



Fiscal Impact Statement

Office of Management and Budget

Bill 2-25E

Taxation - Payments in Lieu of Taxes - Affordable Housing - Amendments

Bill Summary

This bill expands payment in lieu of taxes (PILOT) to housing developments if the property meets the following criteria: the property has been converted from commercial use to residential use; the property has at least a 50 percent vacancy rate at the time of application; the property's development meets all the requirements of an expedited approval plan under County Code; and at least 15 percent of the units are built under a government regulation or binding agreement limiting the rent charged for the unit for at least 25 years, to ensure the unit is affordable for households earning 60 percent or less of the Area Median Income (AMI). The bill provides a real property tax exemption for at least 25 years from when the use and occupancy permit is issued, however the exemption ends if less than 15 percent of the units limit rent to ensure the unit is affordable for households earning 60 percent or less of the AMI.

Fiscal Impact Summary

The bill adds 1.0 FTE for a Senior Planning Specialist and \$134,600 in personnel costs to the Department of Housing and Community Affairs (DHCA) Multifamily Housing Program. Operating expenses needed to support the position increase by \$7,500 in FY26 and \$1,700 each year thereafter. The Department of Finance estimates real property tax revenues could decrease by approximately \$5.8 million in the first year, increasing by further annual reductions of an additional \$6-7 million as more properties utilize the PILOT, resulting in a loss of \$130 million in real estate tax revenue in the six-year analysis period. Assuming the PILOT is provided to qualifying properties for no more than 25 years, Finance estimates the annual decrease in property tax revenues will continue to grow for 25 years from the time the initial projects received the PILOT, after which new PILOTs may replace expired PILOTs and the revenue decrease stabilizes with annual loss of around \$230 million in property tax revenue per year, with total loss over that 25-year period of approximately \$2.6 billion.

Fiscal Year	26	27	28	29	30	31	Total
Personnel Costs	\$134,600	\$134,600	\$134,600	\$134,600	\$134,600	\$134,600	\$807,600
Operating Expenses	\$7,500	\$1,700	\$1,700	\$1,700	\$1,700	\$1,700	\$16,000
Total Expenditures	\$142,100	\$136,300	\$136,300	\$136,300	\$136,300	\$136,300	\$823,600
Revenues	(\$5,795,200)	(\$11,822,300)	(\$18,088,100)	(\$24,599,800)	(\$31,364,700)	(\$38,390,400)	(\$130,060,500)
Total Impact	(\$5,937,300)	(\$11,958,600)	(\$18,224,400)	(\$24,736,100)	(\$31,501,000)	(\$38,526,700)	(\$130,884,100)
FTE	1.00	1.00	1.00	1.00	1.00	1.00	

Fiscal Impact Analysis

Expenses
DHCA indicates that it will require 1.0 FTE for a Senior Planning Specialist, which creates \$134,600 in new personnel costs each year. The position also requires one-time operating expenses of \$5,900 for equipment and furniture, and ongoing operating expenses of \$1,700 for software licenses and basic supplies.



Revenues

This analysis estimates this bill will result in a \$5.8 million decrease in real property tax revenues from projected FY26 levels, with that reduction increasing by a further \$6-7 million annually as the number of properties utilizing the PILOT benefit increases over time. This analysis anticipates the revenue impact on projections assuming:

- a property tax rate of \$1.0255 per \$100 in taxable assessed value (should the rate increase, the amount of revenue lost would commensurately increase);
- new multifamily development adds \$5.5 million in new real property tax revenues annually;
- senior apartment developments add an additional \$300,000 in new real property tax revenue annually; and
- values of existing properties and the real property tax revenues from new construction increase at 2% annually.

Annual projections of new multifamily development and senior apartment development are based on the prior 10-year average. Multifamily development from 2015-2024 resulted in 58 market rate projects occupying 244 acres, providing 16,558 units, that will generate approximately \$55 million in property tax revenues in FY26 at a weighted rate of \$1.0255 per \$100 in value. In addition, there were another 11 senior apartment projects occupying 51 acres, providing 1,347 units, and generating approximately \$2.9 million in property tax revenues in FY26. This analysis assumes the future annual average rate of 30 acres of land consumed for development will continue and approximately \$5.8 million in increased property tax revenue would be generated absent the bill, with the value of existing properties and future construction increasing at 2% annually.

As discussed below, this revenue projection is based on many assumptions, any one of which could significantly affect the actual revenue impact.

