



Montgomery Planning | Countywide Planning and Policy

01/22/2024

# Schools Technical Advisory Team

## Meeting #3



# Agenda

- Follow up from previous meeting
- Review and Discuss: Impact Taxes!
- Preview of next meeting's topic

# **Impact Taxes, Utilization Premium Payments, & Recordation Tax**

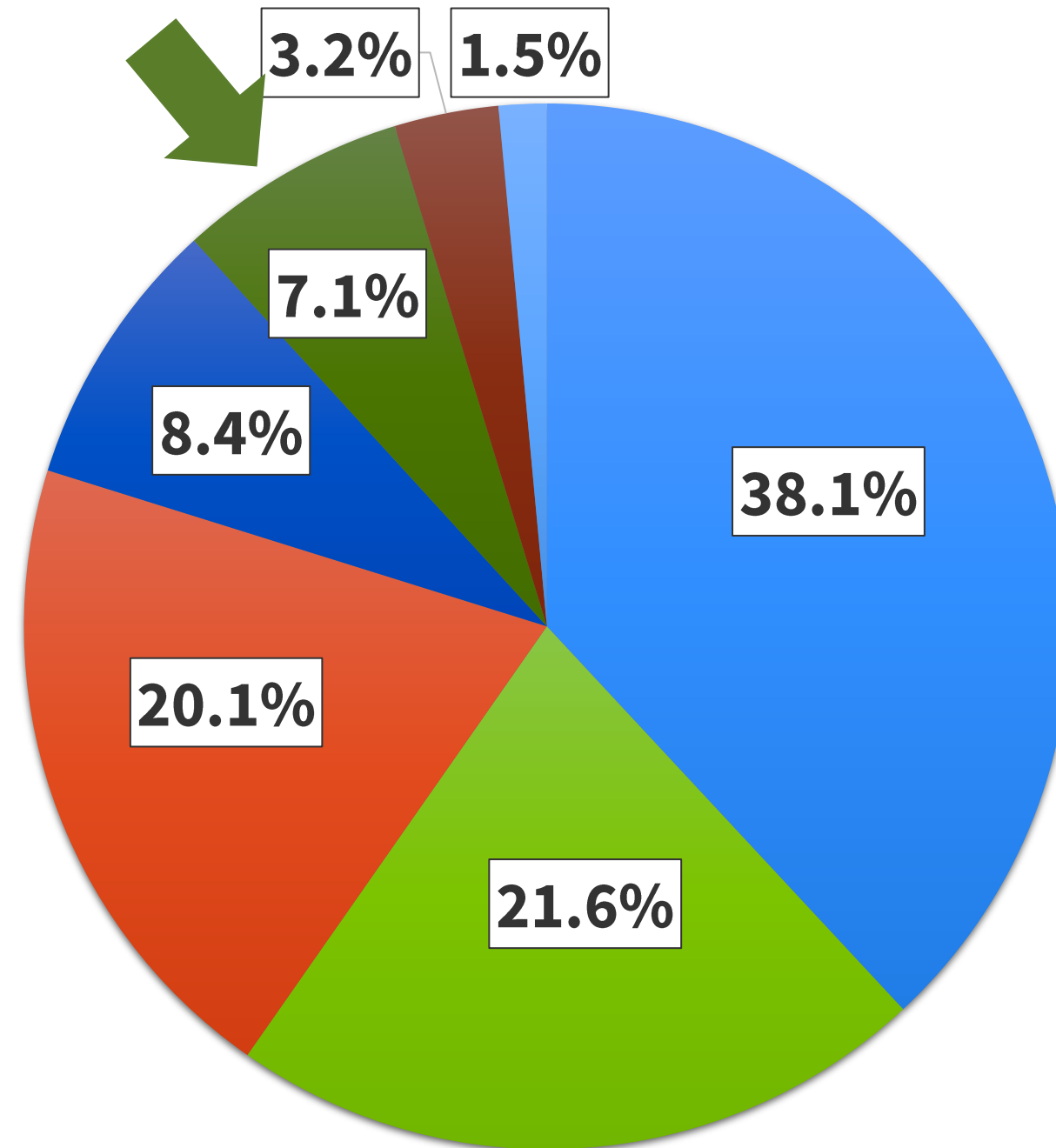
# The GIP and CIP

- All development, improvement, and maintenance are governed by the Capital Improvements Program (CIP).
  - The CIP is prepared every two years to cover a six-year cycle.
- The Capital Improvements Program (CIP) is the vehicle through which the county increases the capacity of its public facilities to support existing development and future growth.

