

Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

BILL 5-25: DEMOLITION TAX FOR AFFORDABLE HOUSING PRODUCTION

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Bill 5-25 could have a positive impact on racial equity and social justice (RESJ) in the County. Black and Latinx community members could disproportionately benefit from the creation of a dedicated revenue stream that increases the reliability of developing affordable housing units through the Housing Production Fund (HPF). However, the actual RESJ impact of this Bill will depend on measures that are taken to prevent the potential displacement of Black, Indigenous, and Other People of Color (BIPOC) community members in communities where HPF-funded developments are located.

PURPOSE OF RESJ IMPACT STATEMENTS

RESJ impact statements (RESJIS) evaluate the anticipated impact of legislation on racial equity and social justice in the County. RESJ is a **process** that focuses on centering the needs, leadership, and power of Black, Indigenous, and other people of color (BIPOC) and communities with low incomes. RESJ is also a **goal** of eliminating racial and social inequities. Applying a RESJ lens is important to achieve RESJ.¹ This involves seeing, thinking, and working differently to address the racial and social inequities that cause racial and social disparities.²

PURPOSE OF BILL 5-25

The Housing Production Fund (HPF) was established by the County Council in 2021. The fund allows the Housing Opportunity Commission (HOC) to finance construction of mixed-income and mixed-use developments in the County. Thirty percent of the units in these developments must be income-restricted, with 20% of the units affordable at or below 50% of the Area Median Income (AMI) and 10% affordable at 65% -70% of the AMI.³

Bill 5-25 would establish a \$20,000 excise tax on certain demolitions and renovations of single-family homes. This would include partial demolitions of attached or detached single-family homes that result in the destruction or removal of at least 50% of an existing home. Revenues from the new excise tax would be used exclusively for the HPF.⁴

Bill 5-25 also outlines the following exemptions from the excise tax:⁵

- The existing home is deemed unsafe or condemned under County Code;
- The replacement single-family home would be a moderately priced dwelling unit (MPDU);
- The replacement single-family home would be the owner's principal residence for a minimum of 5 years;
- The gross floor area of the replacement single-family home would be less than or equal to the original home's gross floor area;
- The replacement single-family home is necessary due to a medical condition or disability of an individual that will reside in the home; or

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- The demolition is necessary due to unforeseeable circumstances beyond the owner’s control and reasonable ability to remedy.

Bill 5-25, Demolition Tax for Affordable Housing Production, was introduced by the County Council on February 11, 2025.

This RESJIS builds on the following RESJISs previously published by OLO:

- Bill 18-24, Housing Policy – Standards and Procedures – Amendments, published in October 2024;⁶ and
- Bill 38-23, Tenant Displacement – Right of First Refusal to Buy Rental Housing – Amendments, published in October 2023.⁷

Please refer to these RESJISs for background on housing affordability, the affordable housing shortage and racial equity.

ANTICIPATED RESJ IMPACTS

To consider the anticipated impact of Bill 5-25 on RESJ in the County, OLO recommends the consideration of two related questions:

- Who would primarily benefit or be burdened by this bill?
- What racial and social inequities could passage of this bill weaken or strengthen?

For the first question, OLO considered the demographics of community members who would benefit from a dedicated revenue source for mixed-income housing projects through the HPF:

- **Community members who demand affordable housing** would benefit from increased funding to the HPF. HPF-funded housing developments provide double the affordable units than those provided by standard housing developments through the County’s Moderately Priced Dwelling Units (MPDU) program.⁸ Further, 20 percent of units in HPF-funded housing developments have deeper affordability than MPDUs.

