



Rushern L. Baker, III
County Executive

THE PRINCE GEORGE'S COUNTY GOVERNMENT

OFFICE OF THE COUNTY EXECUTIVE

School
Surcharge

SEP 20 2011

The Honorable Ingrid M. Turner, Chair
Prince George's County Council

The Honorable Douglas J. J. Peters, Chair
Prince George's County Senate Delegation

The Honorable Melony G. Griffith, Chair
Prince George's County House Delegation

Dear Chair Turner, Peters and Griffith,

In accordance with Chapter 431 of the 2003 Laws of Maryland, I have attached a copy of the report entitled *Annual Report on School Facilities Surcharge in Prince George's County – FY 2011*. As you may recall, the school facilities surcharge increased, in general, from \$5,000 per unit to \$12,000, effective on July 1, 2003. The FY 2011 rate has increased incrementally according to the State law that mandates the annual adjustment based on Consumer Price Index (CPI). 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 2011.

I want to thank the Office of Management and Budget for preparing the report, and the Department of Environmental Resources and the Office of Finance for providing the school surcharge information.

If you have any questions, please contact me.

Sincerely,

Rushern L. Baker, III
County Executive

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 2011 Report

Chapter 431 of the 2003 Laws of Maryland (HB 487) increased the school facilities surcharge from \$5,000 per unit to \$12,000 for applications filed on or after July 1, 2003 for new residential construction projects. The law also stipulates that the surcharge be adjusted annually based on Consumer Price Index (CPI) growth starting from FY 2005. In addition, Section 10-192.01(g) of Article 17 – Public Local Laws of Maryland required 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.

Accountability

The County's Department of Environmental Resources (DER) administers the school facilities surcharge collection process. Effective July 1, 2010, the school facilities surcharge fee was established at \$8,299 for buildings located between interstate 495 and Washington, D.C. or near a Metro station and \$14,227 for all other locations (CR-56-2010). As required under State law, the surcharge does not apply to mixed retirement developments, elderly housing, or any property located in an infrastructure finance district approved prior to January 1, 2000. Moreover, the surcharge does not apply to 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. Multifamily housing units designated as student housing within 1.5 miles of the University of Maryland, College Park campus are also exempted from the surcharge.

In FY 2011, DER issued 1,002 new residential building permits (single-family dwellings¹), a decrease of 187 permits from the FY 2010 level. Exhibit 1 shows the numbers of permits issued from FY 2006 to FY 2011. On average, permits issued per month in FY 2011 totaled 84, which is 31% lower than the average level of 122 for the past five years. Exhibit 2 illustrates the comparison of the monthly permits issued from FY 2008 to FY 2011.

¹ Single-family houses constitute the majority of the residential building permits issued by DER. The number serves as an indicator but cannot be used to directly calculate school surcharge because: (1) the timing of surcharge collection and permits issuance differ in some cases, (2) the number of permits includes revisions, which do not generate school surcharge, and (3) the number does not include limited numbers of other types of residential housing, which generate school surcharge based on the number of units instead of the number of permits.