# The GIP and CIP

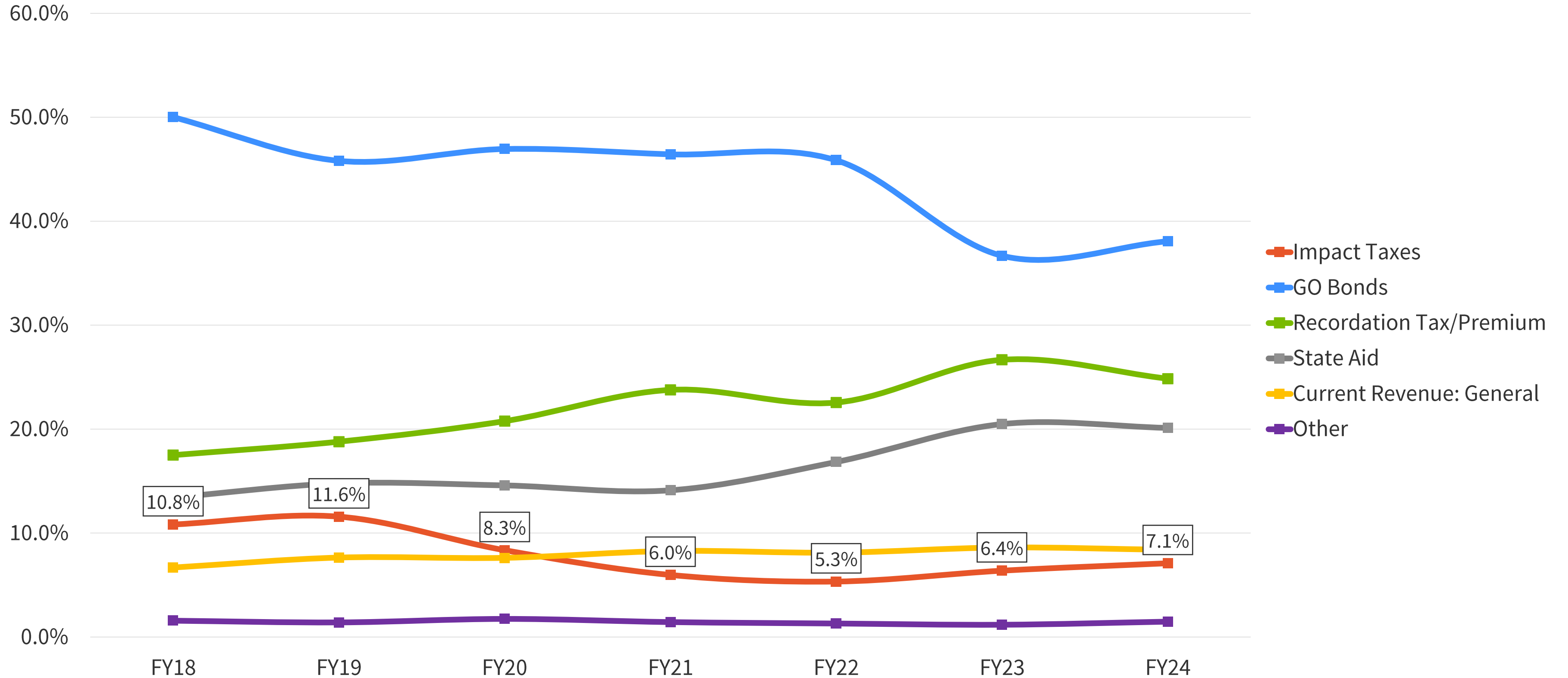
- A County Council resolution will establish the policy tools recommended in the GIP.
- The resolution will describe the facility standards that must be met for public infrastructure to be considered adequate.
- Along with additional recommended changes to the county's tax code and county policy, the resolution can also prescribe methods for generating revenue to ensure the adequacy of the county's infrastructure to accommodate growth in the amounts, forms, and locations desired, as established in the county's General Plan and master plans.

# MCPS Funding Sources FY24 Approved



■ G.O. Bonds ■ Recordation Tax ■ State Aid ■ Current Revenue: General ■ Schools Impact Tax ■ Recordation Tax Premium (MCPS) ■ Other

# MCPS Funding Sources FY18 – FY24



# Impact Taxes

- County code requires new development to pay its pro rata share of needed infrastructure improvements.
- Montgomery Planning reviews and prepares impact tax recommendations during quadrennial GIP update.
  - Not technically part of the Growth and Infrastructure Policy, but closely related.
- In FY 2024, Impact taxes were:
  - 7.1% of the School capital budget
  - 4.4% of the Transportation capital budget
  - 2.9% of the County's total capital budget



# Impact Taxes

- Impact tax rates are updated every two years by the Dept. of Finance, effective July 1 of each odd-numbered year.
- Rates are based on housing type and geographic context.
  - For school impact taxes, planning calculates the school rates using actual housing, enrollment, and school construction cost data.
- Impact tax revenue can be used to pay for certain public capital projects, as defined by code.
- Funds are not geographically constrained.
  - Transportation funds should be used in the policy area from which the funds were collected or an adjacent policy area, to the extent feasible.

# School Impact Tax Definition/Calculation

- Raw rates are calculated at the cost of 100% of a seat. If the biennial increase is more than 20% of the previous rate, a cap is imposed, with any dollar amount that exceeds 20% carried over to future calculations.
- Raw calculation method:

$$(Official\ SGR) \times (Actual\ School\ Construction\ Cost\ per\ Student)$$

		FY 2024-2025 SGR		
		ES	MS	HS
Infill	SFD	0.202	0.096	0.141
	SFA	0.161	0.087	0.126
	MFL	0.065	0.030	0.040
	MFH	0.039	0.016	0.018
Turnover	SFD	0.185	0.102	0.154
	SFA	0.218	0.119	0.167
	MFL	0.116	0.061	0.081
	MFH	0.073	0.042	0.053

2023	ES	MS	HS
Student Capacity	740	1,200	2,400
Average Project Cost*	\$45,501,000	\$81,520,000	\$194,252,000
Cost per Student	\$61,488	\$67,933	\$80,938

Source: MCPS Division of Capital Planning and Real Estate, March 15, 2023

\* Average Project Cost includes the cost of planning, constructing, and furnishing a new school, but not the cost of land acquisition.

