



Rushern L. Baker, III
County Executive

THE PRINCE GEORGE'S COUNTY GOVERNMENT
OFFICE OF THE COUNTY EXECUTIVE

SEP 18 2012

The Honorable Andrea C. Harrison, 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 Harrison, Peters and Griffith,

In accordance with Chapter 431 of the 2003 Laws of Maryland, I have attached a copy of the report entitled *The Annual Report on School Facilities Surcharge in Prince George's County – FY 2012 Report*. As you may recall, the school facilities surcharge increased, in general, from \$5,000 per unit to \$12,000 per unit, effective on July 1, 2003. Since then, surcharge rates have increased incrementally each year according to the State law that mandates the annual adjustment based on the 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 2012.

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 2012 Report

Chapter 431 of the 2003 Laws of Maryland (HB 487) increased the school facilities surcharge from \$5,000 per unit to \$12,000 per unit 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 the 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, 2011, the school facilities surcharge fee was established at \$8,565 for buildings located between Interstate Highway 495 and Washington, D.C. or near a Metro station and \$14,682 for all other locations (CR-51-2011). 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 2012, DER issued 660 new residential building permits (single-family dwellings¹), a decrease of 342 permits from the FY 2011 level. Exhibit 1 shows the numbers of permits issued from FY 2007 to FY 2012. On average, permits issued per month in FY 2012 totaled 55, which is 41% lower than the average level of 94 for the past five years. Exhibit 2 illustrates the comparison of the monthly permits issued from FY 2009 to FY 2012.

¹ Single-family houses constitute the majority of the residential building permits issued by DER. The number serves as an important 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 other types of residential housing, which generate school surcharge based on the number of units instead of the number of permits.

Exhibit 1

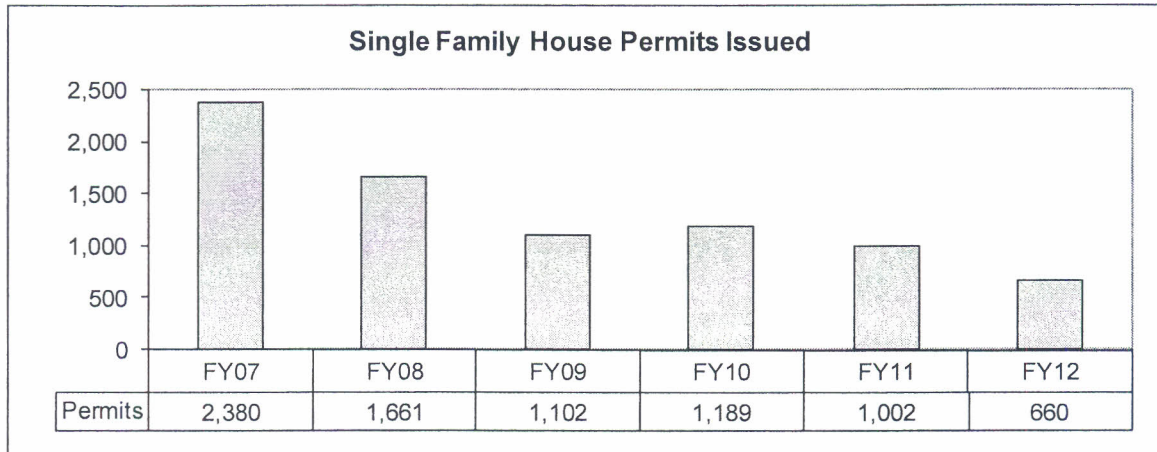
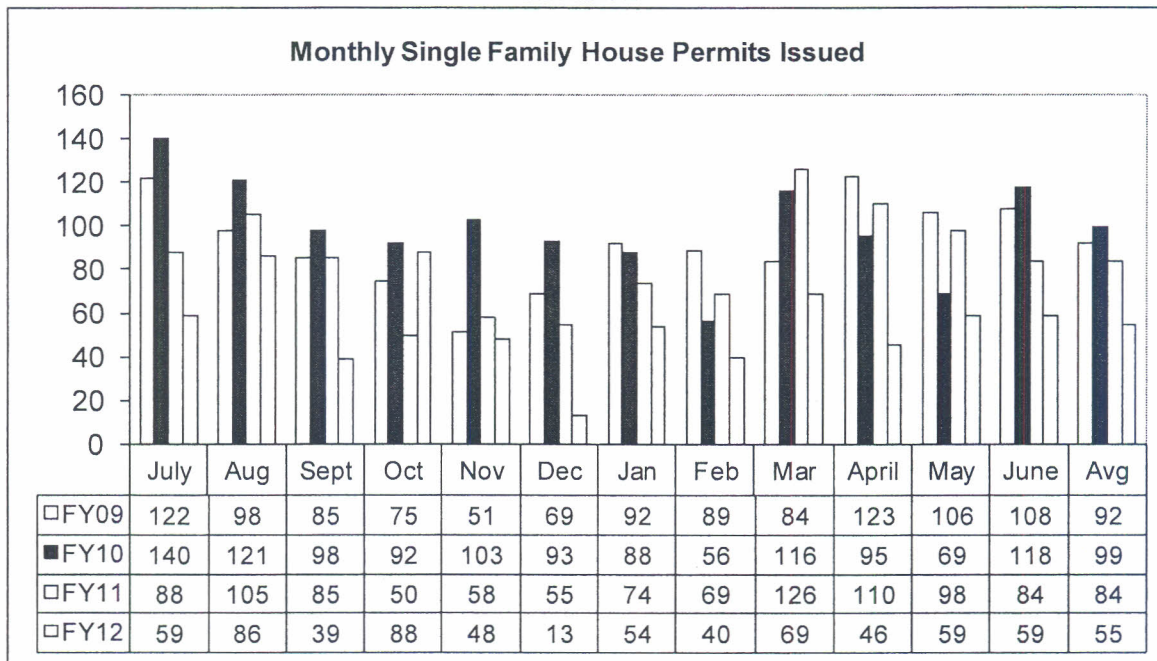