Staff Impact

DHCA indicates that its Multifamily Housing Program staff are at capacity. Under previous expansions of PILOT, DHCA saw a significant increase in the number of applications annually. This analysis assumes a similar increase in applications would result from the bill. DHCA estimates that it will require an additional 1.0 FTE Senior Planning Specialist position to provide staff support for those applications. The position's full-year compensation will increase expenditures by \$134,600 annually. Without appropriate staffing support to review, negotiate, and process the expected increase in applications, transactions to create and preserve affordable housing units may be delayed.

Actuarial Analysis

The bill is not expected to impact retiree pension or group insurance costs.

Information Technology Impact

The bill is not expected to impact the County Information Technology (IT) or Enterprise Resource Planning (ERP) systems.

Other Information

Later actions that may impact revenue or expenditures if future spending is projected

The bill does not authorize future spending.

Ranges of revenue or expenditures that are uncertain or difficult to project

DHCA notes that this analysis is based on the expenditure impact of Bill 2-25. Additional potentially significant expenditures for additional staffing and associated operating expenses would be needed if Zoning Text Amendments 25-01 and 25-02 are also enacted.



The forecast of lost property tax revenue relies upon the following assumptions, detailed further in this section: recent development levels would continue unaffected by any recently approved and/or implemented Montgomery County policies; there is ample supply of properties eligible for the PILOT if redeveloped into rental residential; developers will be able to reduce the vacancy at properties they wish to redevelop to 50 percent; and the PILOT will be attractive to developers and that all future multifamily supply will make use of the PILOT.

This analysis assumes 10 years of rental and senior apartment multifamily properties built between 2015 and the end of 2024 proxy the future average level of multifamily development and related taxable assessed value in the County. It is not possible to accurately predict the level of development that will occur in any specific year or the future development of any specific property. Future forecasts of development levels depend upon the assumption that future development trends resemble recent observable and measurable development trends. While a forecast of development and resulting tax revenues has general accuracy across a six-year time frame, the estimate of those individual years is less accurate given considerable variance between this calculated average and the potential actuals.

Through evaluation of Montgomery County's land records, Finance assumes the supply of property potentially eligible for the PILOT if redeveloped into residential use (4,764 acres) far exceeds the demonstrated demand for multifamily development (300 acres over 10 years). Further, Finance estimates that properties potentially attractive for redevelopment (1,524 acres) also far exceeds the potential demand for multifamily development.

This analysis assumes properties with both (1) a low ratio of building value to land value (indicating the existing structure is worth relatively little compared to the potential use of the land); and (2) buildings that are older than 25 years are potentially attractive candidates for conversion from commercial use to residential use. In addition, this analysis assumes the PILOT substantially reduces property operation costs and thus will be highly utilized by multifamily builders, that there is an ample supply of properties that satisfy the criteria for the PILOT, and that as a result of the bill, most future multifamily rental properties will receive the PILOT and generate no real property tax revenue for at least 25 years.

This analysis assumes the existing weighted property tax rate of \$1.0255 per \$100 in taxable assessed value. Should the County Executive's proposed tax rate increase to \$1.0605 per \$100 of assessed value be approved, the amount of revenue lost would commensurately increase, with a \$6.0 million impact in FY26. This analysis assumes properties currently under construction or development that otherwise would have satisfied the requirements of the PILOT will be allowed to make use of the program, resulting in a reduction in tax revenue starting in FY26. If instead developers of prospective projects must resubmit their applications, the loss of tax revenue may not start until two years after adoption of the bill. Finance assumes it takes two years to take a project from conception through the development and construction process.

This analysis assumes that townhome development will not be significantly impacted by the bill. While townhome development is eligible for the PILOT outside of the red policy zone, Finance anticipates that there will be few such developments that utilize the PILOT due to the required 15% MPDUs that must be located on-site of the development, requiring the development is a rental property, and that there is a limited market for rental townhouse developments. Any level of townhome development that does occur and is eligible for the PILOT would increase the loss in



future real property tax revenue estimated in this analysis.

The actual revenue impact may vary if development occurs at a different level or pace than assumed; if more or less development occurs at assessed values that are more or less than assumed; or if land prices for eligible properties increase due to utilization of the PILOT among multifamily developers, resulting in less multifamily development utilizing the PILOT than assumed due to the high cost of eligible land. In addition, the actual revenue impact may vary if this bill results in changes to other tax revenues such as income, transfer, or recordation as a result of new multifamily development. The actual revenue impact may vary if actual property attributes differ from those recorded in the Planning Department land database, therefore affecting the estimated value of properties and acres potentially eligible for the PILOT.

