Economic Impact Statement

Office of Legislative Oversight

Bill 26-21 Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 26-21 would have a positive impact on economic conditions in the County. The primary economic benefit to housing developers would be the likely increase in speed and certainty involved in the process of attaining payment in lieu of real property taxes (PILOT) for qualifying housing developments. The Bill's broader economic impacts depend largely on whether it results in a net increase in PILOT abatements for qualifying housing developments and, if so, whether this increase is sufficient to induce affordable housing development that would not occur in the absence of enacting the Bill. Due to information constraints, OLO is unable to quantify these potential effects. OLO notes however that inducing affordable housing development would significantly increase the magnitude of the Bill's economic impacts.

BACKGROUND

Consistent with the County's Economic Development Platform,[1] the goal of Bill 26-21 is to encourage developers to build more affordable housing. Under current law, the Director of Finance is authorized to accept a negotiated payment in lieu of real property taxes (PILOT) for properties "owned or controlled by the Housing Opportunities Commission or for other housing developments where the owner agrees to limit the rent on certain dwelling units under a government affordable housing program." In practice, the Department of Housing and Community Development (DHCD) negotiates the PILOTs with developers. The decision to offer a PILOT for a qualifying housing development and its amount is up to the discretion of the Director of Finance.

If enacted, Bill 26-21 would amend current law by mandating PILOTs for qualifying housing developments. Developments owned or operated by the Housing Opportunities Commission (HOC) would receive PILOTs exempting 100% of the real property tax that otherwise would be collected. The Bill would also mandate a PILOT for 100% of the property tax for at least 15 years "[i]f at least 50% of the dwelling units limit the rent charged for at least 15 years to an amount affordable to households earning less than 65% of the area median income," or AMI. Partial PILOTs for qualifying housing developments "with at least 30% but less than 50% of the units rent restricted:

> (1) for each dwelling unit affordable for residents at 51% to 65% of area median income, the project must receive a payment in lieu of taxes for one unit;
>
> (2) for each dwelling unit affordable for residents at 31% to 50% of area median income, the project must receive a payment in lieu of taxes for 2 units; and

[1] See link https://www.montgomerycountymd.gov/COUNCIL/Resources/Files/2019/EDPlatformPlatformFinal.pdf.

(3) for each dwelling unit affordable for residents at 30% or less of area median income, the project must receive a payment in lieu of taxes for 3 units."[2]

Table 1 presents a matrix of the conditions specified in Bill 26-21 for non-HOC owned and operated properties.

Table 1. Affordable Housing PILOT Matrix for Non-HOC Properties

PILOT Award	PILOT Duration	% of Affordable Units	Affordability Depth	Affordability Duration
100% of real property taxes	at least 15 years	At least 50%	Less than 65% AMI	at least 15 years
For each affordable unit, PILOT per one unit	at least 15 years	At least 25% but less than 50%	51% to 65% AMI	at least 15 years
For each affordable unit, PILOT per 2 units	at least 15 years	At least 25% but less than 50%	31% to 50% AMI	at least 15 years
For each affordable unit, PILOT per 3 units	at least 15 years	At least 25% but less than 50%	30% AMI or less	at least 15 years

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

For information on the Bill's potential economic impacts, OLO spoke with several representatives from the affordable housing industry. Based on these conversations, OLO anticipates that the Bill would depend on the following potential effects on affordable and/or market-rate housing developers:

- **Process Effect:** Change in speed and certainty involved in attaining PILOTs for qualifying housing developments.
- **Capital Effect:** Change in average annual PILOT amounts granted to qualifying housing developments.
- **Development Effect:** Change in average annual supply for affordable housing through construction, rehabilitation, and acquisition of affordable housing properties.

Process Effect: OLO anticipates that Bill 26-21 would have meaningful process effects. In general, local affordable housing projects require various sources of funding to complete. OLO's understanding is that many, if not the majority of local projects rely on the County's two primary sources of funding for affordable housing—the current negotiated PILOT program and the Housing Initiative Fund (HIF), which provides funding in the form of loans for affordable housing projects.[3] By changing the PILOT program from a negotiated to mandatory abatement, enacting Bill 26-21 would affect negotiations between the County and housing developers in the following manner: Rather than negotiating for two

[2] Montgomery County Council, Bill 26-21, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments, introduced on June 29, 2021. See Bill in Introduction Staff Report, https://apps.montgomerycountymd.gov/ccllims/DownloadFilePage?FileName=2717_1_15539_Bill_26-2021_Introduction_20210629.pdf.

[3] For an overview of HIF, see Montgomery County's HIF and PILOT Programs, Department of Housing & Community Affairs, November 4, 2019, https://www.montgomerycountymd.gov/DHCA/Resources/Files/housing/multifamily/publications/presentations/PHED_Presentation_HIF_PILOTs_201911.pdf.

sources of funding support from the County, developers would only need to negotiate with the County for one source, HIF funding. As a result, the Bill would likely reduce, both, uncertainty for housing developers regarding financing and the amount of time it takes for them to receive the abatement.

