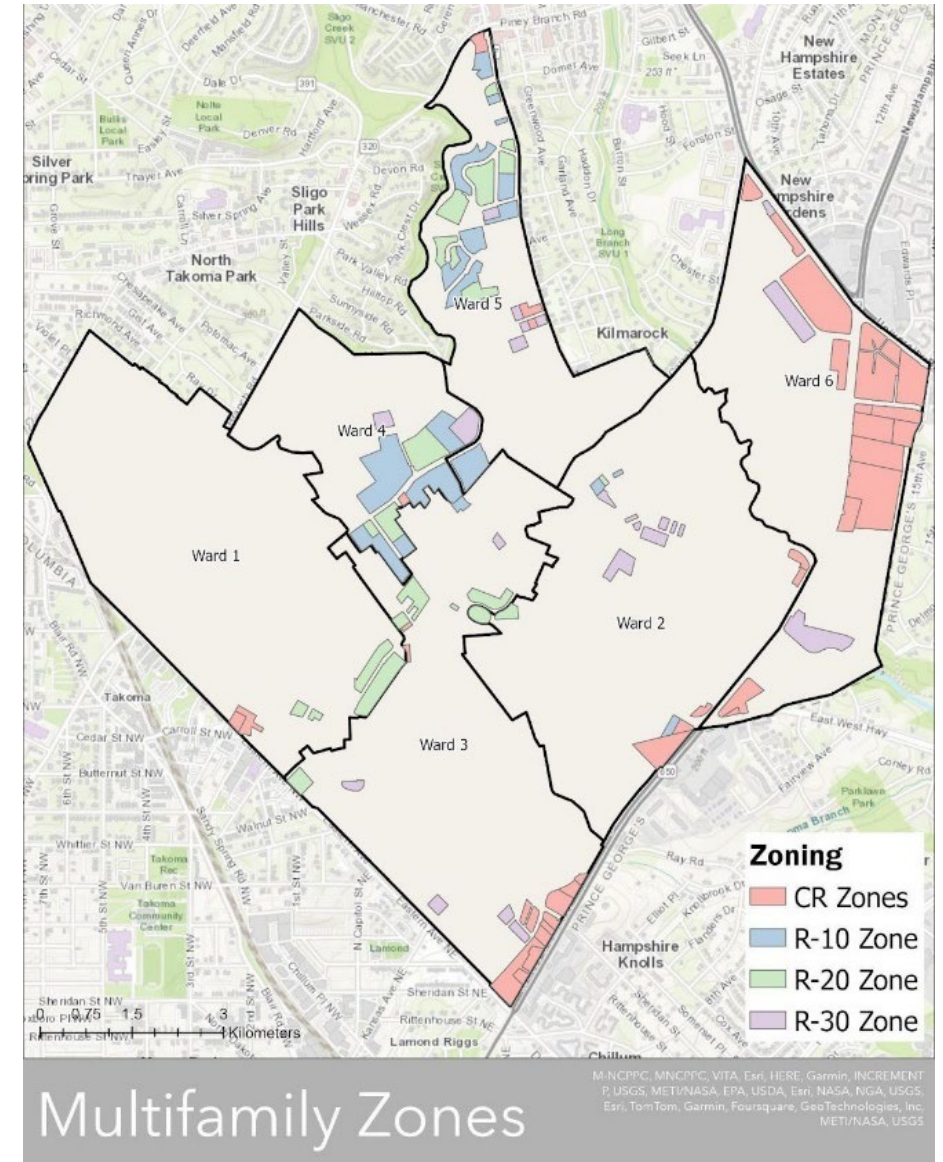
For the first 10 years, the property would only pay the property tax they had been paying before they built the new housing

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



New Construction Tax Credit Background

- 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**



#1: New Housing Tax Credit

#2: *Affordable Housing Preservation Credit*

#3: Housing Reinvestment Credit

**Proposal #2:
Affordable Housing
Preservation Credit**

Proposal #2: Affordable Housing Preservation Credit

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

How it works: 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.

Impact: Provides ongoing support for difficult to provide housing of critical need to our most vulnerable residents.

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%



Proposal #2: Affordable Housing Preservation Credit

Policy Options

Option	No. of Buildings	No. of Units	Est. 20 Year Cost	Est. Annual Tax Credit
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

#1: New Housing Tax Credit

#2: Affordable Housing Preservation Credit

#3: *Housing Reinvestment Credit*

**Proposal #3:
Housing
Reinvestment Credit**

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

How it Works: A competitive credit for multifamily properties of less than 100 units 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. The credit would be for 10 years and be 50% of the tax bill.

