Bill 25-25: Taxation – Payments in Lieu of Taxes – Public Housing Authorities

Summary

The Office of Legislative Oversight (OLO) anticipates that Bill 25-25 would positively impact economic conditions in the County, as measured by the Council's priority economic indicators. The Bill would align the County's By Right PILOT with recent state law changes by expanding eligibility to any Public Housing Authority (PHA) and nonprofit entities owned by a PHA, thereby making them eligible for a 100 percent property tax exemption on qualifying developments. To assess the likely economic impacts of the Bill, OLO applied affordable housing development finance frameworks to analyze how a property tax exemption would affect the feasibility and financing of PHA projects, given their mission to expand affordable housing.

The Bill would improve Rockville Housing Enterprises (RHE) ability to finance new and preserved affordable housing by reducing operating costs. This would increase net operating income per project and likely make it easier for RHE to secure loans and attract investment. As a result, affordable housing production would likely increase, although the magnitude of this effect is uncertain.

Additionally, increasing the supply of affordable housing would help more low-income residents obtain stable housing at lower cost, thereby increasing net household incomes and reducing the economic costs associated with housing insecurity.

Background and Purpose of Bill 25-25

The County's Payment in Lieu of Taxes (PILOT) program aims "to support the construction and preservation of affordable multifamily rental housing" in the County.[1] A PILOT lowers or completely abates County real property taxes on affordable rental housing projects for a given period. The By Right PILOT is one of three PILOT options offered by the County.[2] This option offers a 100 percent property tax exemption for qualifying housing developments.[3] Currently, the Housing Opportunities Commission (HOC) and non-profit housing developers can qualify for a By Right PILOT. **Figure 1** provides more information on eligibility for the PILOT.

HOC is the only PHA in the County that can qualify for a By Right PILOT. Recent changes to state law now allow other PHAs and affiliated nonprofits to qualify for this PILOT.[4]

The purpose of Bill 25-25 is to update eligibility for the County's By Right PILOT to align with recent changes to state law. If enacted, Bill 25-25 would extend eligibility for the PILOT to any PHA in the County. Further, other

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[1] Payment in Lieu of Taxes (PILOT), Department of Housing and Community Affairs.
[2] Ibid.
[3] Introduction Staff Report for Bill 25-25, Montgomery County Council, Introduced June 17, 2025, pg. 2.
[4] Introduction Staff Report for Bill 25-25, pg. 2.

nonprofit entities owned by a PHA could also qualify for the PILOT. Additionally, the Bill would require the Department of Finance to develop Method (2) regulations to implement the By Right PILOT program.[5,6]

The Council introduced Bill 25-25 on June 17, 2025.

Figure 1. Conditions to Qualify for By Right PILOT

Housing Developer	Conditions to Qualify
Public housing authority (HOC only)	At least 25 percent of the units in property are rented to households making up to 60 percent of the area median income (AMI) for at least 15 years.[7]
Non-profit	At least 50 percent of the units in property are rented to households making up to 60 percent of the AMI for at least 15 years.
Non-profit	All dwelling units in property are subject to Section 8 Project-Based Rental Assistance Payment contract.

Source: Introduction Staff Report for Bill 25-25

Information Sources, Methodologies, and Assumptions

As required by 2-81B of the Montgomery County Code, this Economic Impact Statement evaluates the impacts of Bill 25-25 on residents and private organizations, using the Council's priority economic indicators as the measure. In doing so, it examines whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[8]

Information Sources & Methodology: Although PILOTs and tax exemptions are legally distinct, Montgomery County's By Right PILOTs are functionally similar to tax exemptions because recipients pay no County property taxes.[9] For this reason, OLO reviewed impact evaluations that assess the effects of tax exemptions or abatements for PHAs and nonprofit housing providers.