# School Impact Tax Rates and Application

- Due to construction cost inflation and the post-pandemic enrollment rebound, the raw calculation rates increased significantly in FY 2024. As such, the Council adopted Expedited Bill 25-23 to establish a 20% cap on the previous rate.
- FY 2024/2025 Rates (reflects 20% cap):

<b>SFD</b>	\$25,004	\$26,084
<b>SFA</b>	\$21,664	\$29,456
<b>MFL</b>	\$6,584	\$13,625
<b>MFH</b>	\$3,739	\$6,073

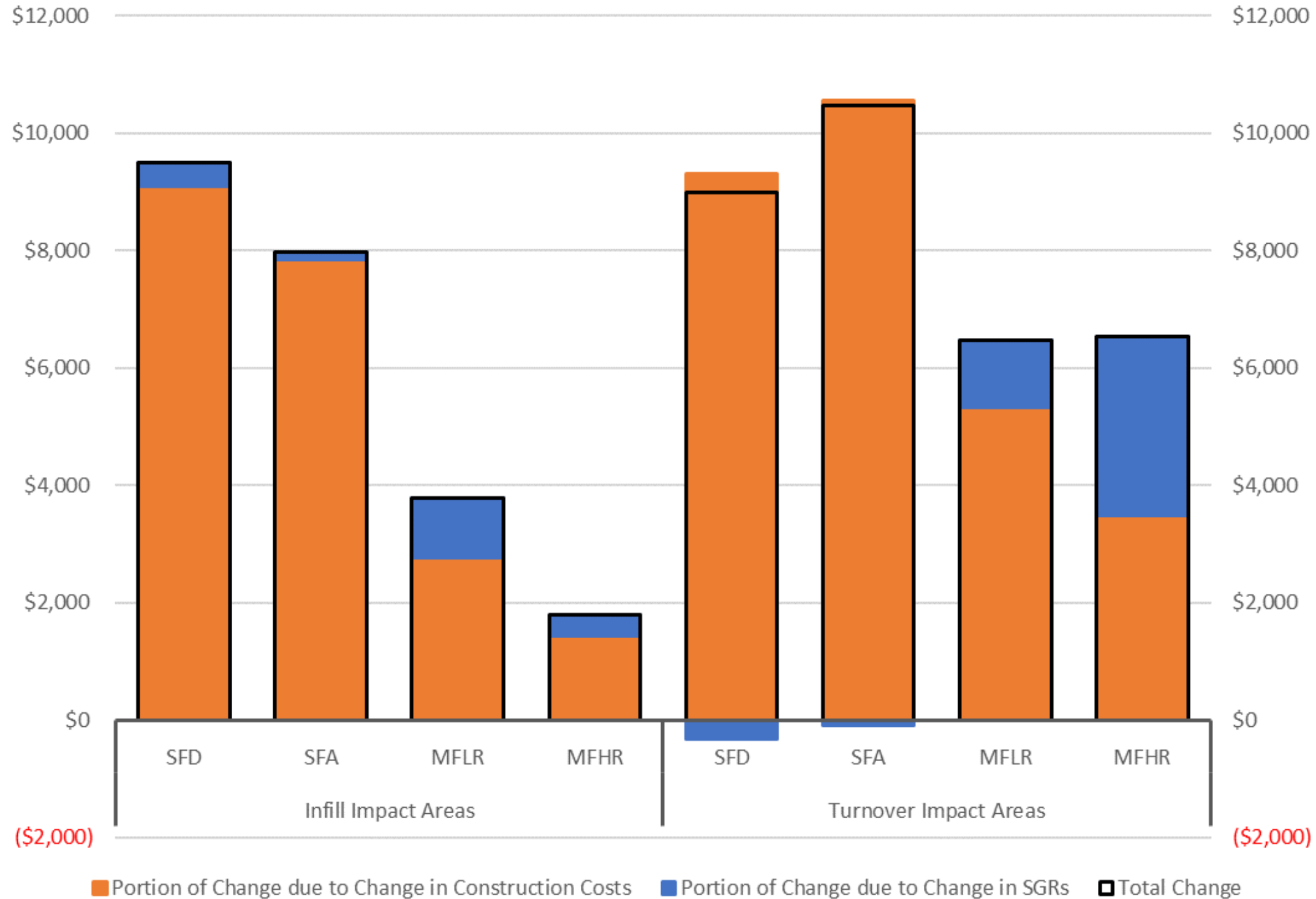
- Imposed on residential development only (including residential units of a mixed-use development), regardless of the adequacy status of the school service area in which the project is located.

# School Impact Tax

## Change in School Impact Taxes

Change in School Impact Taxes and Drivers of Change

Changes in School Impact Taxes (before Bill 25-23)		
	Infill Areas	Turnover Areas
Single-family detached	+45.6%	+41.3%
Single-family attached	+44.2%	+42.7%
Multi-family low-rise	+69.0%	+57.0%
Multi-family high-rise	+57.8%	+129.2%



# Expedited Bill 25-23/Resolution 20-214

- Modified the calculations for tax rate adjustments for transportation improvements by requiring a cumulative increase or decrease in the construction cost index rather than an annual average every two years.
- Established cap on the development impact tax rate for school and transportation improvements at 20%.
- If the biennial tax rate adjustment is calculated to exceed 20%, the excess percentage amount must be carried over and added to the next biennial adjustment.

