Annual Report on School Facilities Surcharge in Prince George's County
FY 2022 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(h) 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) a detailed description of how fees were expended, and (2) the amount of fees collected.

The County's Department of Permitting, Inspections and Enforcement (DPIE) administers the school facilities' surcharge collection process. Effective July 1, 2021, the school facilities surcharge fee was established at $10,180 for buildings located between Interstate Highway 495 and Washington, D.C. or abuts an existing or planned Metro station and $17,451 for all other locations. Under County 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 by fire, explosion or a natural disaster, is similar to the previously existing single family dwelling unit, and owned and occupied by the same owner;
  - located in a residential revitalization project, and;

    - is in a specified transportation service area 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;

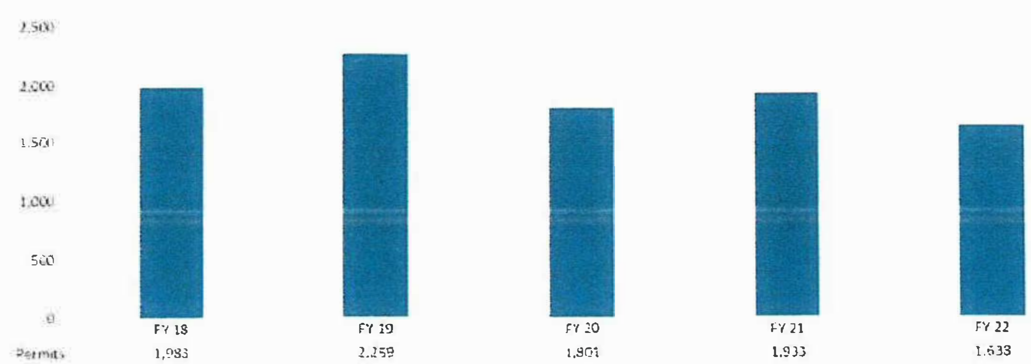
- a multi-family housing designated as:
  - certain student housing within the campus of Capitol Technology University;
  - student housing within 1 mile of Bowie State University;
  - graduate student housing designated by the City of College Park (which may be reversed within 60 days of designation 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.
  - The surcharge may also be reduced by 50% for multi-family housing where there is no approved Transit District Overlay Zone within one quarter-mile of a Purple Line Station.

Fiscal Year 2022 Permit Activity

DPIE issued 1,638 new residential building permits (single-family dwellings[1]), a decrease of 295 permits, or -15.3% below the FY 2021 level. **Exhibit 1** shows the numbers of permits issued from FY 2018 to FY 2022. In FY 2022 an average of 137 permits were issued monthly, which is the lowest level since FY 2017.

Exhibit 1
Single-Family House Permits Issued
FY 2018-2022

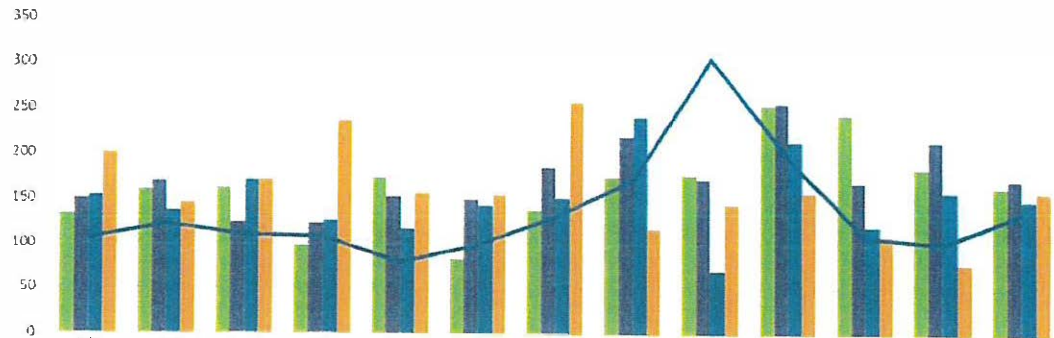


Source: Department of Permitting, Inspections and Enforcement

[1] Single-family houses constitute the majority of 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 2018 through FY 2022.

