

MEMORANDUM

March 20, 2003

TO: County Council
FROM: *CHL*
Charles H. Sherer, Legislative Analyst
SUBJECT: Recommendations from the Management and Fiscal Policy Committee regarding the resolution on dedicated funding for affordable housing

Committee recommendation and discussion Mrs. Praisner and Mr. Andrews recommend not approving the resolution. Mr. Denis recommends approving it.

1. Mr. Denis stated that this resolution is both historic and important. Housing is an essential component of the quality of life, and the lack of affordable housing in the County forces many people who are employed in the County to live elsewhere, which contributes to traffic congestion. Funding is particularly vulnerable during periods of low revenue growth and the Council should formalize its support by dedicating funding for affordable housing.
2. Mrs. Praisner and Mr. Andrews share Mr. Denis's commitment to affordable housing and appreciate the work that housing advocates have done to maintain and expand the affordable housing supply. They note that the Council has shown great commitment in the past. However, they do not believe that dedicating funding from general fund sources is good public policy, believing instead that all funding allocations should be scrutinized closely each year, rather than permitting certain allocations to be made without competing with other uses.
3. The Committee was informed that roughly \$9 million in FY 04 represents property taxes that will not be collected, because of abatements through the Payment in Lieu of Taxes program (PILOT). These abatements are for providers of affordable housing and represent a use of funds that also does not compete with other uses.

Background The Montgomery Housing Initiative Fund (MHI) is administered by the Department of Housing and Community Affairs (DHCA). The purpose of the MHI is to maintain and expand the supply of affordable housing in the County. MHI provides funding for the acquisition, construction, or rehabilitation of affordable multi-family housing projects. Since its inception in 1989, DHCA has

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approved 91 loans supporting the acquisition, construction, or rehabilitation of 5,756 affordable housing units.

In the FY 01 budget, the MHI had resources of \$6.993 million. In the FY 02 budget, resources increased to \$15.131 million as a result of the Executive's decision reflected in Executive Order 136-01 "to ensure the availability of \$15 million or 2.5 percent of actual General Fund property taxes for two years prior to the upcoming fiscal year, whichever is greater." The Executive continued his policy in FY 03 and the Council approved resources at that level. For both fiscal years 02 and 03, the Council approved the Executive's recommended resources but did not adopt any policy specifying any minimum level of funding. OMB explained that "For FY04, the Executive's budget retains the minimum funding level at 2.5 percent which increases the available resources to \$16.1 million."

On March 11, 2003, the Council introduced the attached resolution, sponsored by 6 Council members (©1). It states that "The County Executive will recommend and the Council will approve, in future fiscal years beginning with FY04, an allocation from the General Fund to the Montgomery Housing Initiative Fund (MHI) of an amount sufficient to ensure the availability in the MHI Fund of \$16.1 million or the equivalent of 2.5 percent of actual General Fund property taxes from two years prior to the upcoming fiscal year, whichever is greater, for the purpose of maintaining and expanding the supply of affordable housing in Montgomery County." This is similar to the language in the Executive Order.

To understand the resolution, note the following points:

1. The Executive already has stated his intent to recommend the above allocation (also referred to as a "transfer) from the General Fund each year. As noted above, for both fiscal years 02 and 03, the Council approved the Executive's recommended resources but did not adopt any policy specifying any minimum level of funding. The resolution adds the requirement that the Council approve that allocation. The resolution does not specify a minimum amount of spending.
2. The MHI has several resources, in addition to a transfer of resources from the General Fund: beginning fund balance, County land sale proceeds (25% of proceeds transferred to MHI), investment income, mortgage repayments, and perhaps various miscellaneous resources. The total of all resources would have to be at least the greater of \$16.1 million or 2.5% of actual General Fund property taxes from 2 years prior to the upcoming fiscal year. For example, suppose 2.5% of actual General Fund property taxes from 2 years ago equaled \$17.0 million, and resources other than the General Fund transfer were projected to be \$3.0 million. Then the projected transfer from the General Fund would be \$14.0 million. The spreadsheet on ©4 shows projections for the MHI, based on this policy.

The last row shows the amount of the transfer from the General Fund if other resources = zero.

3. OMB set the fund balance policy at 6-7% of resources. If resources were estimated to be \$17.0 million, then the target fund balance would have to be at least \$1.020 million, leaving \$15.980 million for expenditures.
4. The resolution does not specify that property tax should be dedicated or transferred. The amount of property tax is used in calculating the minimum amount of resources the MHI must have each

MEMORANDUM

March 10, 2003

To: Councilmembers
From: Steven A. Silverman, Council Vice President
Subject: Resolution on Dedicated Funding for Affordable Housing

I am proposing the attached Resolution on Dedicated Funding for Affordable Housing. It states that the Executive will recommend and the Council will approve in future years an amount of funding for the Housing Initiative Fund equal to \$16.1 million or 2.5% of General Fund property taxes, whichever is greater.