Impact: Buildings receive a subsidy for significant reinvestment to improve the quality of housing in the City.

Large Buildings: For large (100+ Units) buildings, the application would be on a **case by case basis** and would require Council approval.

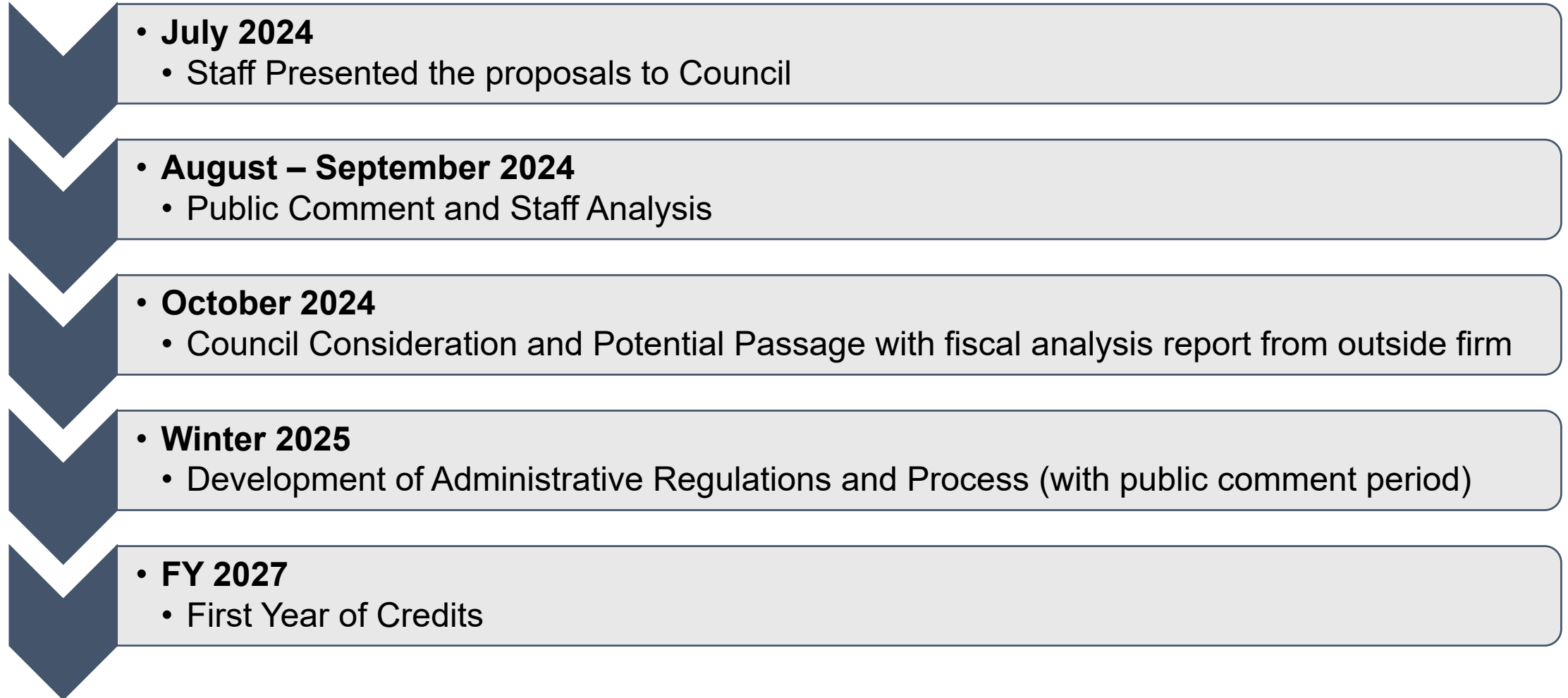
Annual Funding Options

Option	Annual Credit Allotment	Small Buildings (2-6 Units)	Medium Buildings (7-19 Units)	Large 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

Interplay of Tax Credits

- The Credits can be combined to provide a greater subsidy for projects **that provide high benefit to the City.**
- **The highest value project** is an existing affordable housing project (50% Credit) that **conducts a substantial renovation that does not displace tenants** (50% Credit) and **would receive a 100% tax credit for 10 years.**
- A new affordable housing project could **pay only half its reduced tax bill** under the new construction credit by combining credits.