Exhibit 2

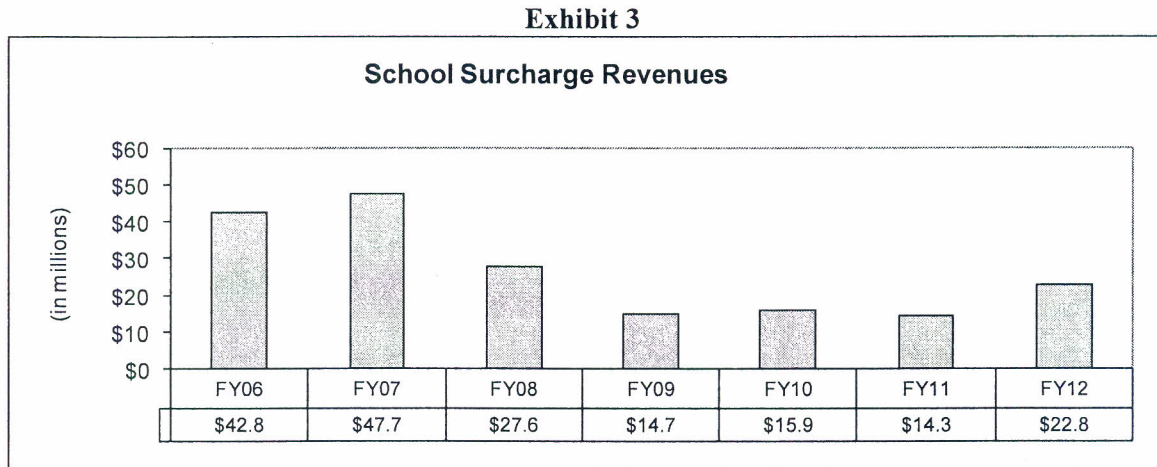


Fees Collected

In FY 2012, the County collected approximately \$22.8 million² in school facilities surcharge revenues, which represents a 60% increase compared to the FY 2011 collection of \$14.3 million. The \$8.5 million increase is mainly due to a large multi-family development projects (e.g., the permits issued in FY 2012 for developing a 433-unit apartment building in Beltsville alone generated \$6.4 million of school surcharges).

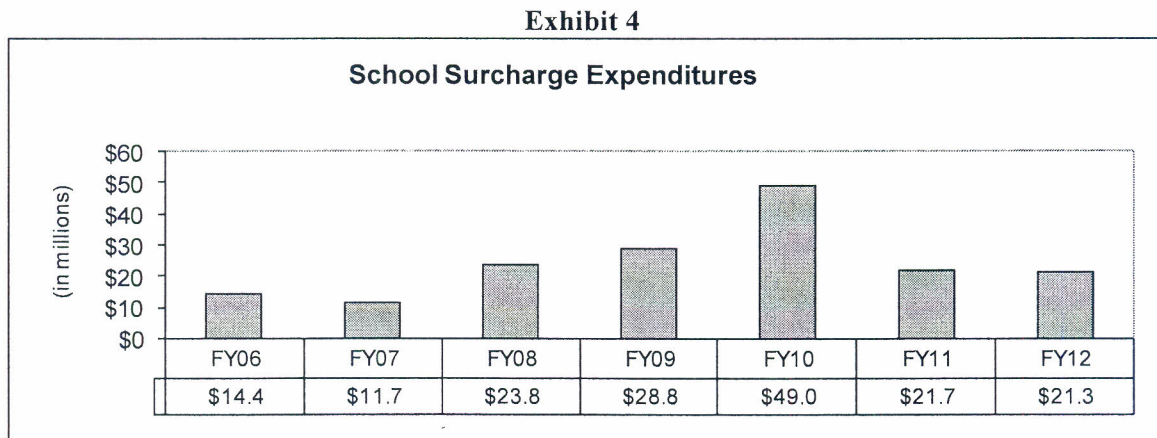
² Unaudited number from the Office of Finance.