Sources of information

The analysis utilizes data from the Department of Planning (Planning) land use database, the State Department of Assessment and Taxation (SDAT), and the commercial real estate data company CoStar. Finance used geographic information system (GIS) software to evaluate Planning's land use database to identify office and retail properties (Commercial Properties) that are greater than two stories and could possibly satisfy the criteria for PILOT. Finance also used GIS to identify adjacent Commercial Properties as many developments are the result of combining multiple existing parcels. Finance used CoStar data to identify rental and senior apartment multifamily properties built between 2015 and the end of 2024, using this ten year period of multifamily development as a proxy for the future average level of multifamily development and taxable assessed value. Finance used SDAT data to identify the existing assessed value of the land and improvements for all properties and to estimate future real property tax revenue from multifamily rental developments.

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Council Staff Comments and Questions on Bill 2-25E Fiscal Impact Statement (prepared April 1, 2025)

OMB Submitted a Fiscal Impact Statement (FIS) for Bill 2-25E, Taxation - Payments in Lieu of Taxes - Affordable Housing Amendments on March 20th. Council staff shared questions regarding the analysis with OMB on March 26th. These questions are included below in the appendix, and staff has not yet received a response. It is possible that some analysis could change pending those responses¹.

Broadly, Council staff's questions relate to the selection of assumptions that ultimately generate just one scenario. While the choice of assumptions and analysis may be sound upon further investigation, OMB does not clearly explain the choice of assumptions, and the choice to not make other assumptions, in their memo. For this reason, Council staff have requested to engage in further discussions with OMB regarding their analysis.

There are two assumptions, in particular, that Council Staff are hoping to understand further. First, the FIS suggests that the increase in Assessed Value (AV) of new multifamily development compared to the vacant office buildings they replaced will not generate enough growth in property tax revenue by Year 26 (i.e., the first year after the abatement period is over) to replace the lost revenue of projects receiving the PILOT in Year 26.

A very high-level analysis suggests a nearly ten-fold increase in property value for a vacant office building that redevelops into multifamily housing. While this analysis is not intended to counter OMB's analysis, it does imply further investigation is needed to better understand the finding that by Year 26 there will be a stabilized annual loss in property taxes totaling \$230 million.

¹ This memo was updated on 4/2/2025 to reflect that Council Staff has had discussions with Finance Staff, who conducted the analysis in coordination with OMB. Finance Staff have confirmed Council Staff will not receive a written response and while the questions were discussed, given the complexity of analysis and because changes during Committee would have altered assumptions in the FIS, Finance and Council staff could not meaningfully resolve Council Staff's outstanding questions.

Table 1: High-Level Analysis to Demonstrate Potential Net Increase in AV of New Multifamily Development on Qualifying Office Properties

Property Taxes	
2025 Assessed Value	\$17,000,000
Property Tax Rate	1.15%
Property Taxes Paid	\$195,704
Estimated Land Value Post-Development	\$207,000,000
Property Tax Rate	1.15%
Property Taxes Paid	\$2,382,984
Multifamily Deliveries, 2015-2024	58
Estimated Current Taxes Paid	\$11,350,832
Estimated Future Taxes Post-Abatement	\$138,213,072

Table 2: High-Level Analysis to Demonstrate Potential Net Increase in Income Taxes

Income Taxes	
Multifamily Deliveries, 2015-2024	58
Total Units	16,558
Average Project Size (Units)	285
Assume New Project at Avg. Unit Size w/ 15% MPDU @ 60% AMI	
Total Units	285
Market Rate	242
MPDU	43
Monthly Rent	
Market Rate	\$3,250
MPDU	\$1,805
Income Required	
Market Rate (at 30% of Income)	\$130,000
MPDU (at 25% of Income)	\$72,200
Annual Income Taxes Paid per HH	
Market Rate	\$3,980
MPDU	\$1,848
Total Annual Income Taxes Paid	
Market Rate	\$963,160
MPDU	\$79,464
Total Annual Income Tax across 58 Projects	\$60,472,192

Second, OMB does not attempt to account for new income tax generated by housing growth and the net new residents that move into new housing units in the County. Income Tax can be difficult to forecast, and it is understandable that OMB does not want to undertake an unreliable analysis. However, the FIS does not acknowledge that there could be a significant income tax impact, which is relevant as a policy consideration. While not a forecast, a high-level analysis from Council Staff suggests a single multifamily building could generate over \$1 million in income taxes. Accounting for a margin of error as high as 50%, this would be equal to \$30 million across the 58 projects OMB assumes will be built over the next ten years.