Timeline for Tax Credit Proposals



Common Questions

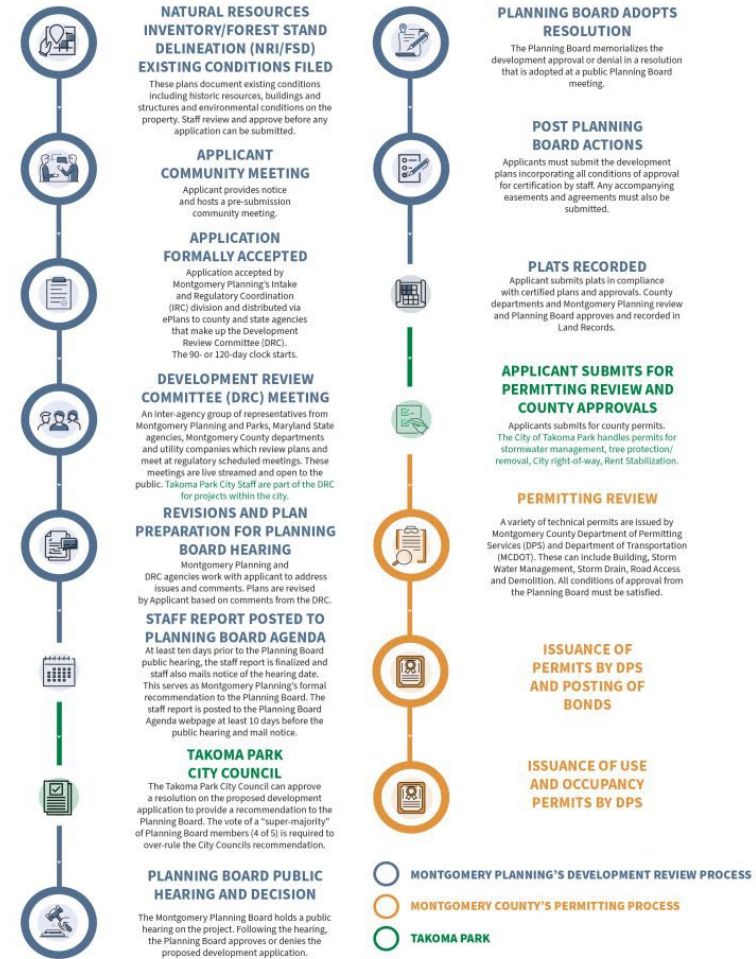


Questions about the Development Process

Multifamily development is a costly and complex endeavor and new multifamily rental housing is a years long endeavor **that has gotten more difficult** in recent years as interest rates have risen and the cost of materials has grown.

Any housing project would have to get permitted and approved through the appropriate County permitting process.

DEVELOPING LAND IN MONTGOMERY COUNTY CITY OF TAKOMA PARK EDITION



(CONTINUES ON THE NEXT COLUMN)

Concerns about Redevelopment

Lenders would look at the potential return against the cost of simply keeping the building in operation and implementing repairs.

- The **cost of demolition will add to the cost of development** as the builder will have to safely take down the older building, remove the materials, and prepare the site for the new building.
- Some nationwide estimates have the cost of a 100-unit building being torn down at roughly **\$2.25 million**.
- This cost can be **significantly higher if the building has toxic materials** (such as asbestos) or the site is **close to environmental resources** like waterways.

There are local barriers to tearing down a building:

- **Several renter protection policies provide renters with rights and the ability to get payouts if they are displaced** by construction, raising the cost of any redevelopment. These include the City's [Tenant Opportunity to Purchase Law \(TOPL\)](#), as well as the [County's Tenant Displacement Law](#)
- **Many multifamily properties in the City also have deed restrictions** which limit their use to affordable housing and are owned by non-profit housing providers .

Would New Residents Increase City Costs?

- Proposed Development goes through a **review of potential impacts**, including roadways, parks, and other ‘public facilities’ **and has to provide public benefits (roadway/sidewalk improvements/etc.)**. They also must pay **Impact Fees** related to schools and roads.
- We receive tax duplication **payments from the County for services we provide** instead of the County (Police, Roads, etc.) which are based on our service requirements.
- New housing also would have to **pay City fees for City provided services** including Rental Licensing, Stormwater Management, and Trash Collection (if done by the City)

Learn More

Tax Credit Proposals:



<https://takomaparkmd.gov/government/housing-and-community-development/housing/new-tax-credits-for-housing-development/>

Housing & Economic Development Strategic Plan:

<https://takomaparkmd.gov/initiatives/project-directory/housing-and-economic-development-strategic-plan/>

CITY OF TAKOMA PARK



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