

Testimony to Montgomery County Council on More Housing N.O.W.

March 11, 2025

I would like to thank the County Council for listening to residents' concerns about AHSI.

Having spent 30 years at the UN and the World Bank advising developing countries on their national strategies at the UN and the World Bank, I am concerned that the new More Housing N.O.W. package, although more considered than AHSI, also lacks robust data, empirical evidence, and economic analysis. These initiatives will not effectively address the housing issue and potentially result in significant negative outcomes, for three reasons.

First, the lack of public data means that the County is flying blind, and taxpayers are being asked to take a leap of faith. We do not know how much housing is needed, how much market-rate, affordable, and workforce housing needs to be delivered, how much is currently being delivered, and what gap this package and existing policies will fill.

The Planning Department is currently analyzing the permitted development pipeline. Advancing these projects – with approximately 30,000 units approved to be built -- should have been prioritized. The County should implement regulations or zoning changes to encourage housing development (particularly for “missing middle”) at these locations, such as at White Flint.

The County should also evaluate the many existing affordable and workforce housing programs for their results and economic impacts, and identify options for reforms, scaling-up or phasing-out, before adding new tools.

Second, the County's plan cannot achieve its target of 75% of new housing being affordable for those making 60% of the area median income because:

- a) If development provides 85 percent of new units at market-rate and 15 percent as affordable housing, achieving the affordable housing numerical target is mathematically impossible without a large and improbable over-supply of market-rate housing.
- b) Upzoning results in replacing existing lower-cost housing stock in market-preferred areas, resulting in a reduction in available housing for lower-income households.
- c) Upzoning that replaces single-family homes with multiplexes reduces the supply of single-family homes, thus raising their prices even more.
- d) The correlation between new housing supply and affordability is weak. Prices do not vary significantly between markets based on zoning restrictions; instead, they are influenced by job growth, wage levels, and land values.

In many metro areas, including in the Washington area, growing income inequality creates unequal competition for housing. New housing supply, often in expensive infill projects, tends to cater to higher-income groups, worsening the crisis in affordability for lower-income earners.

Wages for the top 25% are rising faster than housing prices, reducing their housing costs relative to income. Meanwhile, housing costs are increasing for the bottom 50%.

Therefore the County should focus on policies that maximize affordable housing with minimal public spending. The economic efficiency of the proposed Payment In Lieu Of Taxes (PILOT) in Bill 2-25 is questionable, because its design will over-compensate some projects and lead to revenue loss.

Numerous current exemptions and discounts have weakened the Adequate Public Facilities concept in Montgomery County, resulting in insufficient funding for transportation and school improvements. The proposed PILOT will worsen these problems:

- Are there annual funding caps for fiscal protection, like in DC?
- Is it targeted at specific locations or available county-wide?
- Is the PILOT automatically available to all eligible developers, or is it assessed case-by-case? If automatic, how will the County ensure that the business decision to convert required the public subsidy?
- How much property tax is currently lost due to vacant office buildings? Does the tax abatement result in a revenue gain or loss for the County?
- In the absence of property taxes, how would County pay for the cost of schools and infrastructure for the new residents of these converted buildings?
- Are there more cost-effective alternatives than tax abatements for converting offices to affordable housing, and does it justify the tax expenditure?

I would also note that the Council's Office of Legislative Oversight issued a [racial equity and social justice impact statement](#) that said Bill 2-25E could "widen disparities in housing by race and ethnicity."

Instead of the proposed PILOT, the County should provide a sizable capital increase to the Housing Production Fund (HPF), which uses a very efficient leverage model to finance mixed-income social housing. The County could raise its ambition on social housing, given the fact that the HPF is a highly regarded instrument. For example, could the County set a target of 1,000 affordable units per year to be delivered over 20 years as social housing through the HPF?

If the HPF's current capital of \$100 million backed by annual county appropriations of \$3.5 million can deliver 1,800 affordable units over 20 years, then a 20,000 homes target would require about \$1 billion in bonding capacity, which would require one-time appropriations of about \$35-40 million from the County. This does not seem disproportionate in a County with an annual budget of over \$7 billion — especially given the revolving character of the HPF. Another option would be to double the appropriation every year over three years to achieve the same target.

The Council could also launch a pilot competitive reverse auction in which a tax abatement is offered to the developer who can offer the largest number of affordable units for the lowest tax abatement. This would be a more efficient and transparent way to deploy the public subsidy for the public good.

Third, the More Housing N.O.W package's one-size-fits-all approach overlooks local contexts and community impacts. Many Montgomery County neighborhoods already have

high-density areas, such as Friendship Heights with its high-rise apartments and planned 1,000 additional units, new developments in Westbard, and a proposal for increased density in downtown Bethesda.

This leads to concerns about schools and infrastructure capacity in dense areas. The proposals may worsen teacher-to-student ratios and delay pre-kindergarten expansion. Public transportation and roads infrastructure are not keeping up with development. Aging WSSC infrastructure has caused multiple breaks recently, and inadequate storm drains are burdened by new construction and extreme weather due to climate change. It is unclear if PEPCO has informed the County about its distribution network's capacity for more density, especially with homes using solar panels and net metering.

Most municipalities in the county, including the Town of Somerset, are granted limited land use authority in single-family zones pursuant to Maryland Code Land Use Art. 20-509 of the Regional District Act. This authority may be effectively voided by ZTA 25-02. **Changes affecting our Town should be delayed until 20-509 is amended to ensure our authority to regulate residential buildings remains intact regardless of housing type.**

While I do not inherently oppose the introduction of townhouses and duplexes in areas previously zoned for single-family homes, it is imperative that such land-use changes be planned locally through area master plans. These decisions must be guided by thorough evaluations of infrastructure, social and environmental impacts, and school capacity, along with active community participation in developing a shared vision for neighborhoods that reflect local conditions. The "optional method" does not adequately fulfill these objectives.

In conclusion, pausing this package would enable the County to formulate a comprehensive affordable housing strategy with clear targets and cost-effective policies. Additionally, it would allow the County to assess the impacts of Federal and State budget reductions on its population, jobs, tax revenue, and housing market.

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