Angela D. Alsobrooks
County Executive

PRINCE GEORGE'S COUNTY GOVERNMENT

OFFICE OF THE COUNTY EXECUTIVE

September 8, 2021

The Honorable Calvin S. Hawkins, II, Chair
Prince George's County Council

The Honorable Joanne C. Benson, Chair
Prince George's County Senate Delegation

The Honorable Erek L. Barron, Chair
Prince George's County House Delegation

Dear Chairs Turner, Benson and Barron:

In accordance with Chapter 431 of the 2003 Laws of Maryland, I have enclosed a copy of the report entitled *The Annual Report on School Facilities Surcharge in Prince George's County – FY 2021 Report*. Although the school facilities surcharge has been in effect since FY 1997, it did not exist in its current form until FY 2004 when separate surcharge rates were established for housing built inside and outside of the beltway. Beginning with FY 2005, surcharge rates have increased incrementally each year, according to the State law that mandates the annual adjustment, based on the Consumer Price Index. The report briefly covers the administration of the school facilities surcharge process, the amount of fees collected, an itemization of expenditures, and the accumulated surcharge balance for FY 2021.

I want to thank the Office of Management and Budget, the Department of Permitting, Inspections and Enforcement and the Office of Finance for providing the school surcharge-related information and preparing the report.

If you have any questions, please contact me.

Sincerely,

Angela Alsobrooks

Angela D. Alsobrooks
County Executive

Enclosure

cc: Members, Prince George's County Council
Members, Prince George's County Senate Delegation
Members, Prince George's County House Delegation

The Annual Report on School Facilities Surcharge in Prince George's County

FY 2021 Report

Background

The school facilities surcharge has been in effect since FY 1997 but did not exist in its current form until FY 2004 when separate surcharge rates were established for housing built inside or outside of the beltway by Chapter 431 of the 2003 Laws of Maryland (HB 487). Beginning with FY 2005, surcharge rates have grown incrementally annually, per State law based on the Consumer Price Index. Section 10-192.01(g) of Article 17 – Public Local Laws of Maryland requires the Prince George's County Executive to prepare an annual report on the school facilities surcharge to the Prince George's County Council, the County's Senate Delegation, and the County's House Delegation. The report shall include (1) accountability measures undertaken by the County, (2) the amount of fees collected, and (3) an itemization of expenditures.

The County's Department of Permitting, Inspections and Enforcement (DPIE) administers the school facilities' surcharge collection process. Effective July 1, 2020, the school facilities surcharge fee was established at $9,770 for buildings located between Interstate Highway 495 and Washington, D.C. or abuts an existing or planned Metro station and $16,748 for all other locations. Under State law, the surcharge does not apply to:

- a mixed retirement development or elderly housing;

- a single-family, detached dwelling that is:
    - built or subcontracted by an individual owner in a minor subdivision, with the intent of using it as the owner's personal residence;
    - Replacing a dwelling on the same lot that was destroyed;
    - located in a residential revitalization project, and;

        - is in the developed tier as defined in the County General Plan;
        - is in a Transforming Neighborhoods Initiatives Area;
        - is on the same property as previously existing multi-family dwelling units;
        - is developed at a lower density than previously existing multi-family units;
        - is offered for sale only on a fee simple basis; and
        - is located on a property that is less than 6 acres in size;

- a multi-family housing designated as:
    - student housing within the campus of Capitol Technology University;
    - student housing within 1 mile of Bowie State University;
    - graduate student housing designated by the City of College Park (which may be reversed within 60 days of designation by County Council Resolution);
    - undergraduate student housing west of U.S. Route 1, North of Knox Road, and south of Metzerott Road, upon the recommendation of the City of College Park;

- a studio or efficiency apartment located within:

    - Regional Transit Districts & Local Centers as defined by the County General Plan;
    - an Approved Transit District Overlay Zone; or
    - one-quarter mile of a Metro or MARC station if there is no approved Transit Overlay Zone.