Exhibit 2
Monthly Single-Family House Permits Issued
FY 2018-2022



	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Aug.
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
FY 22	105	121	109	107	79	100	131	173	306	197	108	102	137

Source: Department of Permitting, Inspections and Enforcement

FY 2022 Fees Collected

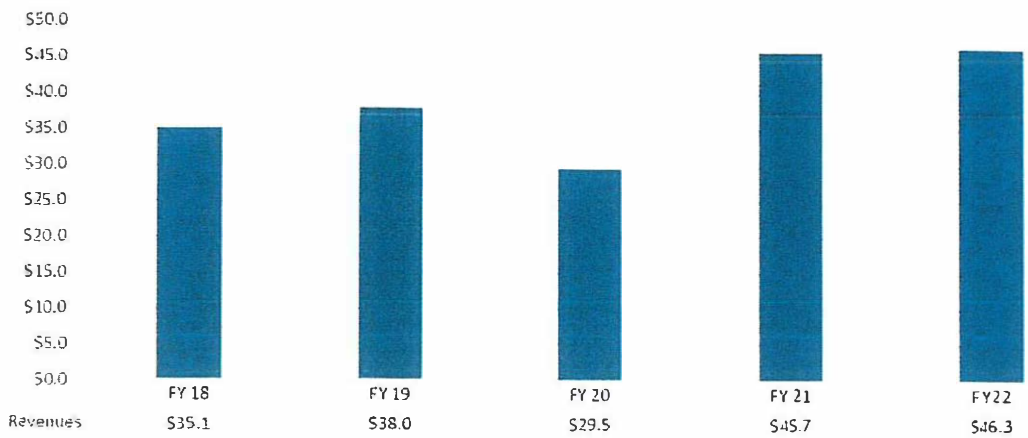
The County collected approximately \$46.3 million in school facilities surcharge revenues in FY 2022, which represents a \$0.7 million, or 1.5% increase compared to the FY 2021 collection of \$45.7 million. **Exhibit 3** provides the historical trend for school facilities surcharge revenues collected by the County during the past 5 fiscal years.

FY 2022 Expenditures

\$46.9 million of school surcharge revenue was spent on FY 2022 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.

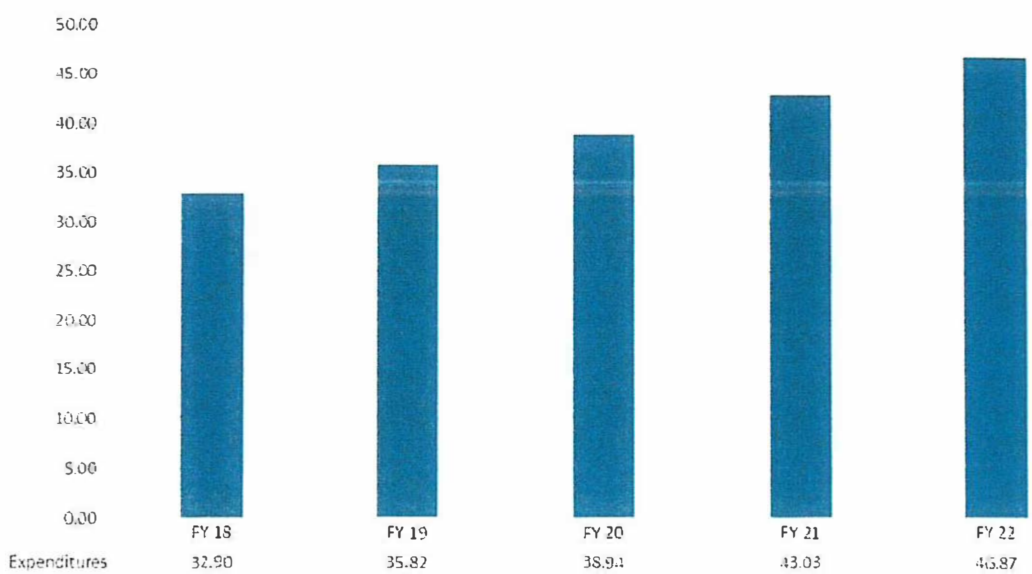
[2] Historical data is sometimes updated to reflect audited numbers.

