



# 2020 SUBDIVISION STAGING POLICY (SSP) – SCHOOLS IMPACT TAX FORECAST AND ANALYSIS

MONTGOMERY COUNTY  
DEPARTMENT OF FINANCE & OFFICE OF MANAGEMENT AND BUDGET

JULY 9, 2020



## GOALS OF THIS ANALYSIS

- Perform an evaluation of the macro-level effect on schools impact tax collections resulting from the rate and structural changes proposed by the Planning Department and Planning Board by:
  - Utilizing a forecasting model developed by the Department of Finance
  - Evaluating the pipeline data of unbuilt residential projects in the County to provide an illustrative example of the rate impact's changes on specific locations in the County
- Evaluate the historical/actual impact tax collections between FY 2015 and FY 2020 under the new School Impact Area framework

# WHAT IS NOT INCLUDED IN THIS ANALYSIS (FOR NOW)

- Transportation Impact Taxes
  - Not evaluated or forecasted due to limited changes in the rates
  - Greater volatility in forecasting results in limited usefulness (due to factors such as availability of credits and other exemptions)
- Utilization Premium Payment (UPP)
  - Not evaluated or forecasted due to complexities of adapting data into the forecast model
- Agricultural Reserves
  - Not evaluated or forecasted due to complexities of adapting data into the forecast model
  - Limited revenue generated from AR areas (\$7M of \$164M)
- Enterprise Zone, MPDU Exemptions, Removal of Surcharge on Homes > 3,500 SF
  - Not yet factored into forecast model due to complexities in adapting data into the forecast model
  - Further development needed
- Recordation Tax
  - Evaluation of home sales and other factors is ongoing during unpredictable fiscal environment and economic conditions
  - Department of Finance has validated the estimates prepared by Planning Department staff

# HISTORICAL COLLECTIONS BY SCHOOL IMPACT AREA

(SCENARIO A)

	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>Total</b>
Greenfield - Non-Activity Center	\$ 324,708	\$ 31,827	\$ 175,787	\$ 176,984	\$ 582,060	\$ 32,209	\$ 1,323,575
Greenfield - Activity Center	\$ 9,034,419	\$ 6,030,073	\$ 10,912,899	\$ 9,836,461	\$ 9,450,296	\$ 6,451,998	\$ 51,716,146
Infill - Non-AC	\$ 507,858	\$ 26,827	\$ 501,622	\$ 290,724	\$ 368,820	\$ 469,166	\$ 2,165,017
Infill - AC	\$ 10,579,395	\$ 6,607,711	\$ 10,210,828	\$ 2,717,811	\$ 4,469,178	\$ 9,548,642	\$ 44,133,565
Turnover - Non-AC	\$ 10,568,840	\$ 8,147,880	\$ 11,854,433	\$ 7,154,217	\$ 10,798,546	\$ 3,677,713	\$ 52,201,630
Turnover - AC	\$ 2,081,848	\$ 1,731,845	\$ 2,288,303	\$ 1,581,188	\$ 3,268,460	\$ 1,699,314	\$ 12,650,958
<b>Total:</b>	<b>\$ 33,097,068</b>	<b>\$ 22,576,163</b>	<b>\$ 35,943,872</b>	<b>\$ 21,757,385</b>	<b>\$ 28,937,360</b>	<b>\$ 21,879,042</b>	<b>\$ 164,190,891</b>

# HISTORICAL COLLECTIONS BY UNIT TYPE

(SCENARIO A)

	<u>FY15</u>		<u>FY16</u>		<u>FY17</u>		<u>FY18</u>		<u>FY19</u>		<u>FY20</u>		<u>Totals</u>	
SFD – Non-Activity Center	\$	8,843,423	\$	5,579,215	\$	8,742,477	\$	5,456,879	\$	6,832,362	\$	2,952,703	\$	38,407,059
SFD - AC	\$	7,805,219	\$	4,677,290	\$	7,153,370	\$	6,533,784	\$	4,358,965	\$	4,046,977	\$	34,575,605
TH (SFA) - Non-Activity Center	\$	2,360,463	\$	2,627,319	\$	3,183,149	\$	2,165,046	\$	2,886,555	\$	1,226,385	\$	14,448,917
TH (SFA) - AC	\$	5,811,144	\$	5,733,773	\$	7,616,689	\$	6,198,457	\$	7,712,938	\$	4,816,291	\$	37,889,292
MF LR – Non-Activity Center	\$	197,520	\$	-	\$	606,216	\$	-	\$	2,030,509	\$	-	\$	2,834,245
MF LR - AC	\$	941,460	\$	1,512,342	\$	5,530,071	\$	251,207	\$	1,754,486	\$	3,948,196	\$	13,937,762
MF HR – Non-Activity Center	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
MF HR - AC	\$	7,137,839	\$	2,446,224	\$	3,111,900	\$	1,152,012	\$	3,361,545	\$	4,888,490	\$	22,098,010
<b>Total:</b>	<b>\$</b>	<b>33,097,068</b>	<b>\$</b>	<b>22,576,163</b>	<b>\$</b>	<b>35,943,872</b>	<b>\$</b>	<b>21,757,385</b>	<b>\$</b>	<b>28,937,360</b>	<b>\$</b>	<b>21,879,042</b>	<b>\$</b>	<b>164,190,891</b>