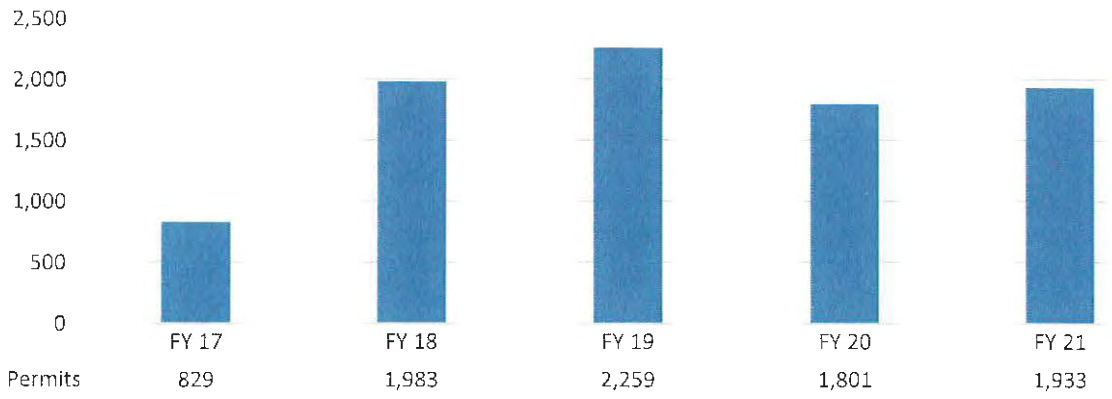
- The surcharge shall be reduced by 50% for multi-family housing units that:

    - was issued a building permit after April 1, 2019;
    - is within an Approved Transit District Overlay Zone; or
    - is within one-quarter mile of a Metro or MARC station if there is no approved Transit Overlay Zone.

Fiscal Year 2021 Permit Activity

DPIE issued 1,933 new residential building permits (single-family dwellings[1]), an increase of 132 permits, or -7.3% above the FY 2020 level. **Exhibit 1** shows the numbers of permits issued from FY 2017 to FY 2021. In FY 2021 an average of 161 permits were issued monthly, which is approximately the average monthly level for the past four years.

Exhibit 1
Single-Family House Permits Issued
FY 2017-2021

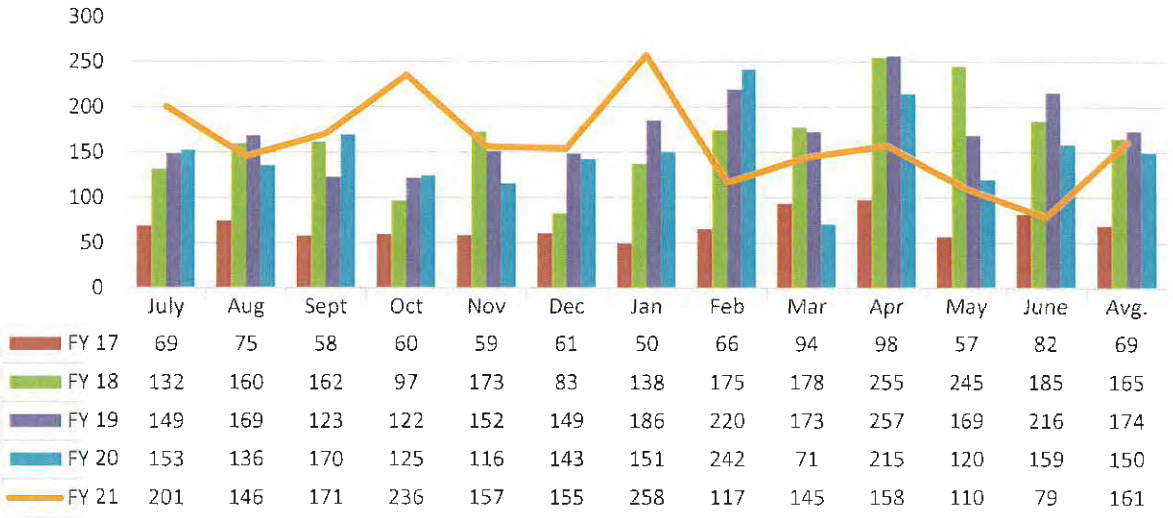


Source: Department of Permitting, Inspections and Enforcement

[1] Single-family houses constitute the majority of the residential building permits issued by DPIE. The number serves as an important indicator but cannot directly calculate school surcharge revenue because: (1) the timing of surcharge collection and permit issuance differs; (2) the number of permits includes revisions, which do not generate school surcharge revenue; and (3) the number does not include other types of residential housing, which generate school surcharge revenue based on the number of units instead of the number of permits. The increase reflected herein is as a result of all residential zoning districts being incorporated into the total.

Exhibit 2 illustrates the comparison of monthly permits issued from FY 2017 to FY 2021.