# Transportation Impact Tax

## Definition/Calculation

- The transportation impact tax funds, in part, the improvements necessary to increase the transportation system capacity, thereby allowing development to proceed.
- **Calculation method:** the tax rates are set on July 1 of each odd-numbered year and adjusted by the cumulative increase or decrease in a published construction cost index specified by regulation over the prior two calendar years.

# Transportation Impact Tax

## Residential Uses Rates

FY 2024/2025 Rates:

Building Type	Red Policy Areas	Orange Policy Areas	Yellow Policy Areas	Green Policy Areas
Single-Family Detached	\$9,663	\$24,151	\$30,190	\$30,190
Single-Family Attached	\$7,905	\$19,761	\$24,702	\$24,702
Multi-Family Low Rise	\$6,146	\$15,366	\$19,208	\$19,208
Multi-Family High Rise	\$4,390	\$10,976	\$13,720	\$13,720
Senior Residential	\$1,755	\$4,391	\$5,488	\$5,488
Student-Built Houses	\$0	\$0	\$0	\$0

# Transportation Impact Tax

## Commercial Uses Rates

FY 2024/2025 Rates:

Building Type Per GSF	Red Policy Areas	Orange Policy Areas	Yellow Policy Areas	Green Policy Areas
Office	\$8.80	\$22.10	\$27.60	\$27.60
Industrial	\$4.45	\$10.95	\$13.85	\$13.85
Retail	\$7.85	\$19.70	\$24.60	\$24.60
Private Elem / Secondary School	\$0.70	\$1.80	\$2.25	\$2.25
Other Non-Residential	\$4.45	\$10.95	\$13.85	\$13.85
Hospital	\$0	\$0	\$0	\$0
Charitable/ Philanthropic	\$0	\$0	\$0	\$0
Bioscience Facility	\$0	\$0	\$0	\$0
Agricultural Facility	\$0	\$0	\$0	\$0
Place of Worship	\$0	\$0	\$0	\$0



# Impact Tax Exemptions

- Government buildings
  - Moderately Priced Dwelling Units (MPDUs) and other affordable housing units
    - Discounts and potentially full exemptions are provided to all residential units in a project that includes a minimum of 25% of the units as MPDUs.
  - Projects located within state-designated Enterprise Zones or federally-recognized Qualified Opportunity Zones (except for in the city of Rockville)
- School impact tax exemption only:
    - Senior housing and all non-residential development
  - School impact tax discount only:
    - Three-bedroom dwelling units in a multifamily structure located in an Infill Impact Area.
  - Transportation impact tax discounts only:
    - Projects in Council-designated Desired Growth and Investment Areas located in an Orange or Yellow Policy Area.

\*Additional discounts and credits may apply

# Review of County Impact Taxes

COUNTY DEVELOPMENT IMPACT FEES AND  
BUILDING EXCISE TAXES IN MARYLAND  
AMOUNTS AND REVENUES



DEPARTMENT OF LEGISLATIVE SERVICES 2014

- The 2013 and 2014 reports on development impact fees and building excise taxes from the State of Maryland was the starting point of the research
- Similar work was done by another intern in 2020

# Initial Data Collection

- Data sources and clarity varied widely across jurisdictions
- County Code or jurisdiction websites are the primary sources
- Excel chart collecting the following qualitative data:
  - Update year
  - Fee amounts
  - Determining factors
  - Notes on implementation
  - Link to data source