Exhibit 1

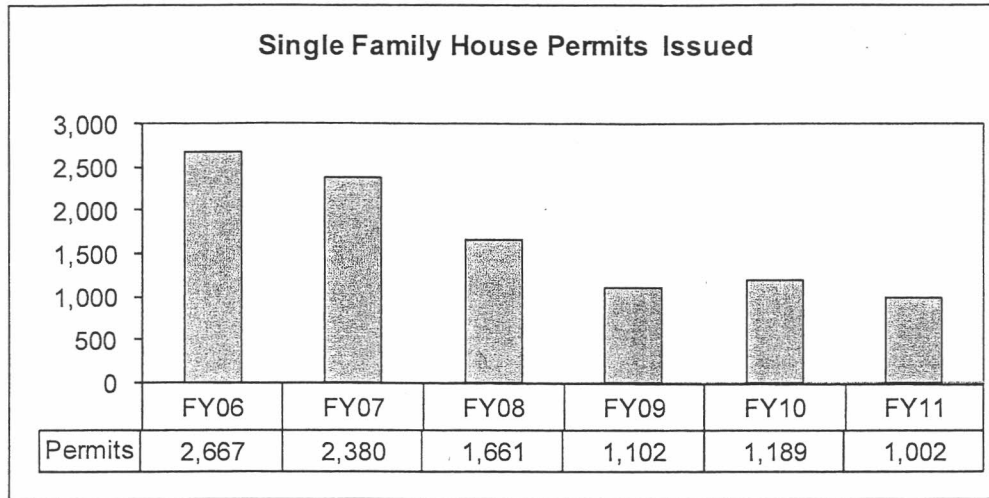
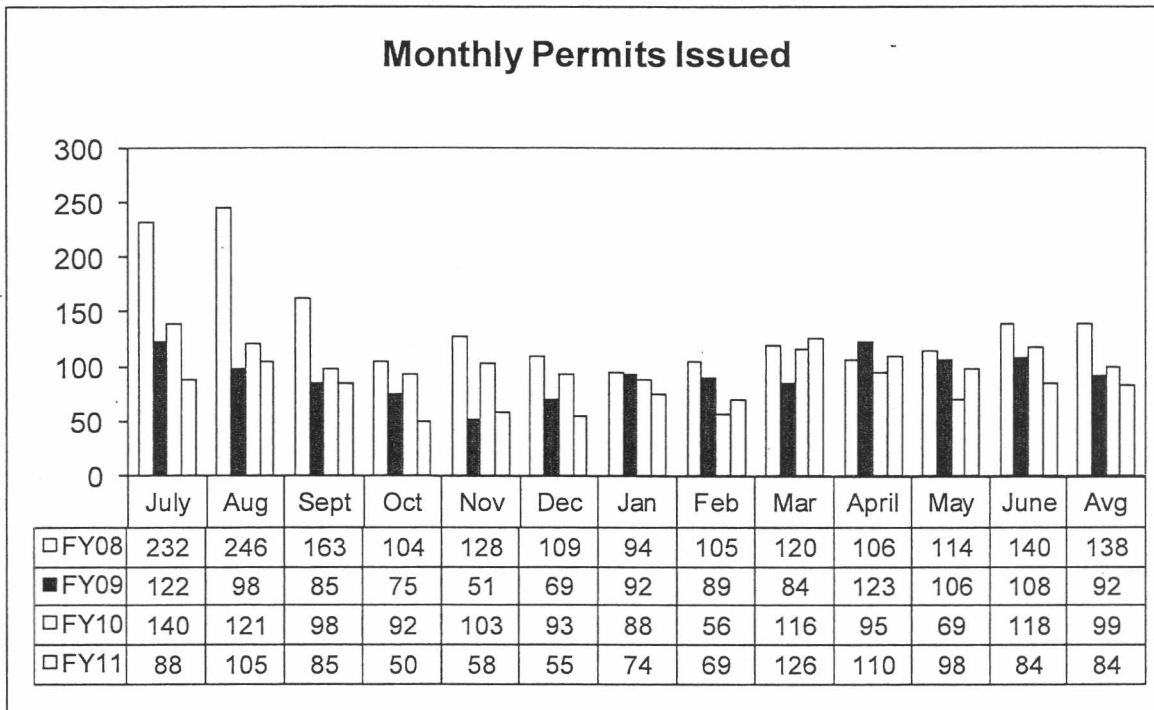