Exhibit 2
Monthly Single-Family House Permits Issued
FY 2017-2021



	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Avg.
FY 17	69	75	58	60	59	61	50	66	94	98	57	82	69
FY 18	132	160	162	97	173	83	138	175	178	255	245	185	165
FY 19	149	169	123	122	152	149	186	220	173	257	169	216	174
FY 20	153	136	170	125	116	143	151	242	71	215	120	159	150
FY 21	201	146	171	236	157	155	258	117	145	158	110	79	161

Source: Department of Permitting, Inspections and Enforcement

FY 2021 Fees Collected

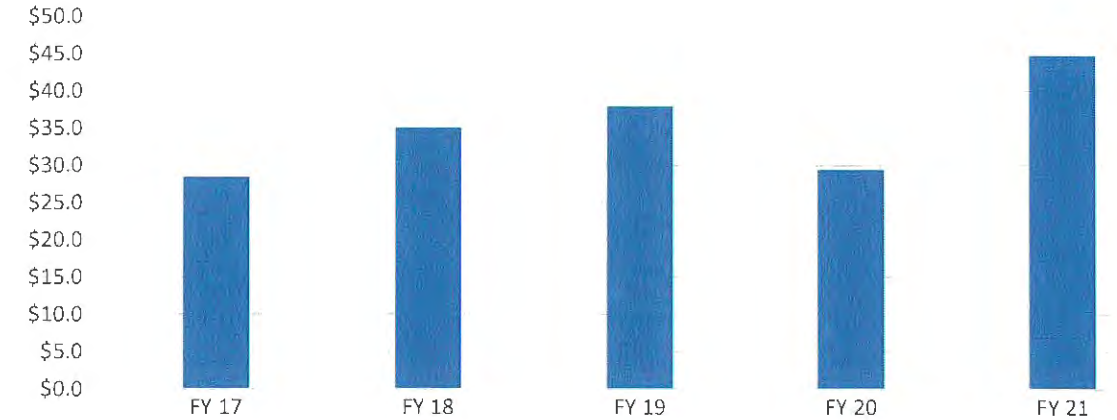
The County collected approximately $44.8 million in school facilities surcharge revenues in FY 2021, which represents a $15.3 million, or 52.0% increase compared to the FY 2020 collection of $29.5 million. **Exhibit 3** provides the historical trend for school facilities surcharge revenues collected by the County during the past 5 fiscal years.

FY 2021 Expenditures

$43.0 million of school surcharge revenue was spent on FY 2021 debt service for bonds issued for various school construction projects. Since FY 2000, the County has been using the school surcharge revenues to support a portion of new debt issued for school projects. **Exhibit 4**[2] shows the annual expenditures from the school facilities surcharge account for the past 5 fiscal years.

[2] Historical data is sometimes updated to reflect audited numbers.

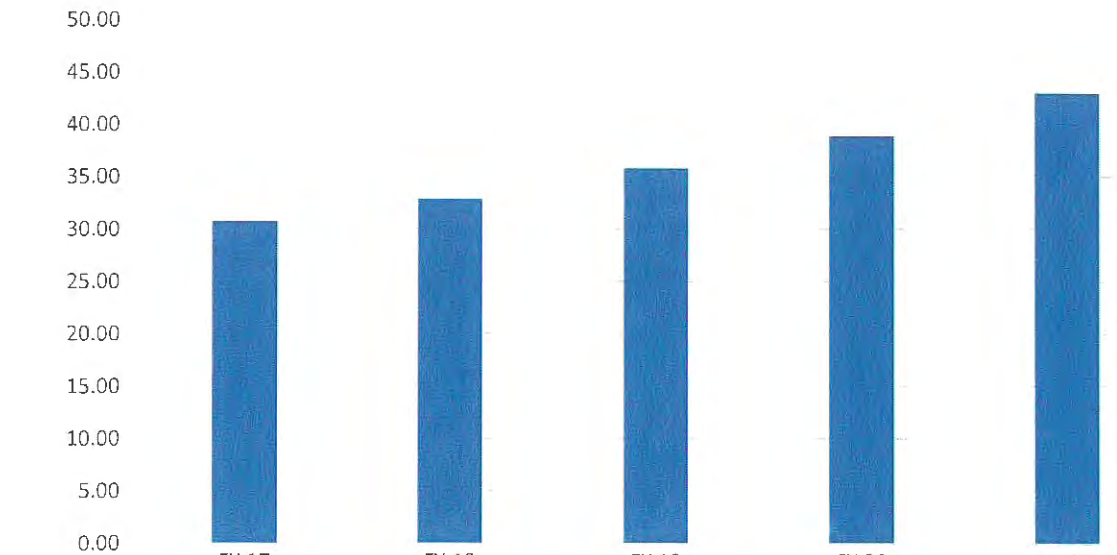
Exhibit 3
School Surcharge Revenue
FY 2017-2021