Capital Effect: Due to data limitations, OLO is unable to project the Bill's capital effect. This effect would be based on the extent to which the Bill results in a net increase in PILOT abatements for qualifying housing that would not occur in the absence of enacting the Bill. Should a net increase occur developers of qualifying affordable housing projects would experience a net increase in cash flow.

Development Effect: Similarly, data limitations prevent OLO from estimating whether any potential "capital effect" would be sufficiently large to induce construction, rehabilitation, and/or acquisition of affordable housing projects that would not occur without increased abatements.

While the Bill's capital and development effects are unknown, OLO notes that a net increase in PILOT abatements and any induced affordable housing development would significantly increase the magnitude of the Bill's economic impacts. Both outcomes would have significant "multiplier effects," that is, how changes in economic activity affect other rounds of spending, and how additional spending impacts certain economic indicators.

To illustrate, let's assume the Bill's capital effect is sufficiently large to induce the construction of a new affordable housing development that would not otherwise occur. The project would largely fall within the Regional Input-Output Modeling System (RIMS II) final-demand multiplier for the "construction" industry. The RIMS II multipliers, developed by the U.S. Bureau of Economic Analysis,[4] measure the multiplier effect of economic activity in terms of four measures:

- Output (sales): total market value of industry output,
- Value-Added: total value of income generated from production (equivalent to gross domestic product),
- Earnings: employee compensation plus net earnings of sole proprietors and partnerships, and
- Employment: number of full- and part-time employees. [5]

Industries with relatively high multiplier values for these measures result in greater output, value-added, earning, and employment for every additional dollar of economic activity in those industries. There are multipliers for 64 industries in the County. **Table 2** presents the values of the RIMS II construction multiplier for Montgomery County.

[4] U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.
[5] Ibid, 3 – 3 and 3 – 4.

Table 2. RIMS II Construction Multiplier for Montgomery County

	Output	Earnings	Employment	Value-Added
Type I	1.2269	0.2669	4.6368	0.6513
Type II	1.4391	0.3092	5.6518	0.7831

Per every $1 million in new affordable housing construction, the County would experience:

- $1,226,900 to $1,439,100 in output;
- $266,900 to $309,200 in earnings;
- 5 to 6 new jobs; and
- $651-300 to $783,100 in value-added.

However, OLO notes that the "true" economic impact would also account for the economic opportunity cost from alternative uses of the County's real property tax revenue that may be forgone because of the Bill.

VARIABLES

The primary variables that would affect the economic impacts of Bill 26-21 are:

- change in average annual PILOT amounts granted to qualifying housing developments;
- change in speed and certainty involved in attaining PILOTs for qualifying housing developments; and
- change in average annual supply for affordable housing.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

OLO believes that Bill 26-21 would have positive economic impacts on private organizations in the County. As discussed above, OLO is most confident that the Bill would increase the speed and certainty involved in attaining PILOTs for qualifying housing developments. Affordable housing developers would primarily benefit from the Bill's process effect.

If enacting Bill 26-21 results in a net increase in PILOT abatements for qualifying housing developments and induces affordable housing development that would not otherwise occur, the magnitude of the positive economic impacts to local businesses would substantially increase. In terms of the capital effect, affordable housing developers would experience a net increase in cash-flow, which may be used to offset operating costs or increase business income. Holding all else equal, a net increase in PILOT abatements would increase the competitiveness of the County's local affordable housing industry vis a vis surrounding jurisdictions.

The Bill's potential development effects would have the deepest and broadest economic impacts. As previously discussed, every $1 million in new affordable housing construction would increase output from $1,226,900 to $1,439,100, earnings from $266,900 to $309,200, employment from 5 to 6 new jobs, and value-added from $651-300 to $783,100. A substantial increase in new development that otherwise would not occur would enhance the County's economic development and competitiveness in the affordable housing industry, as well as benefit workforces of affected businesses in terms of employment and income gains.

Residents

OLO believes that Bill 26-21's impact to County residents largely depend on the Bill's potential development effect. Lack of affordable housing is identified as a critical need in the County's Economic Development Platform. By increasing the supply of affordable housing, households at lower ends of the income spectrum would have more housing options, which could reduce rent from finding options appropriate to their income, as well as reduce transportation costs incurred from having long commutes to work due to lack of housing options. It is worth noting this last point illustrates that the Bill's economic impacts depend not only on whether it increases affordable housing supply, but also the geographic composition of affordable housing in the County.

DISCUSSION ITEMS

Based OLO's conversations with representatives from the affordable housing industry, Councilmembers may want to consider the following discussion items:

First, the extent to which the AMI and number of affordable unit thresholds specified in the Bill capture the specific housing needs of County residents across the income spectrum.

Second, the extent to which the PILOT program specified in Bill 26-21 would complement existing affordable housing incentives from the County, State, and Federal Government to increase affordable housing development in the County.

Third, the extent to which a mandatory PILOT program would undermine DHCA's ability to negotiate for additional affordable housing units for projects that receive County funding support.

WORKS CITED

Montgomery County Code. Sec. 2-81B. Economic Impact Statements.

Montgomery County Council. Bill 26-21, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments. Introduced on June 29, 2021.

Montgomery County's HIF and PILOT Programs. Department of Housing & Community Affairs. November 4, 2019.

U.S. Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. December 2013.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.