

## Growth and Infrastructure Policy Testimony

### Montgomery County Taxpayers League, Gordie Brenne 9/10/24

The Council is being asked to approve a costly housing plan that requires a leap of faith for economic benefits since middle income residents are more likely to find jobs and attainable housing in Virginia, and flunks the most basic Racial Equity and Social Justice criteria by tearing down affordable housing without changing the “new construction” exemption for reassessments of tear down rebuilds. Please delay any action on this plan, this bill and ZTAs:

1. **Enormous Infrastructure with Small Benefits**- How will public accommodation costs, which appear to be at least \$1 billions be offset by economic benefits? Given our structural deficit, won't this cause bond underwriters to protest, not to mention taxpayers?
2. **Equity and Justice Miscarriage**- Why aren't the glaring insults to residents living in naturally occurring affordable housing who will either have to subsidize market housing for new more affluent residents, or lose their housing altogether an obvious deal breaker?
3. **Build It and They Will Come**- the demand forecast is based on flawed data for expensive housing, is not linked to a competitive forecast of lasting jobs, and requires expensive subsidies that seem to be saying market housing has no market?

Housing is at root an economic question, and strong demand and supply are the twin economic pillars of a successful housing program. Demand is driven by lasting competitive job increases. Successful housing programs can contribute more to economic development than they cost, especially when they help expand the commercial tax base which reduces residential property tax burdens. But we're losing the competition for commercial jobs to neighboring jurisdictions.

Supply for attainable housing should be based on free market demand to get the greatest return on investment. Zoning restrictions could be selectively lifted to minimize subsidies for schools, transportation and other public accommodation cost increases that the market won't pay for, primarily in neighborhoods where there are offsetting social benefits. For example, attainable housing could be targeted at neighborhoods with chronically failing schools. Planners assume the current phase of “mature development and slower growth” has to be overcome with subsidies. But inflated building costs, high interest rates, and migration patterns are temporary factors that muddy their projections. Solid forecasts of good jobs are the key to planning future growth with manageable subsidies, and lower poverty rates.

Affordable, not attainable housing addresses poverty, requires subsidies, but is more likely to provide a higher return on investment once social cost savings are included, particularly for those who are below 30% AMI. This is because of economies of scale for expensive public accommodation costs. We estimate the return on investment for attainable housing is just 3%, well below the cost of capital (132K homes x .10% planning conversion est. and timing adjustment x \$200K assessment increase x 1%/ \$1 billion, excluding cost overruns), while affordable housing has a potential return on investment of 10% (HHS budget x .25 savings for 30K units and timing adjustment/ \$1 billion). The County's budget is facing structural deficits as a result of the end of Federal Covid funding, unfunded state Blueprint initiatives, inflation driven cost increases, and generous union contract concessions. This is a bad time to gamble on future infrastructure costs and tear downs of naturally occurring affordable housing.

**Bottom line:** Impact tax carve outs for housing that is not affordable is inequitable. If market rate unit developers don't pay for public accommodations, then existing residential customers will end up subsidizing the costs of their new, wealthier neighbors. As it is, the County's interpretation of "new construction" already unfairly exempts tear-down rebuilds from immediate reassessment, shifting their property tax burden to existing homeowners in unimproved properties.

Other concerns include the reliability of the Federal government's (BEA) overall housing supply data since 2019 that is currently being disputed and should not be relied upon for projections. Any realistic economic impact analysis would discount reversible trends and associated economic development projections. Development will recover for market rate housing and public policy should not interfere. An independent study of future population growth, jobs and incomes should be relied upon to forecast housing demand for different levels of affordable, attainable and other housing to evaluate the feasibility of public accommodation costs and to develop stronger zoning policy.

There will be unintended consequences for residents living in naturally occurring affordable housing, and public accommodation costs overruns are likely. Further, there are areas of public policy and deregulation that will continue to impede market rate housing development. This should be remedied by more generalized zoning reforms to include different housing forms and requires more transparency, faster and more predictable processes to reduce the cost of development/construction, and increase supply. Independent reviews of the impact of rent controls, building energy performance standards, and other policies that may reduce supply are needed to understand how best to meet future demand.