	FY 17	FY 18	FY 19	FY 20	FY 21
Revenues	$28.5	$35.1	$38.0	$29.5	$44.8

Source: Department of Permitting, Inspections and Enforcement

Exhibit 4
School Surcharge Expenditures
FY 2017-2021



	FY 17	FY 18	FY 19	FY 20	FY 21
Expenditures	30.77	32.90	35.82	38.94	43.03

Source: Office of Finance

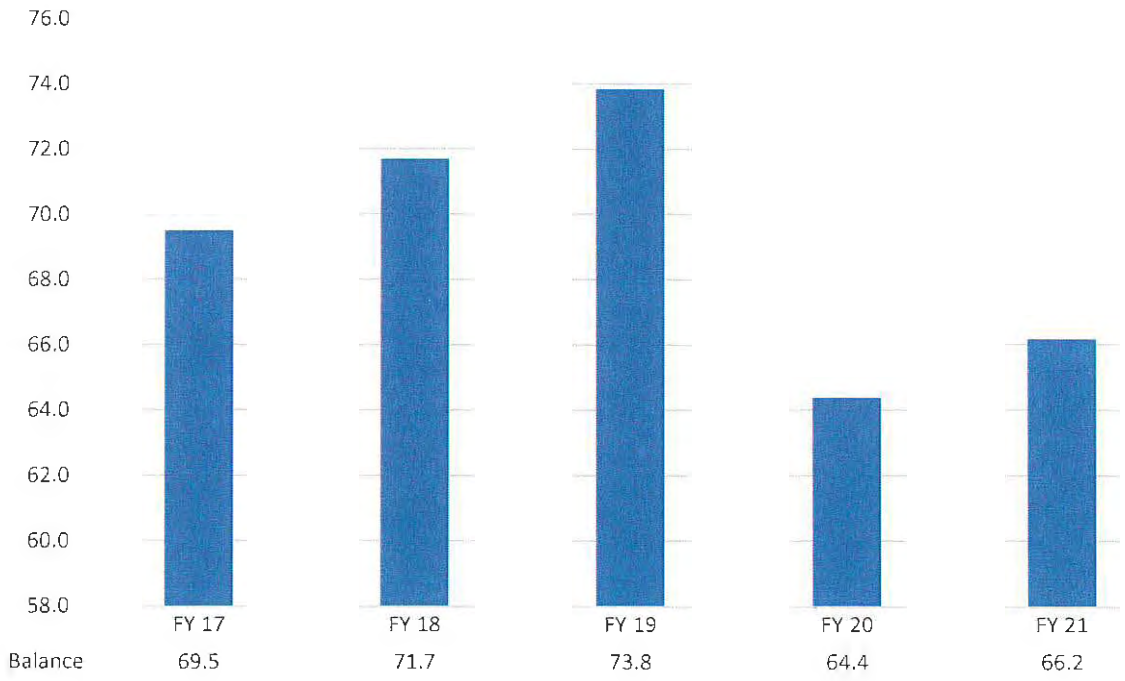
Outstanding Debt

As of June 30, 2021, the County has an estimated $424.8 million in school surcharge-supported outstanding General Obligation (GO) bonds.

Accumulated School Facilities Surcharge Balance

The estimated accumulated balance in school facilities surcharge revenues as of June 30, 2021 is of $66.2 million. **Exhibit 5** shows the accumulated balance history. The exhibit shows a large drop in fund balance in FY 2020 when $9.5 million more was spent on debt service than was collected in surcharge revenue.

Exhibit 5
School Surcharge Accumulated Balance
FY 2017-2021



Source: Office of Finance

Forecast

County policy has been to apply school surcharge revenue to 60% of the GO bonds for the Board of Education (BOE) in the Capital Improvement Program (CIP). **Exhibit 6** illustrates the proposed GO bond issuances in the FY 2022 Proposed CIP for the BOE and 60% of the total which would be supported entirely by the school surcharge.

