

Annual Report on School Facilities Surcharge in Prince George's County FY 2023 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, 2022, the school facilities surcharge fee was established at \$11,020 for buildings located between Interstate Highway 495 and Washington, D.C. or abuts an existing or planned Metro station and \$18,900 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 development 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).
- 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.

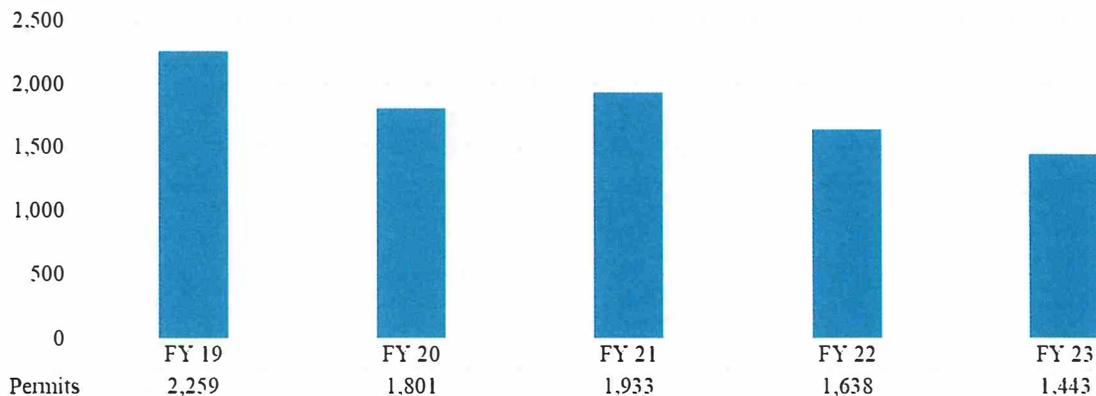
- The surcharge shall be reduced by 50% for multi-family housing units that:
 - were issued a building permit after April 1, 2019.
 - are within an Approved Transit District Overlay Zone; or
 - are within one-quarter mile of a Metro or MARC station if there is no approved Transit Overlay Zone.
 - The 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.

Upon the recommendation of the City of College Park, the County may, by resolution, exempt some or all of the school facilities surcharge for undergraduate student housing west of U.S. Route 1, North of Knox Road, and south of Metzert Road.

Fiscal Year 2023 Permit Activity

DPIE issued 1,443 new residential building permits (single-family dwellings¹), a decrease of 195 permits, or -11.9% below the FY 2022 level. **Exhibit 1** shows the numbers of permits issued from FY 2019 to FY 2023. In FY 2023 an average of 120 permits were issued monthly, which is the lowest level since FY 2017.

Exhibit 1
Single-Family House Permits Issued
FY 2019-2023

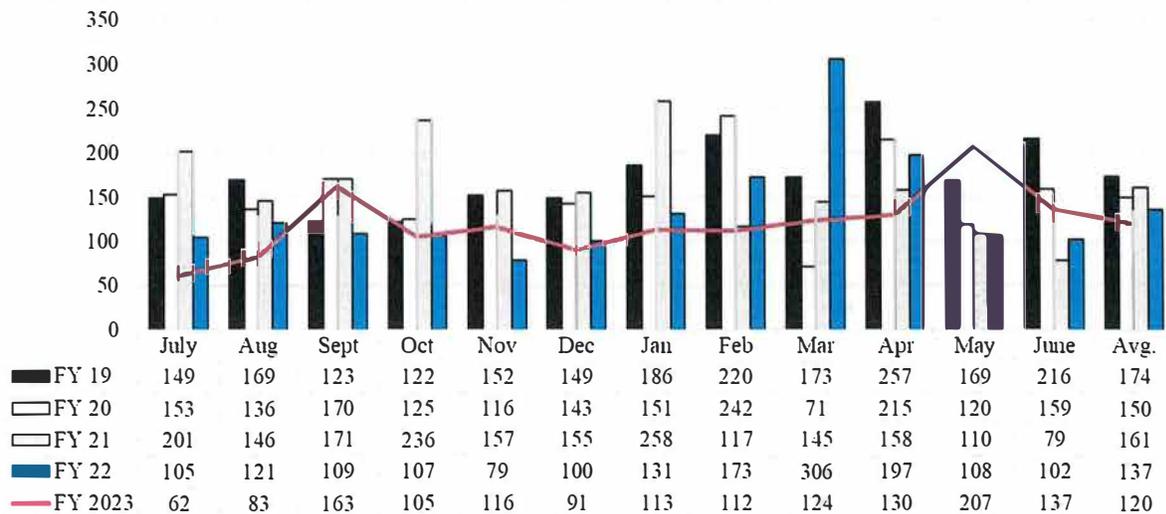


Source: Department of Permitting, Inspections and Enforcement

¹ Single-family houses constitute most 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 2019 through FY 2023.