The existing literature on the effectiveness of property tax incentives for generating affordable housing primarily examines programs targeting individual homeowners, rather than nonprofit institutional actors like PHAs. Comprehensive impact evaluations on the effects of PILOTs or tax exemptions for PHAs and their contribution to affordable housing production remain largely absent.

To assess the likely economic impacts of the Bill, OLO relied on sources explaining affordable housing development finance. Using these frameworks, OLO analyzed how a property tax exemption might affect the feasibility and financing of housing projects developed by PHAs, given their mission to expand affordable housing.

[5] Ibid, pgs. 3-4.
[6] Under Method (2), the Council can approve or disapprove the proposed regulation by Council resolution. If the Council does not vote on the regulation within 60 days, it is automatically approved. Refer to Montgomery County Code § 2A-15.
[7] Clarified by Council staff on June 24, 2025.
[8] Montgomery County Code, "Sec. 2-81B, Economic Impact Statements."
[9] Adam Langley et al., *Payments in Lieu of Taxes by Nonprofits* (Lincoln Institute of Land Policy, 2012).

Scope Limitation: Granting PHAs a full property tax exemption would result in foregone property tax revenue for the County, representing an opportunity cost. Rather than generating new economic activity, this policy would function as an internal fiscal transfer: funds that would have supported other County services or priorities would instead be used to support affordable housing through PHAs. As a result, the overall economic impact of the Bill would depend on both the benefits of the tax exemption to residents and private organizations and the economic trade-offs associated with forgone County revenue. Because OLO cannot determine how the forgone revenue would otherwise have been allocated, this analysis does not assess the impact of alternative public spending.

Variables

The primary variables that would affect the economic impacts of enacting Bill 25-25 are the following:

- Total property tax savings; and
- Net operating income per project.

Impacts

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

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Bill 25-25 would positively impact certain private organizations in the County.

By extending eligibility for the PILOT to any PHA in the County, the Bill would primarily affect RHE, the only active PHA in the County. RHE provides affordable rental and homeownership opportunities to low- and moderate-income individuals and families through public housing, Section 8 vouchers, and other affordable housing developments. To do this, RHE combines public subsidies with private lender financing and equity investments, allowing it to acquire, renovate, and preserve affordable housing communities that might otherwise be at risk of losing their affordability.[10]

The policy change would make RHE—along with future PHAs—eligible to receive a 100 percent property tax exemption for qualifying housing developments. This would likely increase the amount of affordable housing that RHE produces by improving the financing of its future projects. Like developers, PHAs typically secure both debt (bank loans) and equity (investor funds) to cover the total cost of a housing project. If anticipated income and costs do not meet acceptable benchmarks, projects will not be able to secure financing.[11]

Property tax exemptions would reduce RHE's expected operating expenses for projects. Doing so would increase net operating income (NOI) per project, as NOI equals total income minus operating expenses. Higher NOI would mean projects are expected to generate more cash flow from operations each year, which would directly improve their financial metrics.[12]

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[10] Public Information Officer, "Rockville Housing Enterprises Acquires Scarborough Square," *Rockville Reports Online*, May 1, 2023; Rockville Housing Enterprises, *Annual Report 2023* (n.d.), accessed September 9, 2025.
[11] David Garcia et al., *Making It Pencil: The Math Behind Housing Development (2023 Update)* (Terner Center for Housing Innovation, UC Berkeley, 2023); Hanneke van Deursen, "Affordable Housing Finance 101," *Shelterforce*, May 28, 2025; HUD Exchange, *The Affordable Housing Development Process* (n.d.).
[12] Ibid.