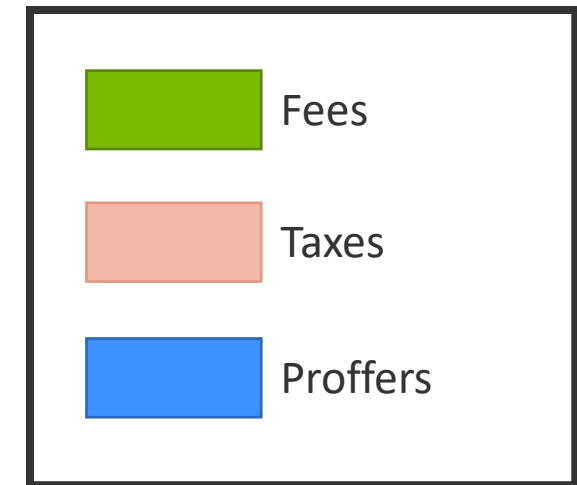


# Data Visualization

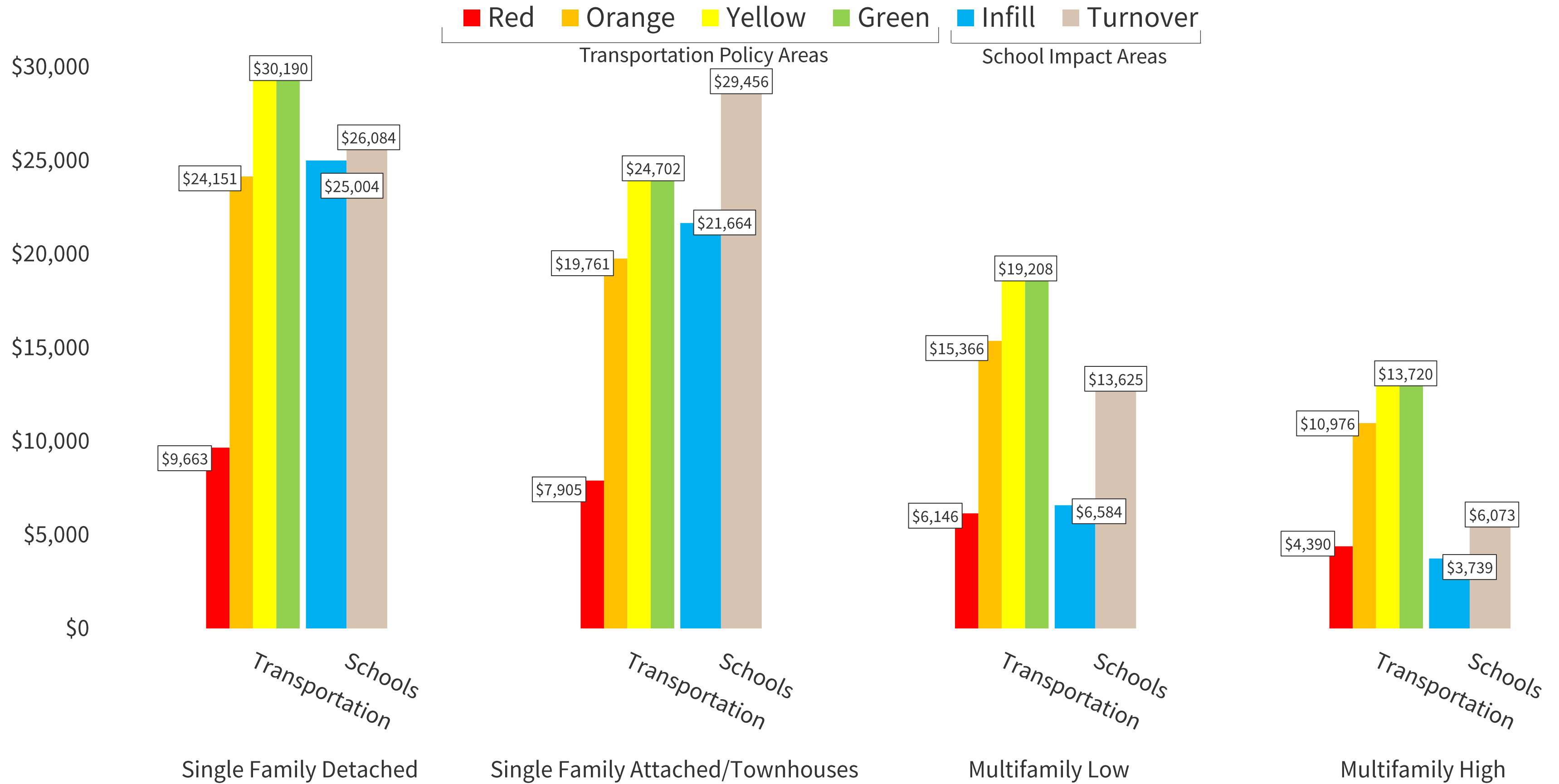
- Organized the more qualitative data into a quantitative format
- Included several different iterations of data organization to be able to produce the desired outcomes
- Also included an element of GIS to get a sense of the cost of impact taxes specifically in Montgomery County

# Existing Development Fees Types By County

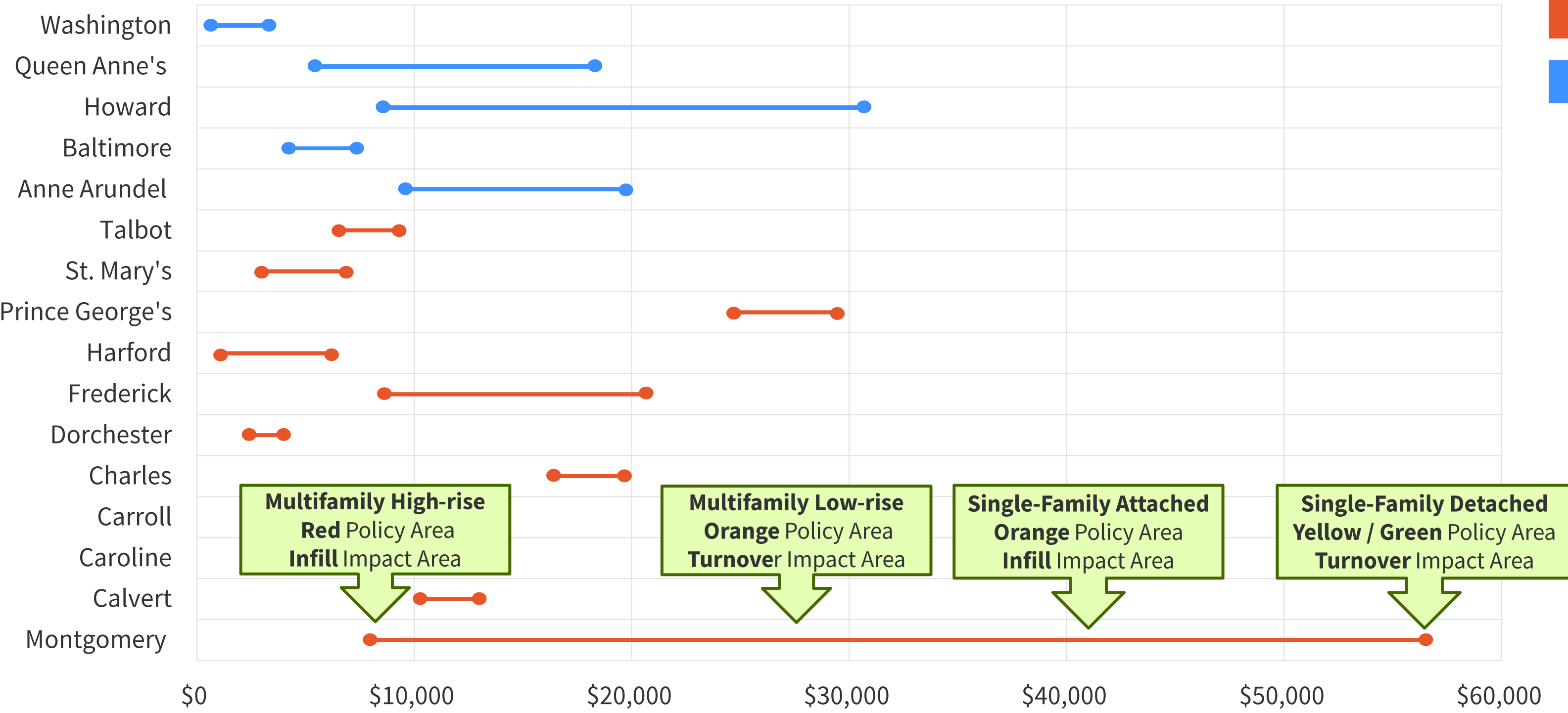
Jurisdiction	Schools	Transportation	Parks/Rec	Public Safety	Library	Solid Waste	General Gov	Comm College
Montgomery	Taxes	Taxes						
Anne Arundel	Fees	Fees		Fees				
Baltimore*	Fees	Fees		Fees				
Calvert	Taxes	Taxes	Taxes			Fees		
Caroline	Fees			Fees				
Carroll	Fees							
Charles	Taxes							
Dorchester *	Taxes				Taxes			
Frederick County	Fees				Fees			
Harford *	Fees							
Howard	Fees	Taxes						
Prince George's	Fees			Fees				
Queen Anne's	Fees		Fees	Fees				
St. Mary's	Taxes	Taxes	Taxes	Taxes				
Talbot	Fees	Fees	Fees		Fees		Fees	Fees
Washington *	Taxes	Taxes	Taxes	Taxes	Taxes			
State of Virginia	Proffers	Proffers	Proffers	Proffers				