Exhibit 3
School Surcharge Revenue
FY 2018-2022



Source: Department of Permitting, Inspections and Enforcement

Exhibit 4
School Surcharge Expenditures
FY 2018-2022



Source: Office of Finance

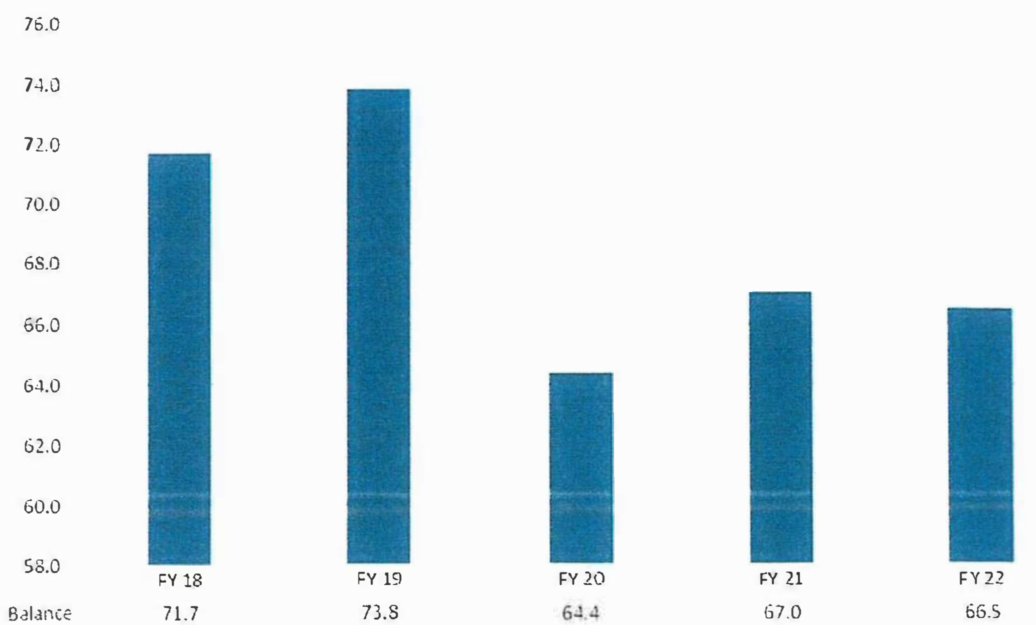
Outstanding Debt

As of June 30, 2022, the County has an estimated $392.6 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, 2022, is of $65.4 million. **Exhibit 5** shows the accumulated balance history. After peaking at $73.8 million at the close of FY 2019, the payment of debt service levels in excess of annual collections drew down the balance in FY 2020 and FY 2022.

Exhibit 5
School Surcharge Accumulated Balance
FY 2018-2022



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 2023 Approved CIP for the BOE and 60% of the total which would be supported entirely by the school surcharge. The forecast assumes that the County issues an average of $80.0 million per year beyond FY 2028, which would be repaid from school facilities surcharge revenue.

Exhibit 6
Proposed School Surcharge GO Bond Issuance
FY 2023-2028

	FY 2023 Proposed BOE CIP GO	60% of BOE in the CIP
FY 2023	134,620,000	68,849,400
FY 2024	112,815,000	85,393,200
FY 2025	127,469,000	82,090,800
FY 2026	130,489,000	73,518,600
FY 2027	144,120,000	73,409,400
FY 2028	144,088,000	80,059,200

