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THE MARYLAND HOUSE OF DELEGATES
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Testimony in Support of HB 585
Property Tax - Low-Income Housing Tax Credit - Valuation of Property

This bill would help affordable housing units to come to market more quickly and at lower costs. More affordable housing is desperately needed, as Maryland currently lacks 85,000 affordable housing units, with an additional 97,000 units needed by 2030.[1]

HB 585 would help streamline the real property tax assessment process for affordable housing projects that receive the federal Low-Income Housing Tax Credit (LIHTC) by requiring SDAT's county assessors to value such projects based upon their net operating income with an upward capitalization rate adjustment of 1.5% to 2%.

This bill simply codifies standards that are already set in SDAT's Assessment Procedure Manual for LIHTC properties. Those standards include:

- A requirement that assessors apply an income approach rather than a cost approach when valuing LIHTC properties.
- A requirement that assessors not consider the value of LIHTC credits as income attributable to real property.
- A guideline that assessors use capitalization rates 150 to 200 basis points (i.e. 1.5%-2%) higher than those applied to conventional multifamily properties.

Several other states have codified similar LIHTC-specific assessment procedures,[2] recognizing that these projects face delicate financing arrangements and operate on thin margins by nature of the affordability restrictions mandated under federal law.

The bill is needed to address several issues Maryland's affordable housing developers have identified as roadblocks to the construction of affordable housing. Of particular concern is that county assessors do not always follow the guidelines in SDAT's Assessment Procedure Manual. Some of the issues developers have identified include:

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[1] "Maryland Housing Needs Assessment & 10-Year Strategic Plan." National Center for Smart Growth and Enterprise Community Partners, Inc. Report commissioned by the Maryland Department of Housing and Community Development. https://dhcd.maryland.gov/Documents/Other%20Publications/Report.pdf
[2] Arizona, Illinois, Iowa, Missouri, New York.

- Assessors not following the requirement to use an income approach to valuation, instead valuing LIHTC properties based on construction or permitting costs;
- Assessors not following the Manual's guideline to use capitalization rates 150-200 basis points higher than those for conventional multifamily properties;
- Assessors failing to recognize that properties were approved for LIHTC financing, instead valuing them as if they were market-rate multifamily properties.

Collectively, these issues have led certain affordable housing projects to be assessed at inaccurate, inflated values that do not properly reflect their LIHTC status, requiring developers to file appeals. Appeals are often costly and time-consuming to conduct. The appeal process can take over a year to complete, which puts affordable housing projects – which rely on highly delicate financing arrangements – in jeopardy of falling through. Lengthy appeals have forced some affordable housing developers into tax sale or into large loans to keep projects afloat, simply because assessors failed to properly value properties based on their LIHTC status.

This bill would streamline the assessment process for LIHTC projects by accurately reflecting their encumbered status, thereby lessening the need for developers to file appeals. This would help address our state's affordable housing crisis by allowing affordable housing units to come to market more efficiently.