## KEY FINDINGS FROM HISTORICAL DATA

- Of the \$164M collected between FY15 and FY20, \$108M (66%) collected from Activity Centers in all three SIAs; predominantly in Greenfield/Clarksburg (\$51M) and Infill (\$44M)
- Greenfield and Infill areas not in an Activity Center had the smallest six-year collections (\$3.3M total)
- Majority (\$125M of \$164M, or 76%) of schools impact tax revenues collected from new construction single-family homes (\$72M from such homes in Activity Centers)
  - Most new single-family detached (SFD) homes built since FY15 are above 3,500 square feet (90%); 50% are above 5,000 square feet
- Collections from low-rise multi-family are \$17M (or 10%) of the total; high-rise units generated \$22M (or 13%)

## METHODOLOGY – FORECASTING MODEL

- Designed to show magnitude/direction of change – **not designed for budgeting purposes**
- Apply the new School Impact Area framework (Infill, Turnover, and Greenfield), as well as Activity Centers, to existing data on actual school impact tax collections
- Determine where revenues have originated from and the type of development that has occurred in the recent past (since FY 2015)
- Use the historical data to establish a ‘baseline’ forecast (e.g., assumes that development patterns will continue over the next six years in similar trends and under current rate structure)
- Compare the ‘baseline’ forecast to each Scenario (A, B, C) forecasts
  - Apply a differential to each School Impact Area forecast based on the rate differences between the proposed rates and the average historical rates (factoring in unit type/mix)
- Resulting delta indicates the change in macro impact tax collections projected over next six years

School Impact Area	Scenario A				Scenario B (Red Policy Area => Infill)				Scenario C (Red Policy Area + Purple Line/Dark Red => Infill)			
	Historical	Baseline	Forecasted	Delta	Historical	Baseline	Forecasted	Delta	Historical	Baseline	Forecasted	Delta
Greenfield - Non-AC	\$ 1,323,575	\$ 1,241,427	\$ 1,704,354	\$ 462,927	\$ 1,323,575	\$ 1,241,427	\$ 1,704,354	\$ 462,927	\$ 1,323,575	\$ 1,241,427	\$ 1,704,354	\$ 462,927
Greenfield - AC	\$ 51,716,146	\$ 51,699,507	\$ 68,254,462	\$ 16,554,955	\$ 51,716,146	\$ 51,699,507	\$ 68,254,462	\$ 16,554,955	\$ 51,716,146	\$ 51,699,507	\$ 68,254,462	\$ 16,554,955
Infill - Non-AC	\$ 2,165,017	\$ 2,257,420	\$ 1,820,945	\$ (436,475)	\$ 2,165,017	\$ 2,257,420	\$ 1,714,673	\$ (542,747)	\$ 3,590,801	\$ 3,394,813	\$ 2,647,231	\$ (747,582)
Infill - AC	\$ 44,133,565	\$ 45,135,712	\$ 16,317,091	\$ (28,818,622)	\$ 46,257,675	\$ 47,053,556	\$ 17,055,197	\$ (29,998,360)	\$ 49,408,828	\$ 50,084,641	\$ 17,368,470	\$ (32,716,172)
Turnover - Non-AC	\$ 52,201,630	\$ 52,501,402	\$ 46,711,810	\$ (5,789,592)	\$ 52,201,630	\$ 52,501,402	\$ 46,985,420	\$ (5,515,982)	\$ 48,745,337	\$ 49,045,109	\$ 44,430,457	\$ (4,614,652)
Turnover - AC	\$ 12,650,958	\$ 12,567,528	\$ 7,864,270	\$ (4,703,258)	\$ 10,526,848	\$ 10,600,717	\$ 6,318,880	\$ (4,281,837)	\$ 9,406,204	\$ 9,740,872	\$ 6,316,272	\$ (3,424,600)
<b>Totals:</b>	<b>\$ 164,190,891</b>	<b>\$ 165,402,996</b>	<b>\$ 142,672,932</b>	<b>\$ (22,730,065)</b>	<b>\$ 164,190,891</b>	<b>\$ 165,354,030</b>	<b>\$ 142,032,986</b>	<b>\$ (23,321,043)</b>	<b>\$ 164,190,891</b>	<b>\$ 165,206,309</b>	<b>\$ 140,721,246</b>	<b>\$ (24,485,124)</b>
<b>% Change:</b>				<b>-13.74%</b>				<b>-14.10%</b>				<b>-14.82%</b>