As noted in the RESJIS for Bill 18-24, historical and contemporary racial inequities drive increased demand in affordable housing among Black and Latinx families in the County.⁹ As shown in Table A (Appendix), the median incomes of Black and Latinx households are each more than \$30,000 less than the median income of all households in the County. Further, as shown in Table B (Appendix), Black and Latinx renter-households are also more likely to be cost-burdened (pay 30 percent or more of income on housing expenses) than White and Asian renter-households. Black families are also largely overrepresented among families who live across properties owned and managed by HOC, the developer of HPF-funded housing.¹⁰

- **Community members who demand market-rate housing** would also benefit from increased funding to the HPF. Seventy percent of HPF-funded developments are market-rate units. Of note, income from market-rate units allows HOC to sustain the affordability of affordable units.¹¹ As shown in Table A, the higher income levels of White and Asian community members suggest they would benefit most from the development of market-rate units through the HPF.

Conversely, **community members who demand single-family home demolitions** would be burdened by the excise tax on these demolitions. According to a 2019 report from Montgomery Planning, between 2009 and 2019, 87 percent of single-family home demolitions occurred in District 1.¹² District 1 includes areas of Bethesda, Potomac and Chevy Chase.

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As shown in Table C (Appendix), White community members are largely overrepresented in District 1.¹³ Asian and Pacific Islander community members are proportionately represented, while Black and Latinx community members are underrepresented. District 1 is also affluent. The median income of the district is \$265,145 compared to \$152,779 for the County.¹⁴

Data from Montgomery Planning confirms that affluent community members primarily demand single-family home demolitions. For demolitions between 2014 and 2017, the sales price of homes that were demolished and replaced increased by over \$1 million on average. Further, for demolitions between 2012 and 2019, the gross floor area of homes that were replaced increased by an average of 2,554 square feet.¹⁵

For the second question, OLO considered how Bill 5-25 could affect racial inequities and disparities in housing. As noted in the RESJIS for Bill 38-23, the nationwide shortage in affordable housing exacerbates housing insecurity for BIPOC community members.¹⁶ Housing trust funds such as the HPF are recognized as a best practice for supporting affordable housing development.¹⁷ Bill 5-25 would create a dedicated revenue source for the HPF, which would support its sustainability.¹⁸ Increasing the reliability of developing affordable housing units through the HPF could help reduce housing disparities in the County by race and ethnicity.

Of note, researchers and advocates note that mixed income housing development can contribute to gentrification and to the displacement of lower-income BIPOC community members.¹⁹ As described in one study:²⁰

“Creating communities that remain broadly accessible to lower-income households and residents of color... requires measures that enhance housing and economic opportunities within the larger neighborhood and address the threats of physical, economic, and cultural displacement associated with increased investment.”

The study highlights four approaches to reduce the potential adverse impacts of mixed-income housing on BIPOC community members:²¹

- Accounting for potential displacement impacts in the initial design of redevelopment plans;
- Investing in long-term affordable housing when land values are low;
- Pairing market-leveraging efforts with measures that attenuate their ripple effects for residents of targeted neighborhoods (e.g., tenant protections, rent regulations, tenant financial assistance programs, etc.); and
- Enabling residents of revitalized neighborhoods to benefit from employment opportunities generated by investment and keeping commercial and cultural institutions viable.

Conclusion. OLO anticipates Bill 5-25 could have a positive impact on RESJ in the County. Black and Latinx community members could disproportionately benefit from the creation of a dedicated revenue stream that increases the reliability of developing affordable housing units through the HPF. However, the actual RESJ impact of this Bill will depend on measures that are taken to prevent the potential displacement of BIPOC community members in communities where HPF-funded developments are located.

RECOMMENDED AMENDMENTS

The Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.²² OLO anticipates Bill 5-25 could have a positive impact on RESJ. As such, OLO does not offer recommended amendments.

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CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than 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.

APPENDIX

Table A: Median Household Income by Race and Ethnicity, Montgomery County

Race and ethnicity ²³	Median Household Income
Asian	\$143,911
Black	\$86,359
White	\$160,756
Latinx	\$92,050
County	\$125,371

Source: [Table S0201](#), 2023 American Community Survey 1-Year Estimates, Census Bureau.

Table B: Cost-Burden Rates of Renter-Occupied Households by Race and Ethnicity, Montgomery County

Race and ethnicity	Cost-Burden Rate
Asian	41.4
Black	57.6
White	50.4
Latinx	59.9
County	53.6

Source: [Table S0201](#), 2023 American Community Survey 1-Year Estimates, Census Bureau.