Exhibit 2

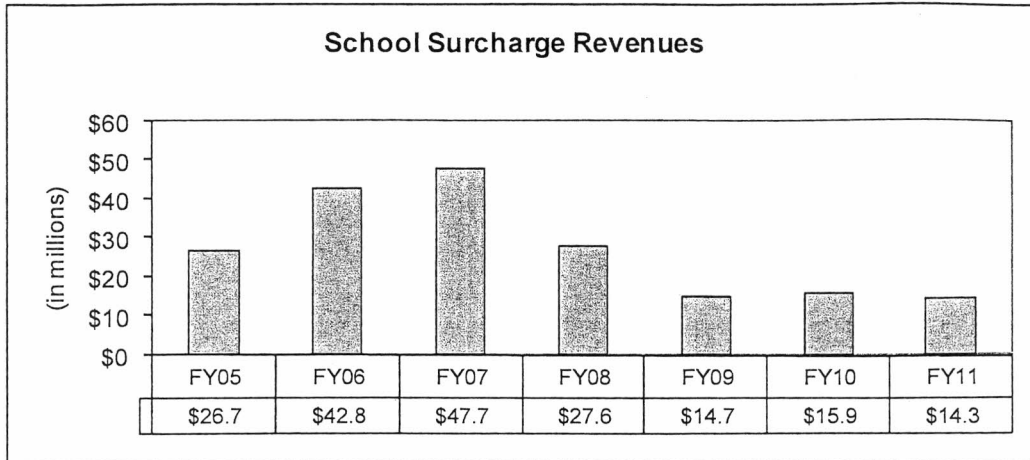


Fees Collected

In FY 2011, the County collected approximately \$14.3 million² in school facilities surcharge revenues, which represents a 10% decrease compared to the FY 2010 collection of \$15.9 million. The decrease is mainly due to the decline in single family and townhouse residential permits. Exhibit 3 provides the historical trend for school facilities surcharge revenues collected by the County during the last six years.

² Unaudited number from the Office of Finance.

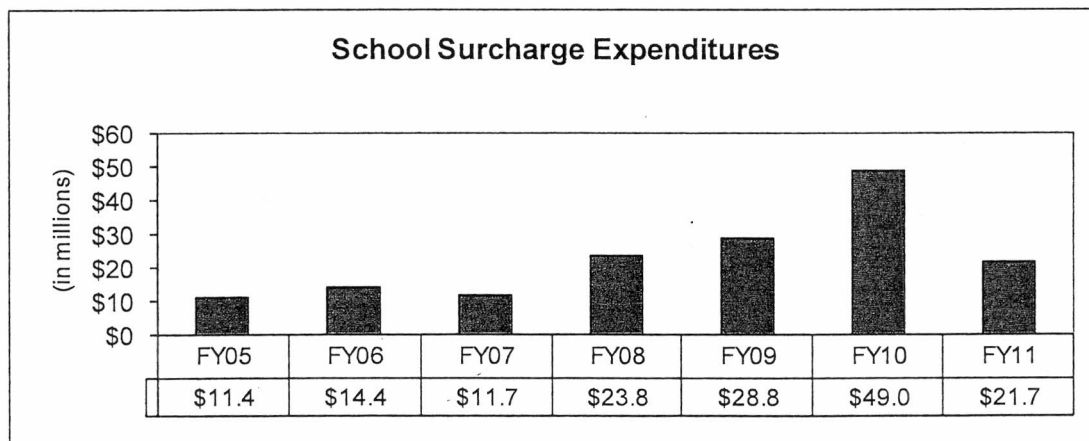
Exhibit 3



Expenditures

In FY 2011, \$21.7 million of school surcharge revenue was spent on school construction projects.³ This includes \$0.8 million pay-go funds dedicated towards school projects and \$20.9 million on debt service payments for bonds issued for public school facilities. Since FY 2000, the County has been using the school surcharge revenues to support a portion of new debt issued for school projects. Starting in FY 2007, the County has also implemented a multi-year plan to utilize school surcharge revenues up to \$15 million each year for pay-go school projects. Exhibit 4 shows the annual expenditures from the school facilities surcharge account for the past six years.

Exhibit 4



³ Unaudited number.