Exhibit 6
Proposed School Surcharge GO Bond Issuance
FY 2022-2027

	FY 2022 Proposed BOE CIP GO	60% of BOE in the CIP
FY 2022	114,749,000	68,849,400
FY 2023	142,322,000	85,393,200
FY 2024	136,818,000	82,090,800
FY 2025	122,531,000	73,518,600
FY 2026	122,349,000	73,409,400
FY 2027	133,432,000	80,059,200

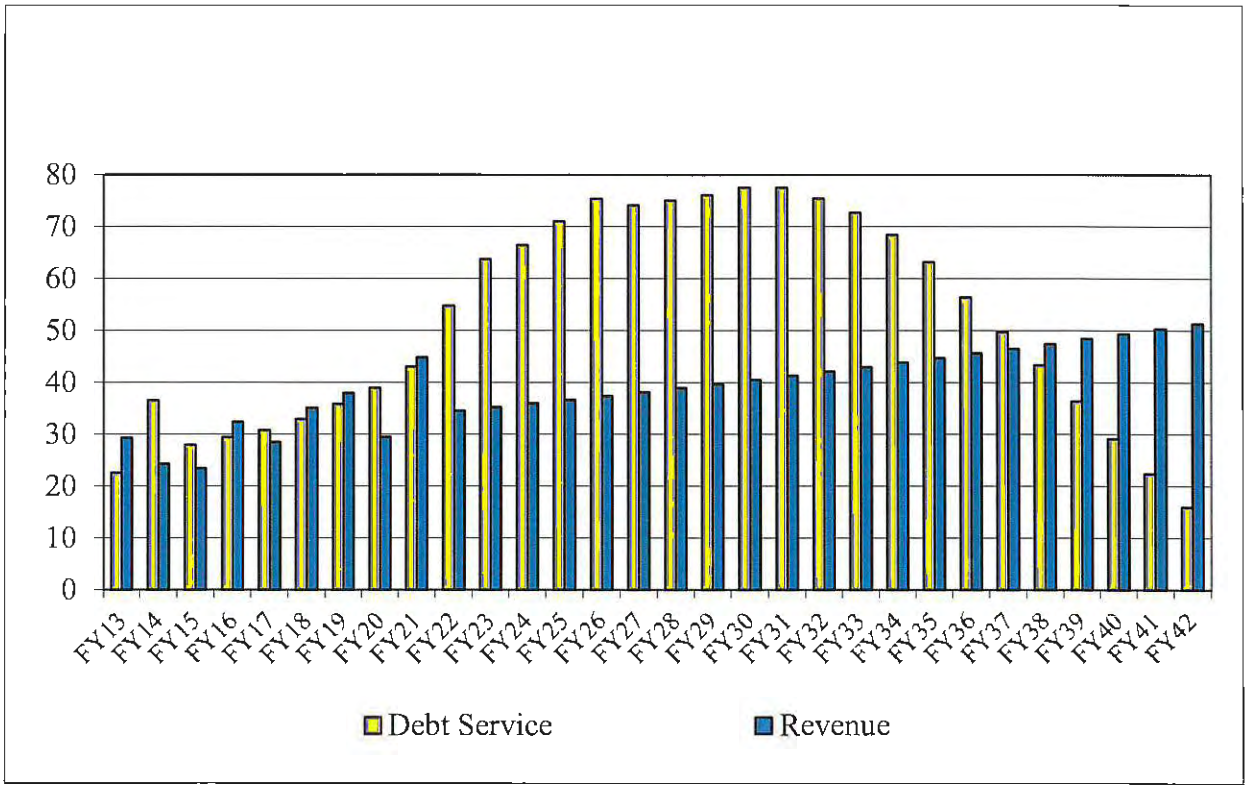
Source: Office of Management and Budget

Assuming a 20-year term and the typical principal retirement schedule used by the County, principal and interest payments on this issuance stream would peak at $48.5 million in FY 2033. Combined with debt service on previously issued school surcharge-dedicated GO bonds, principal and interest payments would increase to $77.5 million in FY 2031 before decreasing. This forecast does not assume any additional issuance of school surcharge bonds after FY 2027 as detailed below.

Although $44.8 million in school surcharge revenue was paid in FY 2021, it is assumed that this amount will decrease in the current fiscal year based on the assumption of 2,500 building permits (which is consistent with current levels) multiplied times a weighted average of the two surcharge rates based on the most recent data from DPIE (91.5% outside the beltway and 8.5% inside the beltway). The surcharge is increased 2% annually in the forecast. **Exhibit 7** shows the relationship of project surcharge revenue to debt service under the bond issuance stream envisioned in the FY 2022 CIP. As shown, debt service would exceed surcharge revenue from FY 2022 through FY 2037 and would require general fund subsidies. Surcharge-backed bonds could again be issued based on the positive surcharge balance in FY 2034.