# FORECAST RESULTS - SUMMARY



## CONCLUSIONS FROM FORECAST ANALYSIS

- Forecasting under the new SIA rates indicates that potential six-year revenue losses are approximately 14 to 15 percent when compared to baseline forecasts
- Revenue losses from rate reductions in Infill and Turnover areas partially offset by rate increases in Greenfield areas
- Significant potential impact taxes remain to be collected from single-family development in Greenfield/Clarksburg (see Pipeline Analysis) – however, impact tax revenue increases are now dependent on Greenfield areas
- Not all Planning staff recommendations are incorporated into forecast model – changes in exemptions, surcharge removals, UP payments, and other factors may cause significant forecast changes either up or down
- Future development activity may significantly shift as a result of the pandemic and changes in behavior
- **Recordation tax forecast is currently TBD – cannot yet determine whether changes in impact tax are offset by changes in recordation tax collections as proposed by Planning staff**

## METHODOLOGY – PLANNING PIPELINE ANALYSIS

- Purpose to validate historical data and provide an illustration of the magnitude/direction of rate changes on specific planning areas of the County
- Key question: What would revenues look like if all pipeline units were built today (and paid impact taxes today) under each rate structure?
- Applies the current school impact tax rates, as well as rates calculated by Planning Staff for Scenario A, B, and C
- Calculates the average annual collections under each scenario under different buildout scenarios (5, 10, 15 years)

## ASSUMPTIONS – PLANNING PIPELINE ANALYSIS

- Assumes entire planning area is within a single School Impact Area (i.e., individual development projects are not assigned to a specific Impact Area)
- Looks only at planning areas where number of unbuilt residential units (both single and multi-family) are greater than 500 units
  - Assumes all single-family units are attached/SFA
  - Assumes all multi-family units are high-rise/MF HR
- Scenario A: based on initial Planning staff recommendations
- Scenario B: assigns all Metro Station Policy/Red Policy Areas to Infill-Activity Center
- Scenario C: Scenario B plus all Purple Line/Dark Red Policy Areas to Infill-Activity Center

# PIPELINE ANALYSIS – DETAIL

Select Planning Areas	Residential Units in Pipeline*			Impact Tax Location			
	# of Unbuilt Units	# of Unbuilt - Single-Family	# of Unbuilt - Multi-Family	MSPA/Red?	Purple Line?	School Impact Area**	Activity Center?
Bethesda Downtown	4,510	0	4,510	Yes	No	Infill	Yes
Bethesda Chevy Chase	676	45	631	No	No	Turnover	Yes
Chevy Chase Lake	666	21	645	No	Yes	Turnover	Yes
Clarksburg	2,441	1,721	720	No	No	Greenfield	Yes
Friendship Heights	500	200	300	Yes	No	Infill	Yes
Gaithersburg City	2,499	679	1,820	No	No	Infill	Yes
Gaithersburg Vicinity	635	569	66	No	No	Turnover	Yes
Germantown Sector Plan	2,890	295	2,595	No	No	Infill	Yes
Glenmont Sector Plan	1,412	439	973	Yes	No	Turnover	Yes
North Bethesda Garrett Park	2,601	1,697	904	No	No	Turnover	No
Potomac Subregion	843	501	342	No	No	Turnover	No
Rockville City	1,665	247	1,418	Yes	No	Infill	Yes
Shady Grove Sector	1,840	714	1,126	Yes	No	Turnover	Yes
<b>Totals:</b>	<b>23,178</b>	<b>7,128</b>	<b>16,050</b>	-	-	-	-