As Councilmembers know, the County Executive has supported this approach for two years. I am pleased that Councilmembers Denis, Floreen, Knapp, Leventhal, and Perez have agreed to cosponsor this Resolution.

I believe that the commitment expressed in this Resolution will help ensure continued funding for the affordable housing our families and workforce so desperately need.

I look forward to our continued work together to provide affordable housing for our residents and seek your support for this Resolution. I anticipate consideration of the Resolution during our budget deliberations this spring.

Attachment

Misc.03/03/packetmemodicated funding

year, but the transfer from the General Fund comes from the aggregate of General Fund resources, not from any one specific resource.

5. As a minor technical matter, of interest only to someone trying to calculate the 2.5% amount, "General Fund property taxes" is the sum of several items, as shown on ©5.

Various other local governments have funds similar to the MHI (©6). The rationale for the MHI is well explained in the resolution. Note that such policies have the result that housing expenditures do not compete for funding with other important expenditures, which slightly reduces the Council's flexibility in setting budgets.

Contents:

©	Item
1	Memorandum introducing the resolution
2	Resolution
4	Spreadsheet showing projected budgets for the MHI
5	Excerpt from the Executive's Recommended Operating Budget showing the General Fund property tax
6	Examples of housing trust funds

7. The Montgomery Housing Initiative is the foremost funding mechanism for County participation in the financing of needed affordable housing, and has leveraged other public and private financing at a ratio of seven dollars for every Housing Initiative dollar spent.
8. The Montgomery Housing Initiative is used to assist in the creation of new affordable and market rate housing, preservation of the County's threatened affordable housing resources, and renovation and rehabilitation of deteriorated rental housing facilities.
9. Funding for the Montgomery Housing Initiative is of countywide significance, and is used to promote the County's goals in all areas of Montgomery County.
10. Dedicated funding for the Montgomery Housing Initiative will provide a dependable and on-going source of fiscal resources to preserve and expand affordable housing opportunities in Montgomery County, and will foster the implementation of the goals of the County's Housing Policy and the continued economic and social well-being of Montgomery County.

Action

The County Executive and the County Council for Montgomery County, Maryland approve the following resolution:

The County Executive will recommend and the Council will approve, in future fiscal years beginning with FY04, an allocation from the General Fund to the Montgomery Housing Initiative Fund (MHI) of an amount sufficient to ensure the availability in the MHI Fund of \$16.1 million or the equivalent of 2.5 percent of actual General Fund property taxes from two years prior to the upcoming fiscal year, whichever is greater, for the purpose of maintaining and expanding the supply of affordable housing in Montgomery County.

Michael Subin, President
Montgomery County Council

Douglas M. Duncan
County Executive

This is a correct copy of Council action.

Mary A. Edgar, CMC
Clerk of the Council

Resolution No.:

Introduced:

March 11, 2003

Adopted:

March 25, 2003

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Council Vice-President Steven Silverman at the Request of the County Executive and
Councilmembers Denis, Floreen, Knapp, Leventhal, Perez

Subject: Dedicated Funding for Affordable Housing

Background

1. In Montgomery County, increasing demands for rental housing, low vacancy rates, diminishing land supply, and increasing housing costs are causing an acute shortage of housing for low and moderate income Montgomery families, workers, and persons with special needs.
2. The diverse characteristics of individuals and families in need of affordable housing in Montgomery County necessitate the preservation and construction of affordable housing meeting the specific needs of seniors, persons with disabilities, low-wage workers, and those who have been homeless.
3. The Housing Policy for Montgomery County calls for the availability of housing opportunities for all income levels in all areas of the County.
4. The availability of adequate housing opportunities is a basic component of the quality of life in a community. The lack of housing, especially affordable housing, contributes to:
 - (i) an increase in traffic congestion as non-residents commute to jobs in the County;
 - (ii) a lack of diversity in our neighborhoods and schools;
 - (iii) limitation on the availability of a resident work force to support continued economic growth in the County; and
 - (iv) a general decrease in the quality of life for Montgomery County residents.
5. The maintenance of a housing stock that is affordable to all income levels, from senior management and professional positions to entry level and service industry employees, is critical to the continued health of Montgomery County's economy.
6. Neither private financial institutions nor Federal and State government financing programs for multifamily housing are currently sufficient to meet the funding needs for the production of affordable rental housing in Montgomery County.

