GO/ECON Item #1
March 27, 2025
Worksession Addendum #1

MEMORANDUM

March 26, 2025

TO: Government Operations & Fiscal Policy (GO) Committee
Economic Development (ECON) Committee

FROM: Jim Ogorzalek, Legislative Attorney

SUBJECT: Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments

PURPOSE: **Worksession Addendum #1** – to receive a Committee recommendation

Following the publication of the March 24, 2025, staff report for Expedited Bill 2-25, Councilmembers Friedson and Fani-González transmitted a memorandum to members of the GO and ECON committees proposing two amendments to Expedited Bill 2-25. These amendments would:

1. Increase the affordability requirements from 15% to **17.5%**
2. Reduce the tax abatement term from 25 to **20 years**

The memorandum is incorporated into the staff report at ©A1.

Additionally, staff is recommending a clarifying amendment to align the bill text with the intent of the legislation. Specifically, the amendment clarifies that certain property developments, which might not require site plan review and approval by the Planning Department, are eligible for a payment in lieu of taxes under the legislation if the property's development otherwise complies with certain requirements. The clarifying amendment language is incorporated at © A3

MONTGOMERY COUNTY COUNCIL

ROCKVILLE, MARYLAND

March 25, 2025

Members of the GO and ECON Committees:

The joint GO/ECON committee will be holding a worksession on the vacant office to housing PILOT legislation (Bill 2-25) this Thursday, March 27.

After more than a year of the ECON Committee's careful examination of the state of the county's office market, we designed Bill 2-25 to accomplish two, interrelated goals. We are seeking to incentivize adaptive reuse and repurposing opportunities for highly vacant and obsolete office buildings to ensure the highest and best use of these properties and to address the blight of vacant buildings on communities and on our tax revenues. Our office vacancy rate is high and growing, and we need to tackle it head-on. Additionally, we are trying to galvanize the creation of new housing units to address our housing affordability crisis.

It is important to note that these vacant office buildings are paying very little in property tax as it is given the way commercial property is assessed by the State Department of Assessments and Taxation, and they will be paying even less into the future as they depreciate in value once they are reassessed or their tax bills are appealed. For context, the assessed value of office real estate is only 6% of total assessed value in the County[1], and these vacant buildings represent a mere fraction of that. With redevelopment into multi-family housing, the County will be receiving new impact taxes for schools and transportation, new income taxes from the new residents, and new fees, not to mention the spillover effects of new construction jobs and increased economic activity at local merchants. Moreover, at the end of the PILOT term, the property tax receipts from that building will be significantly higher due to the considerable rise in value relative to the vacant office building.

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[1] SDAT. See here:
https://montgomerycountymd.granicus.com/MetaViewer.php?view_id=169&clip_id=16888&meta_id=164020

Following conversations with Councilmembers, central staff, stakeholders, and in light of the real-world experience of our neighboring jurisdictions who have already enacted similar policies, we believe several adjustments would strengthen Bill 2-25 without undermining its purpose and benefits. The amendments seek to balance the value of the incentive within our constrained fiscal environment and to further our other policy goals of increasing affordable housing and streamlining regulatory processes.

1. **Increase affordability requirements to 17.5%**

   We are proposing to **increase the minimum MPDUs to 17.5%**. As a matter of comparison, the Downtown DC Tax abatement program only requires 10% affordable units.

2. **Reduce the term of the tax abatement to 20 years**

   We are proposing to **reduce the term to 20 years**, which represents the lower end of DC's tax abatement programs which range from 20 to 40 years.

As introduced, vacant office buildings which convert or redevelop into housing (greater than 20 units) would be required to provide a minimum of 15% moderately priced dwelling units (MPDUs) and vacant buildings could be eligible for the property tax abatement for a period of 25 years.

Together, these amendments will allow us to move forward with a significant effort to tackle our office vacancy challenges that are holding back our local economy and address our housing needs to support our county residents.

Sincerely,

Andrew Friedson	Natali Fani-González
Councilmember, District 1	Councilmember, District 6

Bill 2-25E

Council Staff Proposed Clarifying Amendment #1

Amend lines 31–54 to read:

(4) owned or controlled by a person engaged in constructing or operating housing structures or projects if:

(A) the property receiving the payment in lieu of taxes is converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to either the **[[**Department of Permitting Services or**]]** Planning Department or, if the property's development does not require site plan approval from the Planning Department, Department of Permitting Services pursuant to Section 3.3.2.B of Chapter 59;

(B) the property's development meets all the requirements of an expedited approval plan under Section 7.3.5 of Chapter 59, except that if a property's development does not require site plan approval from the Planning Department it is not required to meet the requirements of an expedited approval plan but must obtain the building permit within 2 years of acceptance by the Department of Permitting Services of the building permit application that includes the core and shell of the principal building; and

(C) at least 15 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.