Exhibit 2
Monthly Single-Family House Permits Issued
FY 2019-2023



Source: Department of Permitting, Inspections and Enforcement

FY 2023 Fees Collected

The County collected approximately \$47.0 million in school facilities surcharge revenues in FY 2023, which represents a \$0.7 million, or 1.5% increase compared to the FY 2022 collection of \$46.3 million. **Exhibit 3** provides the historical trend for school facilities surcharge revenues collected by the County during the past 5 fiscal years.

FY 2023 Expenditures

\$49.7 million of school surcharge revenue was spent on FY 2023 debt service for bonds issued for various school construction projects. Since FY 2000, the County has been using 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.

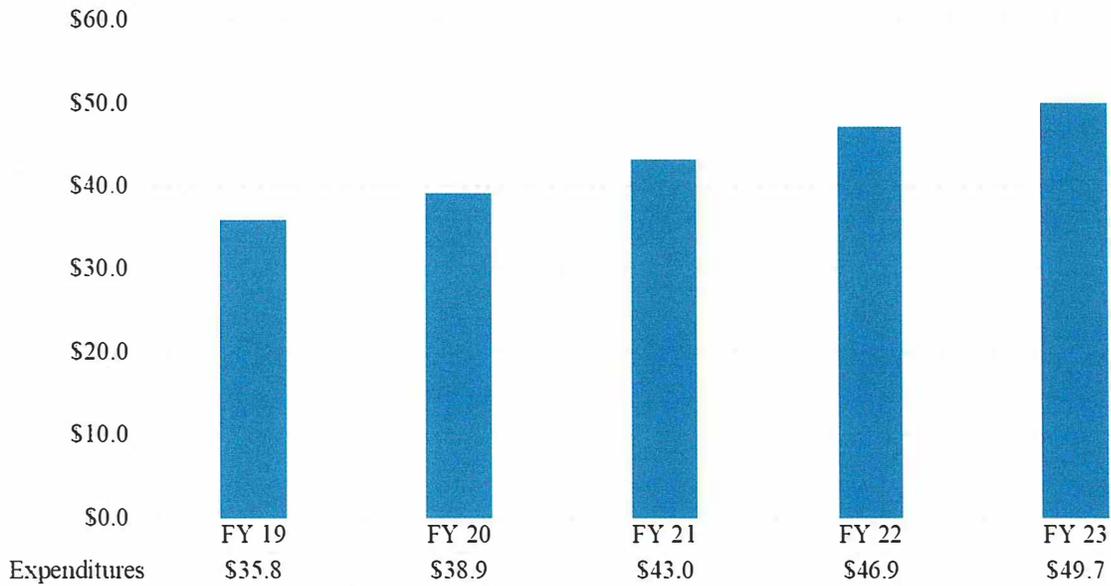
² Historical data is sometimes updated to reflect audited numbers.