# PIPELINE ANALYSIS – SCENARIO COMPARISON

	Schools Impact Tax - Potential Collections at Full Buildout						
Select Planning Areas	Current Rates	Scenario A	% vs. Current	Scenario B	% vs. Current	Scenario C	% vs. Current
Bethesda Downtown	\$ 27,569,630	\$ 11,703,450	-57.55%	\$ 11,703,450	-57.55%	\$ 11,825,220	-57.11%
Bethesda Chevy Chase	\$ 5,099,213	\$ 4,018,012	-21.20%	\$ 4,310,243	-15.47%	\$ 4,314,068	-15.40%
Chevy Chase Lake	\$ 4,522,443	\$ 3,754,632	-16.98%	\$ 4,049,097	-10.47%	\$ 1,909,317	-57.78%
Clarksburg	\$ 51,897,518	\$ 67,303,771	29.69%	\$ 67,303,771	29.69%	\$ 67,303,771	29.69%
Friendship Heights	\$ 7,353,500	\$ 2,974,900	-59.54%	\$ 2,895,100	-60.63%	\$ 2,864,000	-61.05%
Gaithersburg City	\$ 29,864,702	\$ 12,179,678	-59.22%	\$ 11,908,757	-60.12%	\$ 11,824,813	-60.41%
Gaithersburg Vicinity	\$ 16,106,720	\$ 8,377,930	-47.98%	\$ 8,504,426	-47.20%	\$ 8,552,791	-46.90%
Germantown Sector Plan	\$ 24,004,645	\$ 9,973,715	-58.45%	\$ 9,856,010	-58.94%	\$ 9,868,255	-58.89%
Glenmont Sector Plan	\$ 18,063,471	\$ 11,408,004	-36.84%	\$ 7,170,872	-60.30%	\$ 7,111,099	-60.63%
North Bethesda Garrett Park	\$ 52,359,958	\$ 47,962,735	-8.40%	\$ 49,124,491	-6.18%	\$ 49,363,768	-5.72%
Potomac Subregion	\$ 15,917,244	\$ 14,831,115	-6.82%	\$ 15,230,583	-4.31%	\$ 15,301,224	-3.87%
Rockville City	\$ 15,484,940	\$ 6,392,264	-58.72%	\$ 6,293,711	-59.36%	\$ 6,283,585	-59.42%
Shady Grove Sector	\$ 26,588,210	\$ 16,106,440	-39.42%	\$ 10,478,232	-60.59%	\$ 10,368,690	-61.00%
<b>Totals:</b>	<b>\$ 294,832,194</b>	<b>\$ 216,986,646</b>	<b>-26.40%</b>	<b>\$ 208,828,743</b>	<b>-29.17%</b>	<b>\$ 206,890,601</b>	<b>-29.83%</b>

	<u>Current Rates</u>	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
<b>Buildout Period</b>	5			
<b>Total Collections</b>	\$ 294,832,194	\$ 216,986,646	\$ 208,828,743	\$ 206,890,601
<b>Average Annual Collections</b>	\$ 58,966,439	\$ 43,397,329	\$ 41,765,749	\$ 41,378,120
<b>Total # of Housing Units</b>	23,178			
<b>Average # Units Supplied Annually</b>	4,636			
<b>Buildout Period</b>	10			
<b>Total Collections</b>	\$ 294,832,194	\$ 216,986,646	\$ 208,828,743	\$ 206,890,601
<b>Average Annual Collections</b>	\$ 29,483,219	\$ 21,698,665	\$ 20,882,874	\$ 20,689,060
<b>Total # of Housing Units</b>	23,178			
<b>Average # Units Supplied Annually</b>	2,318			
<b>Buildout Period</b>	15			
<b>Total Collections</b>	\$ 294,832,194	\$ 216,986,646	\$ 208,828,743	\$ 206,890,601
<b>Average Annual Collections</b>	\$ 19,655,480	\$ 14,465,776	\$ 13,921,916	\$ 13,792,707
<b>Total # of Housing Units</b>	23,178			
<b>Average # Units Supplied Annually</b>	1,545			

# PIPELINE ANALYSIS – BUILD-OUT PERIOD

## CONCLUSIONS FROM PIPELINE ANALYSIS

- Most approved and unbuilt residential or mixed-use development activity is located in Activity Centers (19,734 units out of 23,178)
- Rate changes result in a reduction of 26 to 30 percent compared to current rates and at full build-out
- Difference in revenues between Scenario B and Scenario C is negligible (\$2M or less than 1% of total potential revenues)