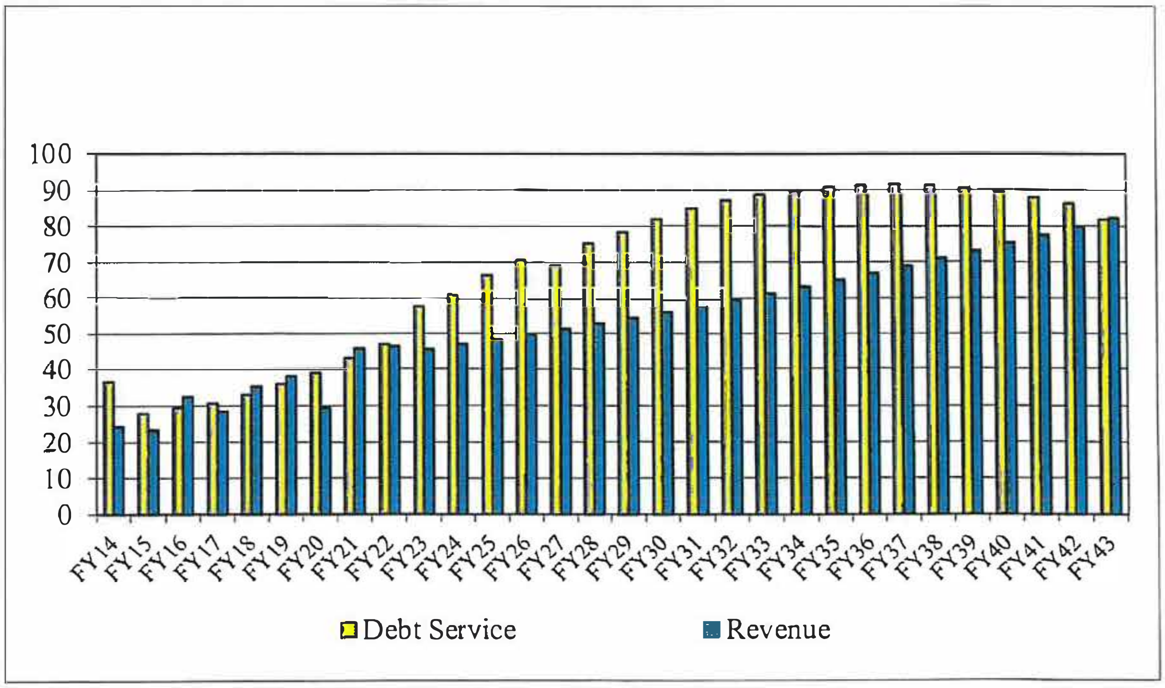
Source: Office of Management and Budget

Assuming a 20-year term and the typical principal retirement schedule used by the County, principal and interest payments on new debt would peak at $85.6 million in FY 2040. Combined with debt service on previously issued school surcharge-dedicated GO bonds, principal and interest payments would increase to $91.5 million in FY 2037 before decreasing.

In FY 2022, $46.3 million in school surcharge revenue was paid to the County and it is assumed that this amount will remain at about this level 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). Due to higher inflation assumptions the surcharge is increased 3% annually in the forecast. **Exhibit 7** shows the relationship of projected surcharge revenue to debt service under the bond issuance stream envisioned in the FY 2023 CIP. As shown, debt service would exceed surcharge revenue from FY 2022 through FY 2043 and would require general fund subsidies.

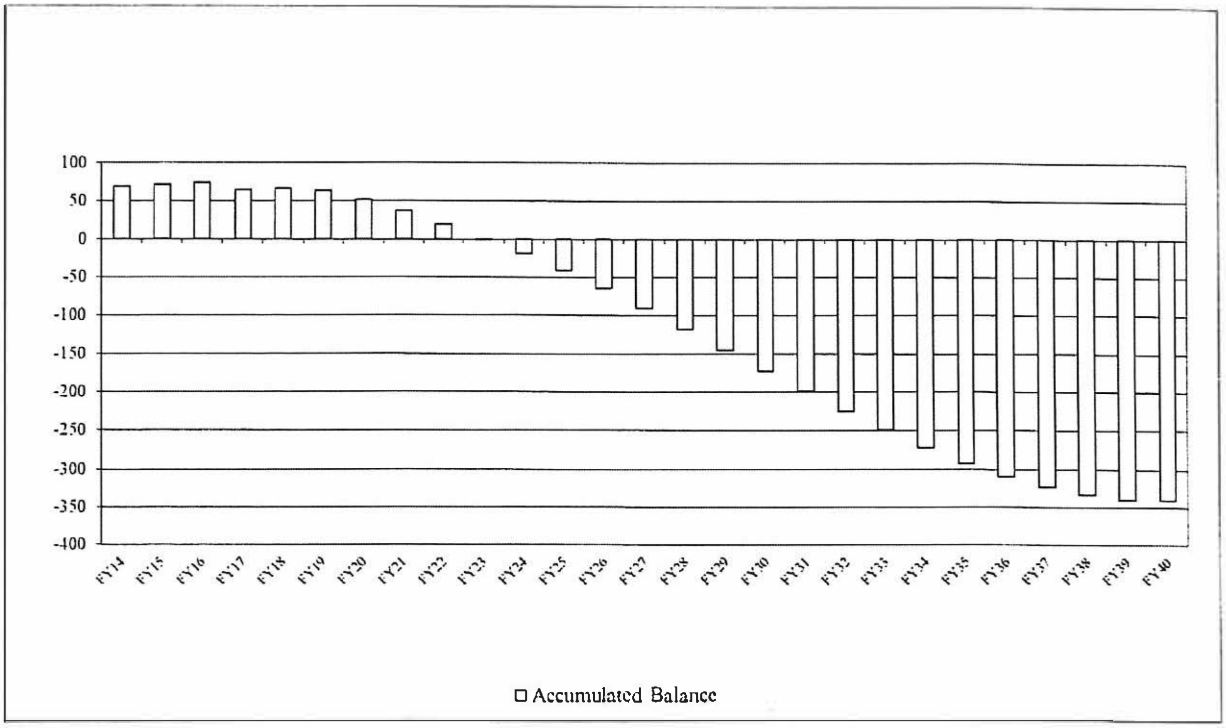
The disparity between surcharge revenue and debt service is better illustrated in **Exhibit 8**, which shows the accumulated balance in the school surcharge fund. Since the fund cannot run negative balances the exhibit illustrates the level of general fund support needed to pay debt service under the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