Exhibit 3
School Surcharge Revenue
FY 2019-2023



Source: Department of Permitting, Inspections and Enforcement

Exhibit 4
School Surcharge Expenditures
FY 2019-2023



Source: Office of Finance

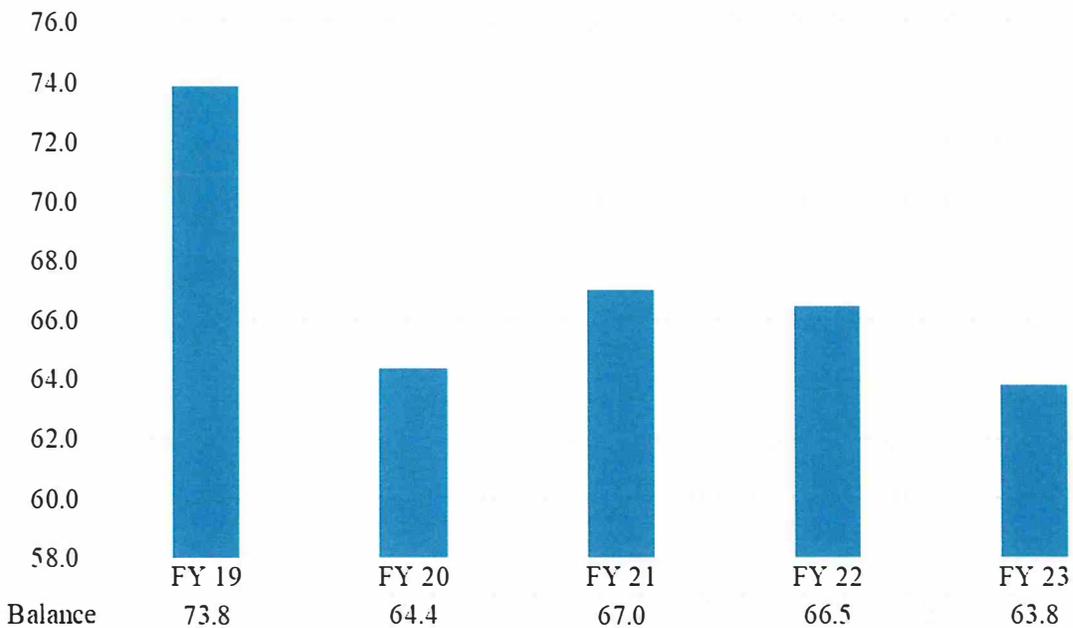
Outstanding Debt

As of June 30, 2023, the County has an estimated \$362.2 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, 2023, is of \$62.7 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 that were greater than annual collections drew down the balance in FY 2020, FY 2022 and FY 2023.

Exhibit 5
School Surcharge Accumulated Balance
FY 2019-2023



Source: Office of Finance

Forecast

County policy has been to apply school surcharge revenue to 60% of the general obligation (GO) bonds for the Board of Education (BOE) in the Capital Improvement Program (CIP). However, from FY 2022-FY 2024 the revenue from the surcharge was not sufficient to support issuing any GO bonds for the BOE CIP paid from the surcharge. The amount of GO bonds supporting the BOE CIP in the FY 2024 – 2029 CIP is shown in **Exhibit 6**, as well as the 60% amount.

Exhibit 6
Proposed School Surcharge GO Bond Issuance
FY 2024-2029

	FY 2024 Approved BOE CIP GO	60% of BOE in the CIP
FY 2024	98,414,000	59,048,400
FY 2025	115,605,000	69,363,000
FY 2026	103,473,000	62,083,800
FY 2027	123,953,000	74,371,800
FY 2028	162,529,000	97,517,400
FY 2029	145,005,000	87,003,000

Source: Office of Management and Budget

Forecast Assumptions

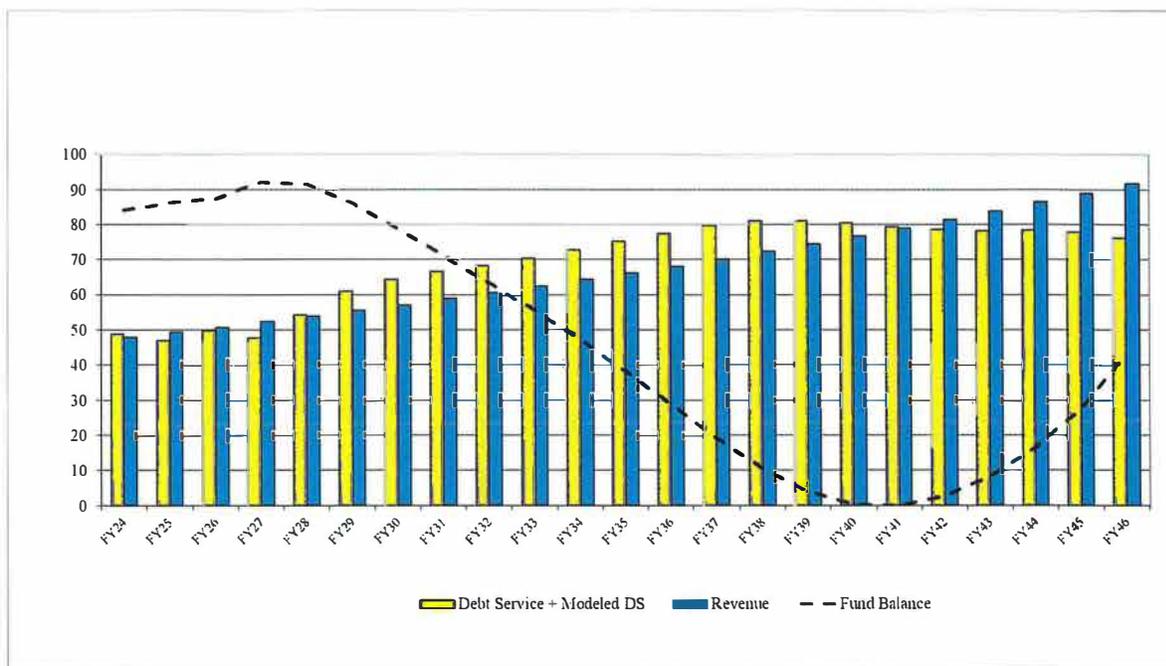
The long-term forecast of school surcharge revenue is based on the following assumptions:

- A 20-year term and the typical principal retirement schedule used by the County.
- An annual assumption of 2,500 building permits (which is consistent with current levels) multiplied times a weighted average of the two surcharge rates based on data from DPIE (91.5% outside the beltway and 8.5% inside the beltway).
- An assumption of annual inflationary growth in the surcharge amount of 3%.