Finally, in addition to the Council Staff's questions and high-level analysis of net increases to AV and income taxes, Council Staff does not agree that multifamily development will continue at the same rate it has over the past ten years. OMB has stated it makes this assumption because forecasting development is unreliable, and often uses this assumption in analysis of development-related policy, including for impact taxes.

However, this does not imply OMB necessarily believes multifamily development can be feasibly built under today's market conditions, which is ultimately the policy question underpinning the need for the bill. Bill 2-25E attempts to fill a feasibility gap for multifamily development, which has been generated in part by worsening market conditions. Council staff's financial feasibility analysis of multifamily development today suggest the PILOT can indeed fill this gap. Whether it should fill this gap, or the extent of the gap it should fill, is also a policy question.

Council Staff are available to help answer questions and time-permitted, can conduct additional analysis as needed.

Appendix

A. Council Staff Questions for OMB

1. Why does this bill create the need for a new position if the analysis assumes "that future development trends resemble recent observable and measurable development trends".
2. How does the analysis conclude that the stabilized annual loss in property will equal \$230 million? By what year does the annual loss stabilize at this level?
3. Does this analysis assume that the property taxes based on the net increase in assessed value after the abatement period compared to the assessed value prior to redevelopment are outweighed by the forgone property tax revenue of new projects entering into an abatement?
 - a. Can you please show the findings from your modeling that show that foregone property tax revenue of new multifamily development will outweigh the property taxes paid by properties reassessed after their abatement period is over?
4. The FIS notes "the PILOT will be attractive to developers and that all future multifamily supply will make use of the PILOT". Why does the analysis assume forgone property taxes for projects that are already entitled on non-qualifying sites (i.e., not on sites with highly vacant commercial development)?
 - a. If there was evidence of which approved site plans/entitled projects can move forward to a building permit because they have secured financing, would the FIS reduce the fiscal impact by a corresponding amount?
5. Can you breakdown the acreage of eligible properties by retail and office properties?

6. Even under the assumption that any office or retail property can (and would) be made eligible for the PILOT, it would take time and resources for developers to make non-qualifying properties, qualify. Based on what evidence and data does the FIS find that there would be fiscal impacts in FY26 through FY28?
 - a. Do you a list of currently qualifying, highly vacant commercial properties?

Alternative Scenarios:

1. There is a lag between changes in market conditions and its effects on development trends. Market conditions have real, measurable impacts on development feasibility. How would this analysis change if it accounts for the feasibility of development under today's market conditions?
 - a. While it may not be possible to predict changes in market conditions, explaining trends like cap rate expansion (and all the factors it itself reflects) would help outline a scenario where development slows down.

B. High Level Summary of 2-25E Feasibility Analysis

Background

The market value of a rental product is determined by its cap rate. The market value of a project is its Net Operating Income (NOI) divided by its cap rate. Cap Rates are a simple metric tracked through observations of real estate transactions. The [average cap rate in a region](#) is just the average NOI of projects that were sold, divided by their average sale price.

Typically, for a project to pencil, a project's yield-on-cost (YOC), which is NOI divided by Total Development Costs, must exceed the cap rate by 1-1.5 percentage points (i.e., 100 to 150 basis points).

The reason a YOC must exceed the cap rate by a minimum amount is because the cap rate determines what someone *might* pay for a project; it's an estimate. The YOC measures NOI in relation to actual costs. Therefore, if the YOC is higher than the cap rate, investors and lenders know that even if their investment is not recouped by the sale of the project, the NOI will recover the development costs at a reliable rate.

This is important to note because while profit margins are inherent within a pro forma, the metrics developers use to test project feasibility do not necessarily involve increasing their own returns, but generating an output the meets the minimum criteria for investment and lending: the cap rate plus 100 to 150 basis points.

Development Prototype

This analysis is based on the feasibility of a 300-unit wood-over-podium multifamily mid-rise in a suburban part of the County.