# Montgomery County Impact Tax Rate Breakdown

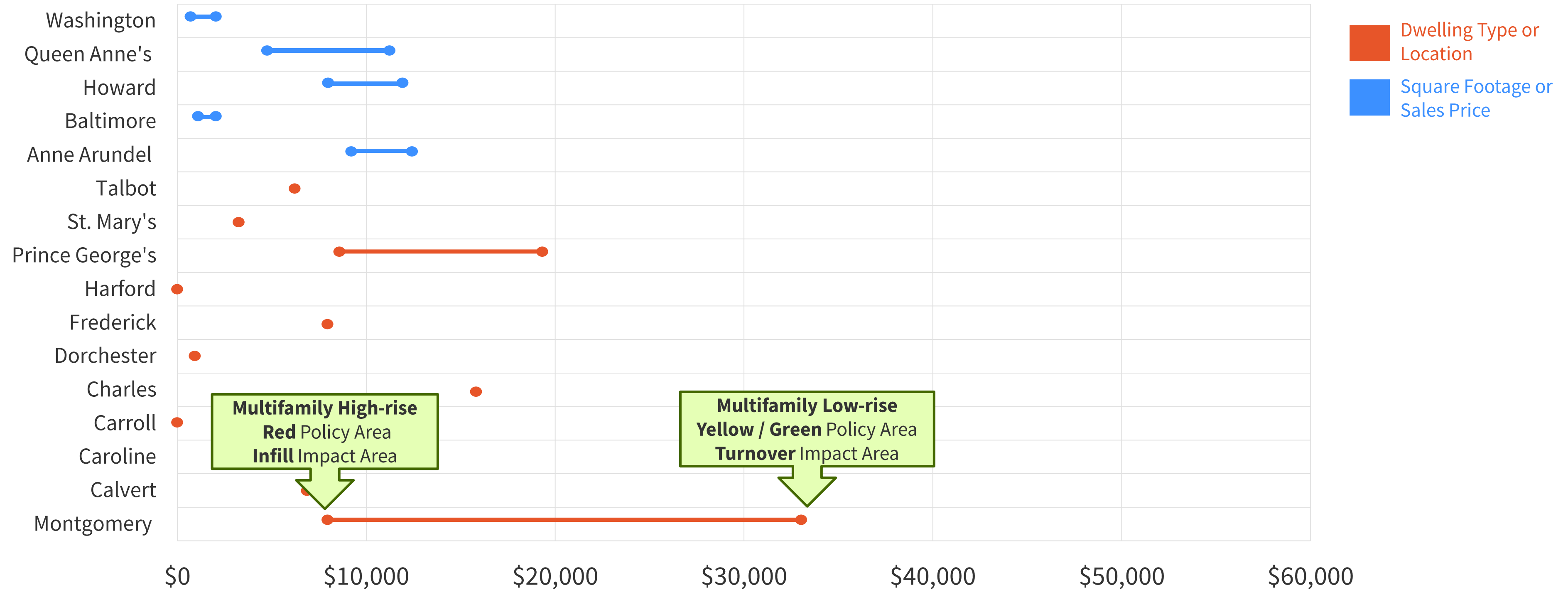


# Total Development Fee Range by County (Per Unit)



\*The graphs do not show any waivers and/or discounts related to affordable housing, Senior housing, Enterprise Zones, Opportunity Zones, or Desired Growth and Investment Areas.