The disparity between surcharge revenue and debt service is better illustrated in **Exhibit 8**, which shows the accumulated balance in the school surcharge fund. Since the fund cannot run negative balances the exhibit illustrates the level of general fund support needed to pay debt service under the current level of bonds planned in the CIP.

Exhibit 7
School Surcharge Revenues and Expenditures
($ in Millions)
FY 2013-2042



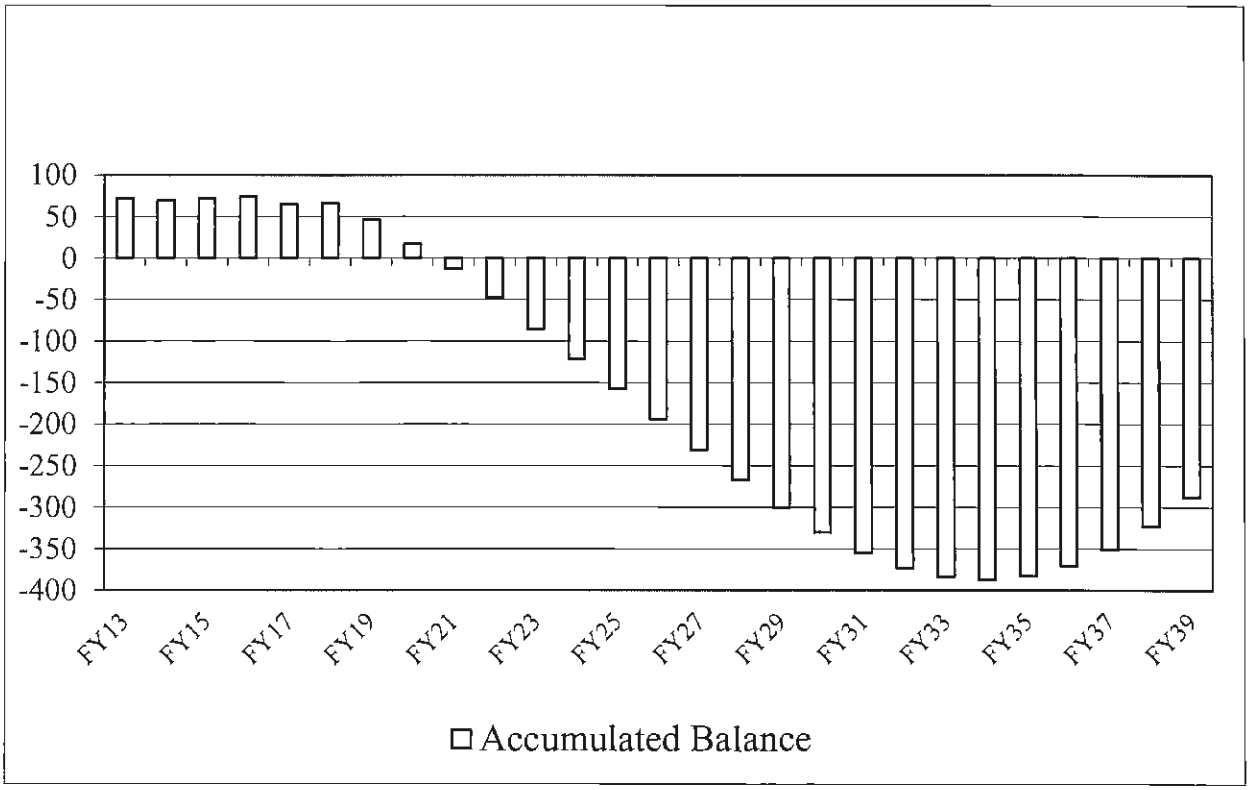
Source: Office of Finance
Office of Management and Budget

The County has numerous options to consider for this program beginning in FY 2023. A lesser percentage than 60% of BOE GO bonds could have repayment dedicated from the school surcharge. All BOE bonds could have debt service paid by general funds, or as shown in Exhibit 8 the issuance stream could remain unchanged with general funds paying the difference.

Conclusion

The number of units assessed the school facilities surcharge increased in FY 2021 and revenue of $44.8 million was attained. While there is currently an accumulated fund balance of $66.2 million in the school surcharge fund, debt service on current and projected BOE GO bonds to which the school surcharge is dedicated is forecasted to exhaust this balance by FY 2024. The County will need to consider alternative options for school surcharge-backed GO bonds.

Exhibit 8
Estimated School Surcharge Fund Balance
FY 2013-2042



Source: Office of Management and Budget