Exhibit 7
School Surcharge Revenues and Expenditures
FY 2014-2043
($ in Millions)



Source: Office of Finance
Office of Management and Budget

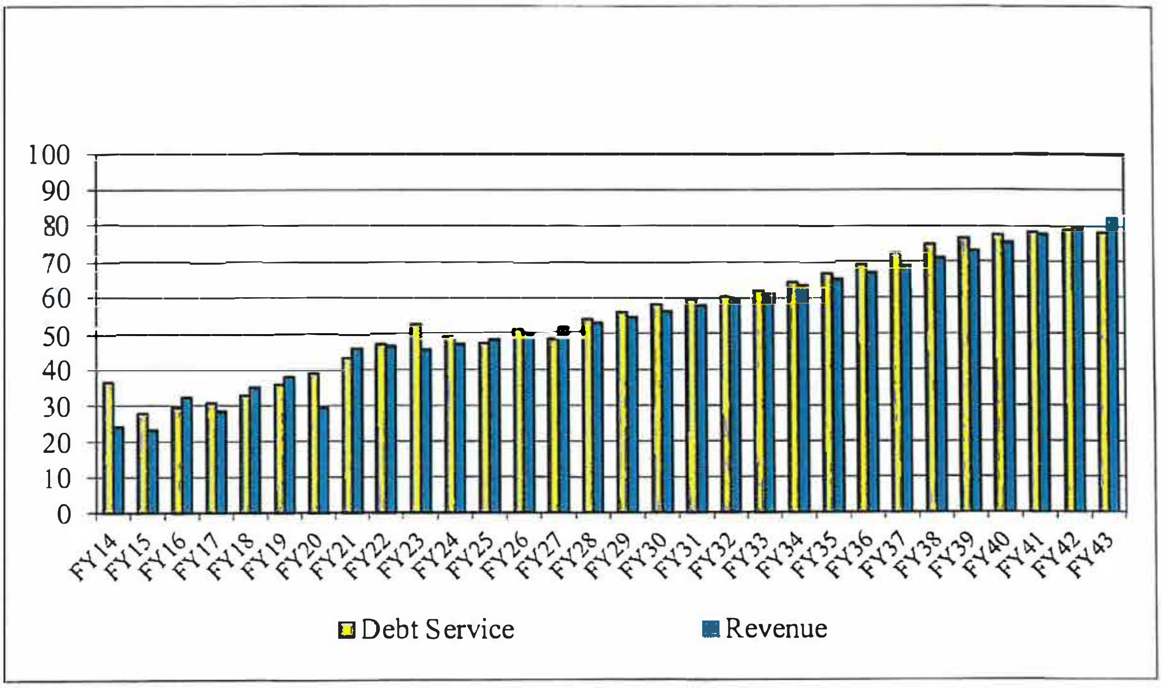
Exhibit 8
Estimated School Surcharge Fund Balance
FY 2014-2043



Source: Office of Management and Budget

Based on last year's forecast and analysis of school facilities surcharge revenue and debt service, the County did not issue any GO bonds for the BOE backed by the surcharge in FY 2022. Based on the revenue and permit activity assumptions listed in this analysis the County would need to forgo issuing any additional school surcharge-backed bonds until FY 2026. This is illustrated in **Exhibit 9**. Beginning in FY 2026 the County could issue approximately $80.0 million in school surcharge-backed bonds without the need for general fund subsidies.

Exhibit 9
School Surcharge Revenues and Expenditures
Assuming No Surcharge-Backed Bonds are Issued in FY 2023-2025
($ in Millions)
FY 2014-2043



Source: Office of Finance
Office of Management and Budget

Conclusion

The number of single-family homes assessed the school facilities surcharge decreased in FY 2022 although overall revenue levels grew slightly to $46.3 million. While there is currently an accumulated fund balance of $66.5 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 2026. However, if the County does not issue any school surcharge-backed GO debt in FY 2023-2026 (as was done in FY 2022) then accumulated balances and annual revenue will support annual debt issuances of $80.0 million per year in FY 2026 and beyond.