# Total Impact Fee Ranges: Multifamily

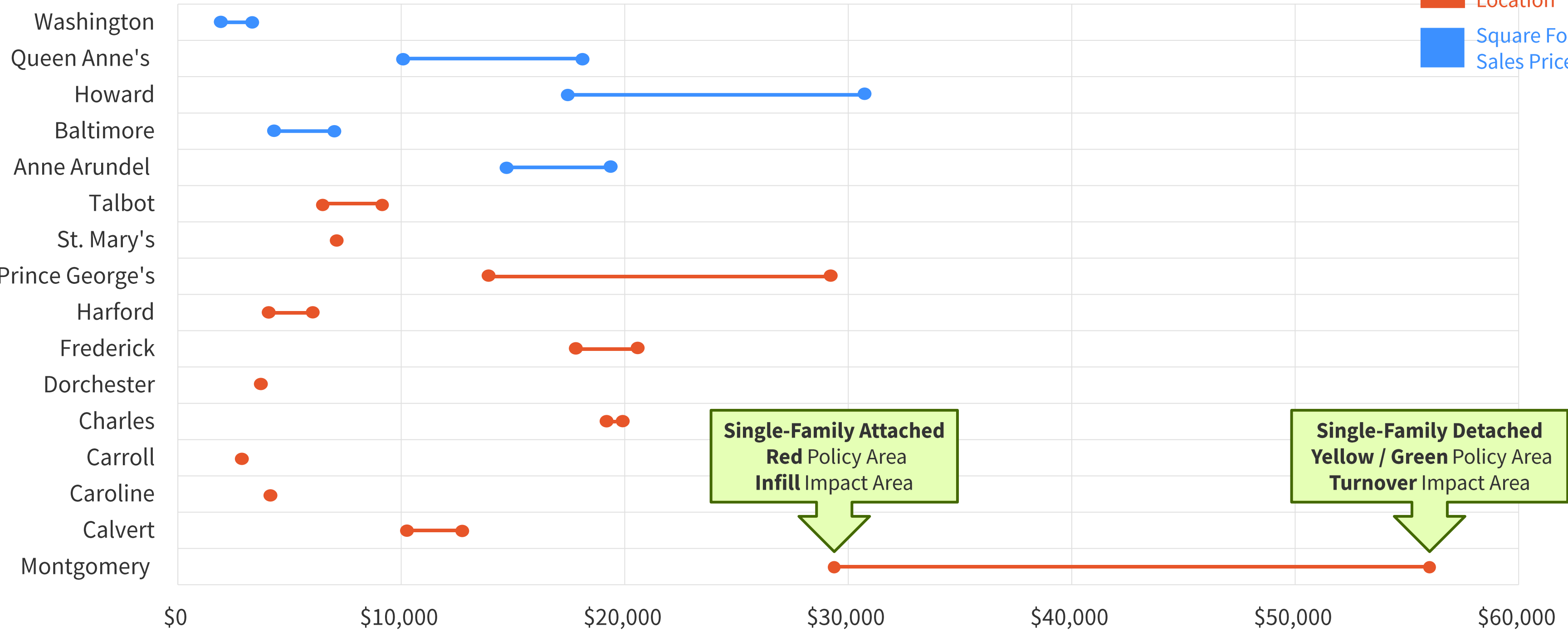


\*The graphs do not show any waivers and/or discounts related to affordable housing, Senior housing, Enterprise Zones, Opportunity Zones, or Desired Growth and Investment Areas.