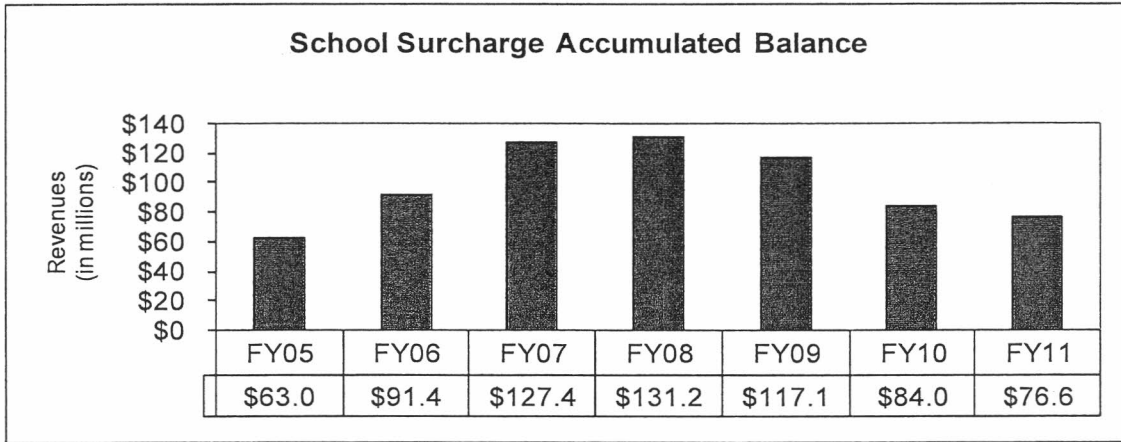
Outstanding Debt

As of June 2011, the County has \$267.9 million in school surcharge supported outstanding General Obligation (GO) bonds. Including interest payments, \$363.8 million school surcharge revenues are committed to debt service in the coming years. As the County continues to invest in new or expanded school buildings and renovate existing facilities, the outstanding debt supported by school surcharge revenues may continue to increase.

Accumulated School Facilities Surcharge Balance

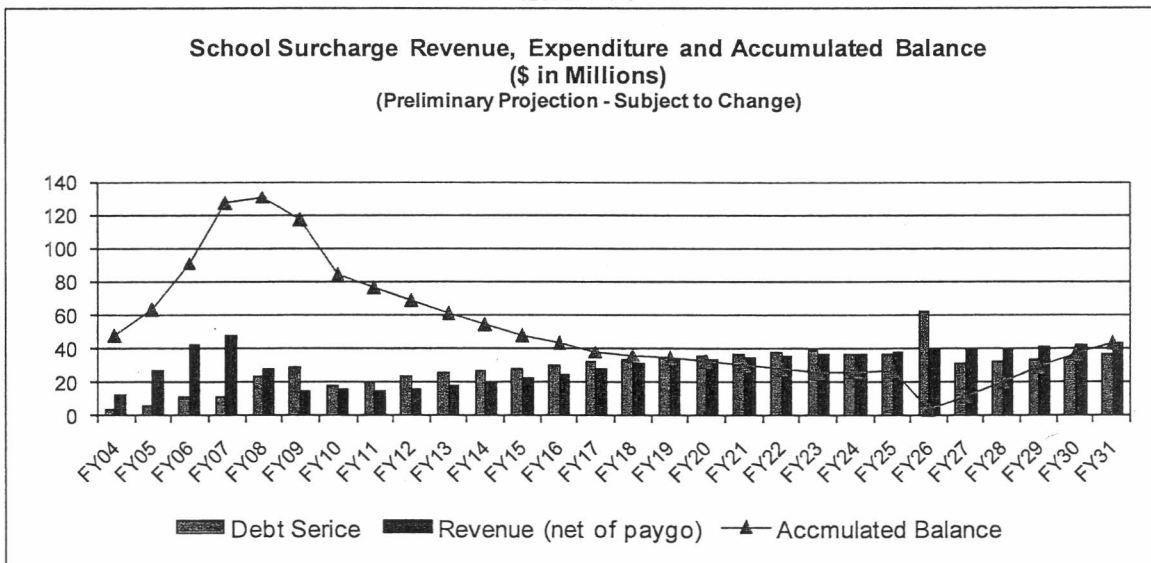
As of FY 2011, the County has an accumulated balance of \$76.6 million in school facilities surcharge revenues.⁴ Exhibit 5 shows the accumulated balance history.

Exhibit 5



With the current debt service schedule and continued use of pay-go funding, this balance has been decreasing after it reached its peak in FY 2008 at \$131.2 million. As the County continues to issue new GO bonds supported by surcharge revenues, as well as use fund balance, the accumulated balance will continue to decrease. (See Exhibit 6).

Exhibit 6



⁴ Unaudited number.