HOUSING INITIATIVE FUND

Row	Item	2003 Approved	2004	2005	2006	2007	2008	2009
5	General Fund property tax 2 years ago	623,819,661	644,523,032	692,317,000	762,180,000	826,710,000	904,934,000	992,382,000
6	2.5 % of GFPT = Minimum resources	15,595,490	16,113,080	17,307,930	19,054,500	20,667,750	22,623,350	24,809,550
7								
8	- Reserve from end of prior fiscal year	1,070,000	2,392,480	1,159,390	1,103,650	1,107,840	1,116,300	1,129,120
9	- Other revenues	2,601,110	1,344,260	882,250	978,100	1,867,740	1,111,270	1,121,270
10	= Transfer from General Fund	11,924,380	12,376,340	15,266,290	16,972,750	17,692,170	20,395,780	22,559,160
12	Transfer from General Fund if other resources = zero (row 6)	15,595,490	16,113,080	17,307,930	19,054,500	20,667,750	22,623,350	24,809,550

Row 5 From Finance worksheets
 Rows 8-9 From page 61-8 in the Executive's FY 04 Operating Budget

38

SCHEDULE C-3

Revenues Detailed By Agency, Fund and Type

	Actual FY02	Budget FY03	Estimated FY03	Recommended FY04	% Chg Bud/Rec
TAX SUPPORTED					
MONTGOMERY COUNTY GOVERNMENT					
County General Fund					
Taxes					
Property Taxes					
Countywide Tax	637,224,819	684,607,950	691,466,520	766,308,560	11.9%
Storm Drainage Tax	2,195,181	2,337,930	2,350,320	2,504,720	7.1%
Mid Cycle Reassessment Loss	0	-4,000,000	-4,000,000	-6,898,000	72.5%
New Business Incentive Tax Credit	0	-2,800,000	-2,000,000	-4,000,000	42.9%
County Homeowner Tax Credit Program	0	-900,000	-600,000	-600,000	-33.3%
Property Tax Relief Credit	0	-100,000	-100,000	-100,000	—
Penalties and Interest on Taxes	3,295,829	2,577,530	3,200,000	2,964,580	15.0%
Collection of Delinquent Taxes	0	2,200,000	2,000,000	2,000,000	-9.1%
Prior Year Tax	1,807,203	1,000,000	0	0	—
Other Taxes					
County Income Tax	644,523,032 866,996,269	827,330,000	784,005,000	837,660,000	1.2%
Transfer Tax - Controlling Interest	0	0	0	10,000,000	—
Real Property Transfer Tax	80,897,902	71,630,000	87,390,000	78,590,000	9.7%
Recordation Tax	51,187,172	57,350,000	77,480,000	62,550,000	9.1%
Energy Tax	22,415,629	24,440,000	23,240,000	23,520,000	-3.8%
Telephone Tax	7,174,081	8,020,000	7,190,000	7,330,000	-8.6%
Hotel/Motel Tax	11,067,869	12,450,000	13,100,000	13,510,000	8.5%
Admissions Tax	3,046,614	3,040,000	3,150,000	3,260,000	7.2%
Tobacco Tax	284	0	0	0	—
TOTAL TAXES	1,687,308,852	1,689,183,410	1,687,871,840	1,798,599,860	6.5%
Licenses & Permits					
Business Licenses					
Traders Licenses	684,284	665,000	685,000	685,000	3.0%
Clerk of the Court Business Licenses	184,646	184,000	184,000	184,000	—
Burglar Alarm Licenses	46,800	42,000	56,700	76,000	81.0%
Other Business Licenses	112,956	3,992,560	3,786,980	3,911,210	-2.0%
Public Health Licenses	1,937,625	1,881,590	1,937,440	1,884,590	0.2%
Liquor Licenses	1,212,402	1,179,000	1,213,000	1,432,000	21.5%
Non-Business Licenses					
Residential Parking Permits	121,243	155,000	73,780	146,280	-5.6%
Marriage License\Ceremony Fees	64,221	67,000	67,000	67,000	—
Marriage Licenses-Battered Spouses	286,794	280,000	286,790	280,000	—
Other Non-Business Licenses	25	0	0	0	—
Pet Animal Licenses	206,711	335,000	236,700	250,000	-25.4%
TOTAL LICENSES & PERMITS	4,857,707	8,781,150	8,527,390	8,916,080	1.5%
Charges for Services					
Telecommunication	75,817	0	100,000	100,000	—

ATTACHMENT E: Memo to M. Wellington regarding age restricted MPDUs, August 17, 2004.