These impacts would likely increase private sector capital investment in RHE housing projects:

- In terms of lenders, they require the project's income to exceed loan payments by a set margin, known as the debt service coverage ratio. Because NOI would increase due to tax savings, projects would be more likely to meet or surpass this critical benchmark, making it easier to qualify for and secure necessary loans.[13]
- In terms of equity investors, they want assurances that a project's anticipated returns will compensate for its level of risk. A key metric they use is return on cost (ROC), calculated as NOI divided by total project cost. By lowering operating costs through tax exemptions, the ROC would improve, making projects more attractive to investors.[14]

Importantly, while property tax exemptions could be captured by for-profit developers in the form of higher profits,[15] this is unlikely to occur in the context of RHE and future PHAs. PHAs are nonprofit institutions with a mission focused on expanding affordable housing. Thus, the savings from the property tax exemptions would be reinvested toward advancing their institutional goals rather than captured as profit.

Beyond these impacts, OLO does not anticipate that the Bill would impact private organizations in terms of the Council's other priority indicators.

Residents

OLO anticipates that Bill 25-25 would positively impact certain residents in the County.

The County faces an affordable housing crisis that harms residents. In its five-year strategic plan, HOC projects that demand affordable housing in the County will continue to grow due to population growth, aging population, increasing number of low-income, non-White residents, housing costs rising faster than real income, and other factors.[16] Yet, the County has not built enough affordable homes to keep up with rising demand.[17]

If the Bill increases the supply of affordable housing, as OLO expects, the policy change would benefit low-income residents who secure additional affordable housing. These residents likely would experience lower housing costs than they would if the Bill were not enacted. They may also avoid certain costs associated with

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[13] Ibid.
[14] Ibid.
[15] A study evaluated Washington State's Multifamily Housing Tax Exemption (MFTE) program, which enables local governments to grant property tax exemptions for new, converted, or rehabilitated multifamily residential developments. The program is designed to stimulate both market-rate and affordable housing production. The evaluation found that "MFTE can improve a development's financial performance, as measured by the rate of return on investment." Yet, "it is inconclusive how often the increase in profitability made developments feasible." In other words, while the tax exemption increased the profitability of housing developments, the extent to which this additional profitability resulted in projects being built that would not otherwise have occurred is unclear. This raises the possibility that, in some cases, the benefit of the tax exemption may be captured as higher profits by for-profit developers rather than leading to new housing production. Joint Legislative Audit and Review Committee (JLARC), Washington State Legislature, *Property Tax Exemption for Multifamily Housing in Urban Areas*, 2019 Tax Preference Performance Reviews, Report 19-08 (2019).
[16] Housing Opportunities Commission, *HOC Five-Year Strategic Plan 2024-2029* (n.d.), accessed October 8, 2024, https://www.hocmc.org/about-us/strategic-plan/.
[17] Montgomery Planning, *Montgomery County Housing Needs Assessment* (2020); Natalia Carrizosa, *Housing Units Authorized for Construction by Permit in Montgomery County*, OLO Memorandum Report 2024-10 (Office of Legislative Oversight, Montgomery County Council, 2024).

housing insecurity, which can include loss of wages and employment.[18] All else being equal, these impacts would increase net household incomes of affected residents.

Beyond this potential impact, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Net Impact

OLO anticipates that Bill 25-25 would positively impact overall economic conditions in the County. By making it eligible for a 100 percent property tax exemption on qualifying developments, the Bill would improve RHE's ability to finance new and preserved affordable housing. This reduction in operating costs would increase net operating income per project, thereby making it easier for RHE to secure loans and attract investment. As a result, the policy change is likely to increase affordable housing production, although the magnitude of this effect is uncertain.

Increasing the supply of affordable housing would enable more low-income residents to secure stable housing at lower cost. This improved affordability and stability can boost net household incomes and help residents avoid the economic costs associated with housing insecurity.

Discussion Items

Not applicable

Caveats

Two caveats to the economic impact analysis conducted 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 <u>not</u> represent OLO's endorsement of, or objection to, the Bill under consideration.

Contributions

Stephen Roblin, PhD (OLO) prepared this report.

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[18] Matthew Desmond and Carl Gershenson, "Housing and Employment Insecurity among the Working Poor," *Social Problems* 63, no. 1 (2016): 46–67.