Lastly, planners have recently indicated a sense of desperation in their attainable housing projections by calling for property tax refund subsidies to incentivize attainable housing conversions (Planning Board 7/22/24 presentation). Experience with market driven ADU development is well below expectations and indicates that there are a variety of unanticipated barriers to supply. Demand remains indeterminate for each housing category due to the lack of independent projections. Any experiments to stimulate demand should be done on a small-scale basis to avoid wasting public resources.

## Notes:

**Impact Tax Subsidy Proposal** - July 2024 Planning Board GROWTH AND INFRASTRUCTURE POLICY- 2024-2028 APPENDIX B- Page 4 of 8; Bill Draft **Impact Tax Exemptions**, pg. 74

<https://montgomeryplanning.org/wp-content/uploads/2024/08/Appendices-Final-Web.pdf>

Draft Impact tax bill proposes **no development Impact Tax** for unaffordable housing that will likely sell for \$800,000 or more:

(10) a **multifamily dwelling unit with three or more bedrooms** in a multifamily structure; or,

(11) an **office-to-residential conversion** when the building is adaptively reused or renovated for multifamily housing

Proposed **Impact Tax rate reductions**, again for unaffordable housing that will likely sell for more than \$800K:

Any single-family detached residential or detached single-family dwelling units with a gross floor area of 1,800 square feet or less must pay the tax at 50% of the otherwise applicable rate. Office-to-residential

conversions when demolition is involved in the conversion of office to multifamily or single-family attached housing must pay the tax at 50% of the otherwise applicable rate.

Estimates of public accommodation costs are missing from the plan's analysis. These have been estimated by CE Elrich for Thrive 2050 to be billions (for schools, transportation, storm water, water and sewage treatment...). Our estimate of return on investment used just \$1 billion for both attainable housing build outs and affordable housing build outs, treating it as an upfront cost. We also used a conversion adjustment factor to simplify timing of discounts for future costs (cost savings for affordable housing), and benefits (future property tax revenue streams). Planners have not provided estimates of increased tax or fee revenues (e.g. WSSC system development charges) that would offset these costs. A Fiscal Impact Statement by OMB and an OLO Economic Impact Statement are needed.

#### **Property Tax Incentives Proposed- 7/22/24 Meeting**

[https://montgomerycountymd.granicus.com/MetaViewer.php?view\\_id=169&clip\\_id=17483&meta\\_id=182500](https://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=17483&meta_id=182500)

"Property tax refunds. Tax refunds could incentivize homeowners to convert existing single-family homes to create small scale attainable housing. The Board suggests a 50% refund for duplex conversions, a 66% refund for triplex conversions, and a 75% refund for quadplex or apartment conversions, for up to 10 years and as long as the original owner occupies the unit. This structure would also apply to homebuyers of the new units created, for the first five years of ownership."

#### **HAND Housing Estimates- Affordable Housing (Produce, Housing Outcomes)**

<https://hit.handhousing.org/jurisdictions/montgomery>

#### **Housing Data Dispute**

<https://montgomeryperspective.com/2024/08/07/will-we-ever-know-whether-we-are-building-enough-housing/>

#### **OLO Housing Data Report**

[https://www.montgomerycountymd.gov/OLO/Resources/Files/2024\\_reports/OLOReport2024-10.pdf](https://www.montgomerycountymd.gov/OLO/Resources/Files/2024_reports/OLOReport2024-10.pdf)

#### **ZTA Racial Equity and Social Justice Example- Great Seneca Life Sciences- no conclusion**

<https://www.montgomerycountymd.gov/OLO/Resources/Files/resjis/ZTA/2024/ZTA24-03.pdf>

#### **ADU Report- 7/24/24**

[https://montgomerycountymd.granicus.com/MetaViewer.php?view\\_id=169&clip\\_id=17492&meta\\_id=182823](https://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=17492&meta_id=182823)

#### **Charter Limits for Reassessments, OLO Report, 2018**

<https://www.montgomerycountymd.gov/OLO/Resources/Files/2018%20Reports/OLOReport2018-1.pdf>

Finding 8 addresses “new construction”, but not the interpretation by the County’s Dept of Finance which exempts tear down rebuilds from new construction immediate reassessments.