Development Assumptions		Cost and Revenue Assumptions		
MPDU Requirement	15%	All-in Cost per sf	\$450	
MPDU AMI	70%	Total Development Costs	\$131,962,500	
		All-in Cost per Door	\$439,875	
Total Units	300			
Market Rate	255	Avg. Monthly Rent	<u>per sf</u>	<u>per unit</u>
MPDU	45	Market Rate	\$3.25	\$3,250
		MPDU	\$2.12	\$1,805
Gross Avg. Unit Size (sf)	977.5			
Market Rate	1,000	Cap Rate	5.50%	
MPDU	850	Min. YOC	6.50%	
		Vacancy Rate	5.0%	
Total Building Size	293,250	OpEx	30%	
		% Increase to NOI	20%	
Site Size (acres)	3.0			

Feasibility Analysis

- Under today's market conditions, projects do not pencil. For example, assuming a 5.5% cap rate, a 300-unit multifamily project generates a YOC of 5.4%, which is not only below the minimum 6.5% YOC for the project to pencil, but less than the cap rate itself. Based on council staff's analysis, not only does the market value of the project not exceed the cost of development by a sufficient margin, but it is also actually below the cost to build it.

Feasibility Analysis	Market Rate	MPDU	Total
Gross Scheduled Rents	\$9,945,000	\$974,700	\$10,919,700
Less Vacancy	(\$497,250)	(\$48,735)	(\$545,985)
Less Operating Expenses	(\$2,983,500)	(\$292,410)	(\$3,275,910)
Net Operating Income	\$6,464,250	\$633,555	\$7,097,805
Total Development Costs	(\$114,750,000)	(\$17,212,500)	(\$131,962,500)
Market-Rate Project Value	\$117,531,818	\$11,519,181.82	\$129,051,000
Min. Req'd Return	\$122,208,750	\$18,331,313	\$140,540,063
Residual Land Value (RLV)	(\$4,676,932)	(\$6,812,131)	(\$11,489,063)
RLV per sf			(\$87.92)
YOC	5.6%	3.7%	5.4%

- Cap Rates in a region are a useful, general indicator of market conditions in the region, reflecting factors that affect real estate values like rent growth, job and wage growth, financing conditions, construction costs, and development policies in a jurisdiction. As of

2025, research suggests the cap rate in Montgomery County is approximately 5.5%. Compared to three to four years ago when cap rates were closer to 4% to 4.5%, the expansion in cap rates for a 300-unit multifamily project represents a loss in market value of between \$28 million and \$48 million.

3. With a 25-year tax abatement, the same 300-unit multifamily project is marginally feasible, generating a YOC of 6.5%.
4. Developers with a bearish attitude towards the market may not feel comfortable with a project generating less than a 7% YOC. Therefore, the tax abatement improves a project's feasibility from losing money compared to development costs, to generating enough return to cover the minimum buffer between market value and development costs that is required for projects to pencil.

In this particular example, the net increase in the project's market value is approximately \$25 million. Ultimately, worsening market conditions have rendered most multifamily projects infeasible under standard assumptions. The PILOT enables the feasibility of multifamily development and ensures that this development occurs on sites with underutilized buildings in highly-amenitized parts of the County that already have infrastructure to support housing growth.

Feasibility Analysis w/ PILOT	Market Rate	MPDU	Total
PILOT-adjusted NOI	\$7,757,100	\$760,266	\$8,517,366
Total Development Costs	(\$114,750,000)	(\$17,212,500)	(\$131,962,500)
Market-Rate Project Value	\$141,038,182	\$13,823,018	\$154,861,200
Min. Req'd Return	\$122,208,750	\$18,331,313	\$140,540,063
Residual Land Value (RLV)	\$18,829,432	(\$4,508,294)	\$14,321,138
RLV per sf			\$109.59
ROC	6.8%	4.4%	6.5%

5. Changing the MPDU parameters of the PILOT changes the feasibility of development.

MPDU Req.	MPDU AMI (a)			
	30%	50%	60%	70%
	\$774	\$1,290	\$1,584	\$1,805
15%	-33	-16	-7	0
17.5%	-44	-25	-14	-6
20%	-55	-33	-20	-11
22.5%	-66	-41	-27	-16
25%	-77	-49	-33	-21

Notes:

* This table shows the change from the baseline (15% MPDUs at 70% AMI) YOC when MPDU requirements and thresholds change.

**Rent shown is affordable for two-person households at respective AMI, based on FY24 HUD Income Limits.

*** It is hard to imagine how projects pencil once the YOC falls below 6.3% (i.e., 20 basis points below the baseline 6.5% assumption for feasibility)

*** Numbers shown in terms of basis points.