Table C: District 1 Population by Race and Ethnicity, Montgomery County

Race and ethnicity	District 1 Population	County Population
Asian or Pacific Islander	14.2	14.9
Black	4.6	18.0
White	68.7	43.1
Latinx	8.5	19.5

Source: [2022 Demographic Profile of Council Districts](#), Montgomery Planning.

¹ Definition of racial equity and social justice adopted from Marlysa Gamblin et al., "[Applying Racial Equity to U.S. Federal Nutrition Programs](#)," Bread for the World and [Racial Equity Tools](#).

² Ibid.

³ [Housing Production Fund](#), Housing Opportunities Commission.

⁴ [Introduction Staff Report for Bill 5-25](#), Montgomery County Council, Introduced February 11, 2025.

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⁵ Introduction Staff Report for Bill 5-25.

⁶ [RESJIS for Bill 18-24](#), Office of Legislative Oversight, October 3, 2024.

⁷ [RESJIS for Expedited Bill 38-23](#), Office of Legislative Oversight, October 13, 2023.

⁸ Moderately Priced Dwelling Units (MPDUs) are housing units that are affordable to renters and first-time home buyers making up to 70 percent of the AMI. In housing developments with more than 20 units, between 12.5 to 15 percent of the units must be MPDUs. The percentage of required MPDUs depends on where the housing development is located. Refer to [MPDU Program – General](#) and [MPDU Developers](#), Department of Housing and Community Affairs.

⁹ RESJIS for Bill 18-24.

¹⁰ Ibid.

¹¹ [Staff Report for PHED and GO Committee Worksession on HOC Housing Production Fund](#), Montgomery County Council, July 27, 2020, pg. 3.

¹² [Montgomery Planning Assessment of Bill 34-19, Taxation – Development Impact Taxes – Affordable Housing – Housing Impact Fairness Act](#), December 5, 2019, pg. 3.

¹³ Montgomery Planning’s assessment was based on Council district boundaries pre-2022. District 1 continues to include areas of Bethesda, Potomac and Chevy Chase. Further, the demographics District 1 under the new boundaries are similar to its demographics under the previous boundaries. Previously, 71.5 percent of the District 1 population was White, 4.8 percent was Black, 12.0 percent was Asian and 8.5 percent was Latinx. And the average household income was \$211,073. Refer to [2016 Demographic Profile of Council Districts](#), Montgomery Planning.

¹⁴ [2022 Demographic Profile of Council Districts](#), Montgomery Planning, pg. 6.

¹⁵ Montgomery Planning Assessment of Bill 34-19, Taxation – Development Impact Taxes – Affordable Housing – Housing Impact Fairness Act, pg. 3.

¹⁶ RESJIS for Expedited Bill 38-23.

¹⁷ [What About Housing? A Policy Toolkit for Inclusive Growth](#), Grounded Solutions Network, pg. 21; [Preserving, Protecting, and Expanding Affordable Housing](#), ChangeLab Solutions, pg. 41; and [Housing Trust Funds](#), Local Housing Solutions.

¹⁸ Housing Trust Funds, Local Housing Solutions.

¹⁹ Amy T. Khare and Mark L. Joseph, “[Prioritizing Inclusion and Equity in the Next Generation of Mixed-Income Communities](#),” Shelterforce, July 12, 2019.

²⁰ Adèle Cassola, “[Promoting Mixed-Income Communities by Mitigating Displacement: Findings from 80 Large U.S. Cities](#)” in *What Works to Promote Inclusive, Equitable Mixed-Income Communities* (Federal Reserve Bank of San Francisco, 2021), pg. 1.

²¹ Ibid, pgs. 7-10.

²² Bill 27-19, Administration – Human Rights – Office of Racial Equity and Social Justice – Racial Equity and Social Justice Advisory Committee – Established, Montgomery County Council

²³ Data on Native American and Pacific Islander community members is not available for all data points in this RESJIS.