Exhibit 3 provides the historical trend for school facilities surcharge revenues collected by the County during the past seven fiscal years.



Expenditures

In FY 2012, \$21.3 million of school surcharge revenue was spent on school construction projects.³ 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 seven fiscal years.



Outstanding Debt

As of June 2012, the County has an estimated \$252.4 million⁴ in school surcharge-supported outstanding General Obligation (GO) bonds. Including interest payments, \$340.9 million in school surcharge revenues are committed to debt service in

³ Unaudited number.

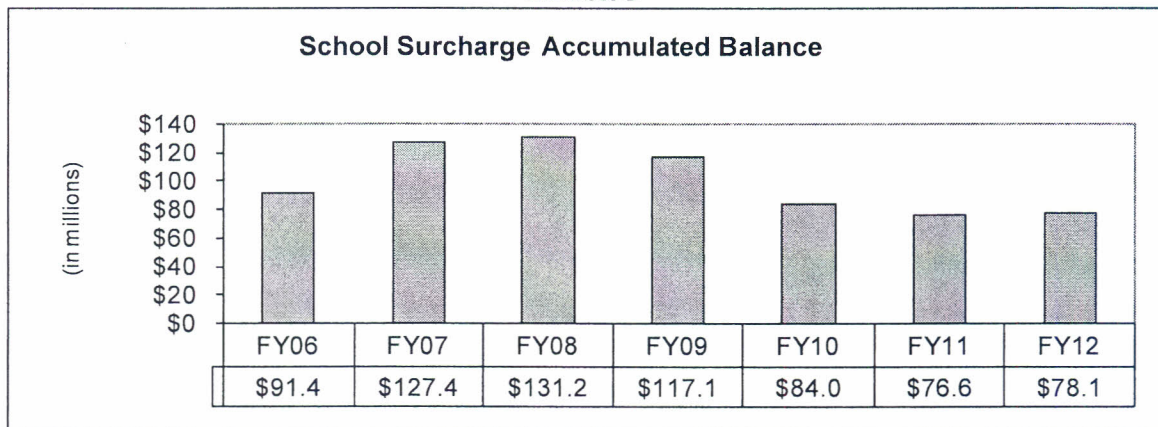
⁴ Source: Prince George’s County Certificates of Participation Official Statement, May 16, 2012

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

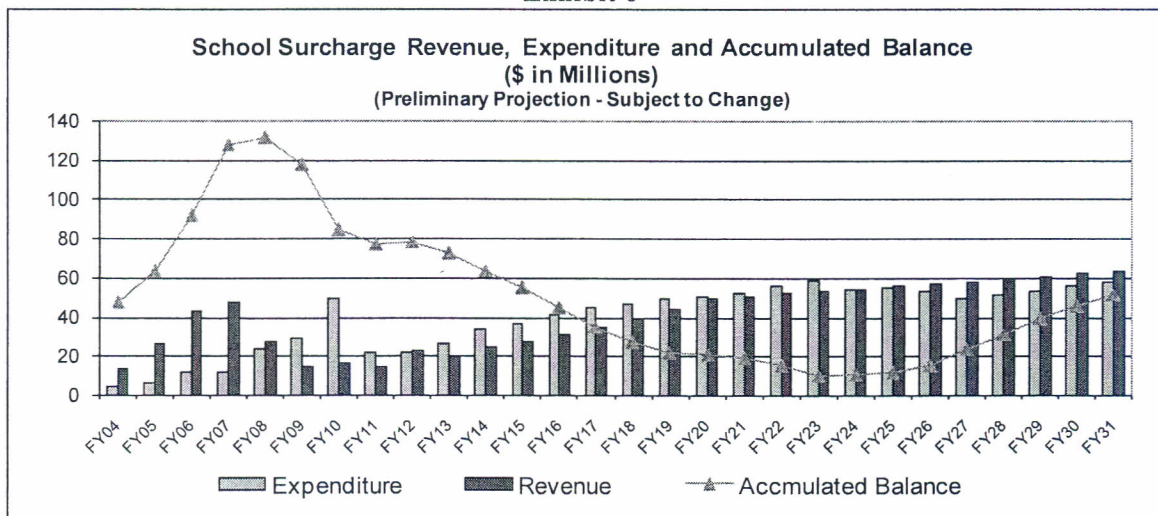
As of FY 2012, the County has an accumulated balance of \$78.1 million in school facilities surcharge revenues.⁵ Exhibit 5 shows the accumulated balance history. The slight increase in the accumulated balance between FY 2011 and FY 2012 is attributable to one-time gains from permits issued for a multi-family development projects in FY 2012.

Exhibit 5



With the current debt service schedule and continued use of pay-go funding, this balance reflects an overall decrease of 41% since the 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 the fund balance, the accumulated balance will continue to decrease. (See Exhibit 6).

Exhibit 6



⁵ Unaudited number.