A New Way to Finance Affordable Housing in Frederick County

By Gary Bennett and Hugh Gordon, members, Frederick County Affordable Housing Council.

In our last affordable housing column, we talked about all they ways developers scramble to fully fund affordable housing projects. This is important because a project is not feasible unless it covers 100% of its funding gap.

That is why Frederick County and the State of Maryland try to be aggressive when helping affordable housing developers. The county and state often step in with funding options such as:

- Waivers or deferrals of impact of fees charged to buyers that meet income requirements for affordable housing purchases from a developer.
- Loans from Frederick County's Housing Initiative Fund's (HIF) Deferred Loan Program. The purpose of this fund is to provide flexible loans to support affordable housing in Frederick County.
- Maryland's Department of Housing and Community Development's (DHCD) nearly $24 million in federal funding to provide gap financing to affordable housing projects statewide in the form of HUD's HOME Investment Partnerships American Rescue Plan Program (HOME-ARP).
- County guidance in using "rental housing works," a fund through DHCD providing $3.5 million in gap funding.
- The use of some county owned-land for affordable housing projects combined with a federal loan for pre-development costs thereby reducing two key costs.

Other funding possibilities in various stages of discussion and could come online in the future include:

- Implementing a Frederick County Rental Registration and Inspection Program to mimic the one Frederick city has in place and using the proceeds for rental assistance and affordable housing projects.

- Waiving development fees for housing projects meeting certain income requirements.

- Increasing the portion of the County Recordation Tax revenue going into the Housing Initiative Fund, which is then used to support affordable housing projects.

IDAs and TIFs

Even more creative help may be on the way soon.

The Affordable Housing Council wholeheartedly supports a push for enabling legislation to allow Frederick County to expand the use of funds under the State of Maryland's Industrial Development Authorities (IDAs) to include affordable housing.

IDAs were created long ago to establish an entity that captures future tax growth for an area slated for development and reinvests it. It has been used mostly for industrial parks. It was never intended for affordable housing but could be used for that purpose in the future. Prince George's County has this authority now.

If enacted, the County Council would create the tax capturing entity, adopt a project area plan and how the funds can be used in that area. The board of the new entity would then approve specific projects like affordable housing.

This would be an important new revenue source for affordable housing projects. It has the possibility to be the gap financing that allows new projects to happen faster.

IDAs are based on well-established tax increment financing (TIF) districts. TIFs have been used in the past as a mechanism to fund public infrastructure improvements in connection with private development projects.

In the affordable housing realm, TIFs could be used for infrastructure needs for site readiness such as water, gas, and sewerage. Items like these need to be ready and paid for before an affordable housing project kicks off. As we've said before, tax credits are fine but developers need money upfront.

How do TIFs provide financing?

Under the TIF process, special obligation debt would be issued by the county to provide funding for infrastructure improvements benefiting a certain district. The incremental future real property tax revenues are pledged to the repayment of the special obligation debt. There will be incremental real property taxes created because the assessed value of the TIF district properties increases as a result of the planned new infrastructure.

Because only a portion of the future incremental tax revenue is pledged to repay the debt service, the TIF structure allows the county to continue to receive the tax revenue today that existed prior to the new development and to also receive today the future tax benefit of the project to fund the project.

It is important to note that this is not a new tax on citizens. The plan takes the place of issuing bonds.

Currently in Frederick County, commercial entities are responsible for 22% of the tax base. Citizens pay the rest. We cannot bring in more commercial development unless we have more affordable housing.

The plans for future housing development in the South Frederick Corridor is a specific example where this could work well since developers know the county plans to add value by creating affordable housing there.

Frederick is not alone. Many Maryland counties have expressed interest in this type of affordable housing funding.

A bill has been drafted to allow TIF districts in Frederick County and other counties to be used for more than industrial development. It is before the legislature's Ways and Means Committee right now. Delegate Fair and Senator Lewis-Young are supportive now. Maryland Secretary of Housing Day and Maryland's Affordable Housing Coalition are also supportive of this.

Financing for affordable housing projects is intricate and arcane, but the more you know, the better you can help us advocate for creative financing that gets these critical projects off the ground. If we don't, we'll have few options for our children and parents to live in Frederick County, and economic development will suffer as a result.