Exhibit 7 shows the first scenario, under which the County would return to the policy of issuing GO bonds for the BOE CIP which are paid 60% from the school facilities surcharge. Under this option no bonds could be supported in FY 2025. In each of FY 2026 – 2029, 60%-paid bonds would be issued. Starting in FY 2030 the County would then be limited to an annual GO-paid issuance of \$45.0 million per year to maintain a positive fund balance in the school surcharge account.

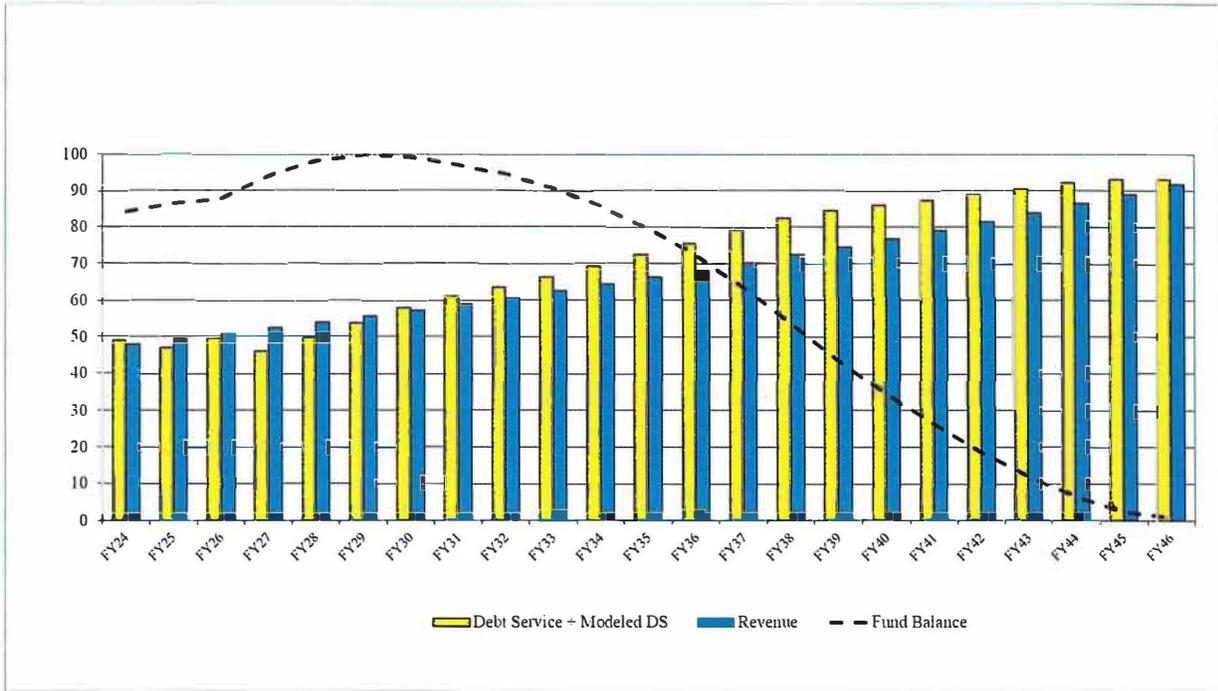
An alternative scenario is included in **Exhibit 8**, which shows the annual revenue, debt service and fund balance if the County were to abandon the 60% policy and instead adopt an annual issuance of \$58.0 million supported by the surcharge starting in FY 2026.

Exhibit 7
School Surcharge Revenues and Expenditures
Scenario 1: 60% Board of Education Bonds FY 2026-2029/\$45.0 Million Annually Starting in FY 2030
FY 2024-2046
(\$ in Millions)



Source: Office of Finance
Office of Management and Budget

Exhibit 8
School Surcharge Revenues and Expenditures
Scenario 2: \$58.0 Million Annual Issuance Starting in FY 2026
FY 2024-2046
(\$ in Millions)



Source: Office of Management and Budget

Conclusion

The number of single-family homes assessed the school facilities surcharge continued to fall in FY 2023 as mortgage rates have risen. Overall surcharge revenue levels grew slightly to \$47.0 million. While there is currently an accumulated fund balance of \$63.8 million in the school surcharge fund, debt service on current and projected BOE GO bonds have not been sufficient to support the issuance of GO-backed bonds for the FY 2022-2024 period and cannot support any issuance in FY 2025. Based on assumptions of inflation and the number of building permits, The Office of Management and Budget provides two forecast scenarios. One can support 60% of the bonds issued for the Board of Education capital program for FY 2026-2029, followed by \$45.0 million annual issuances. The second can support the issuance of \$58.0 million annually, starting in FY 2026.