# Total Impact Fee Ranges: Single Family

■ Dwelling Type or Location  
■ Square Footage or Sales Price

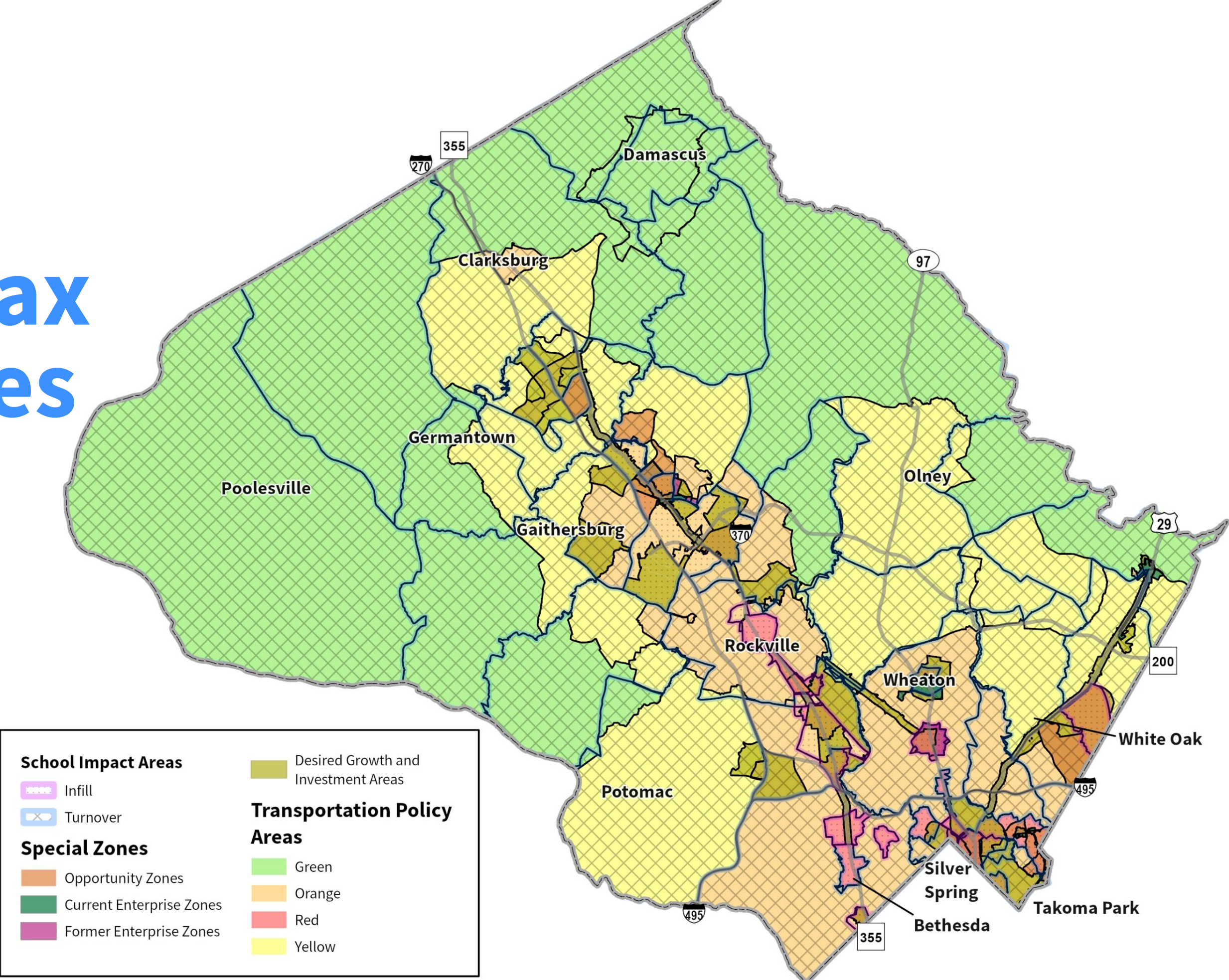


**Single-Family Attached  
 Red Policy Area  
 Infill Impact Area**

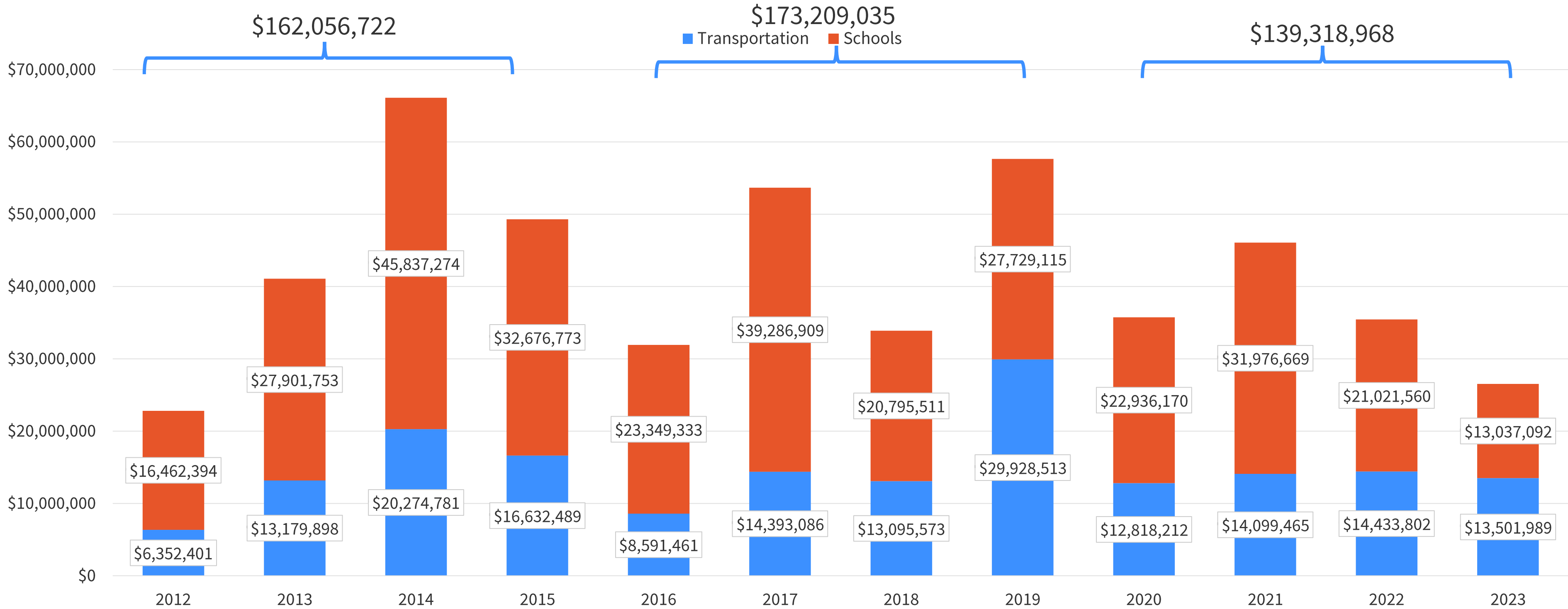
**Single-Family Detached  
 Yellow / Green Policy Area  
 Turnover Impact Area**

\*The graphs do not show any waivers and/or discounts related to affordable housing, Senior housing, Enterprise Zones, Opportunity Zones, or Desired Growth and Investment Areas.

# Impact Tax Categories



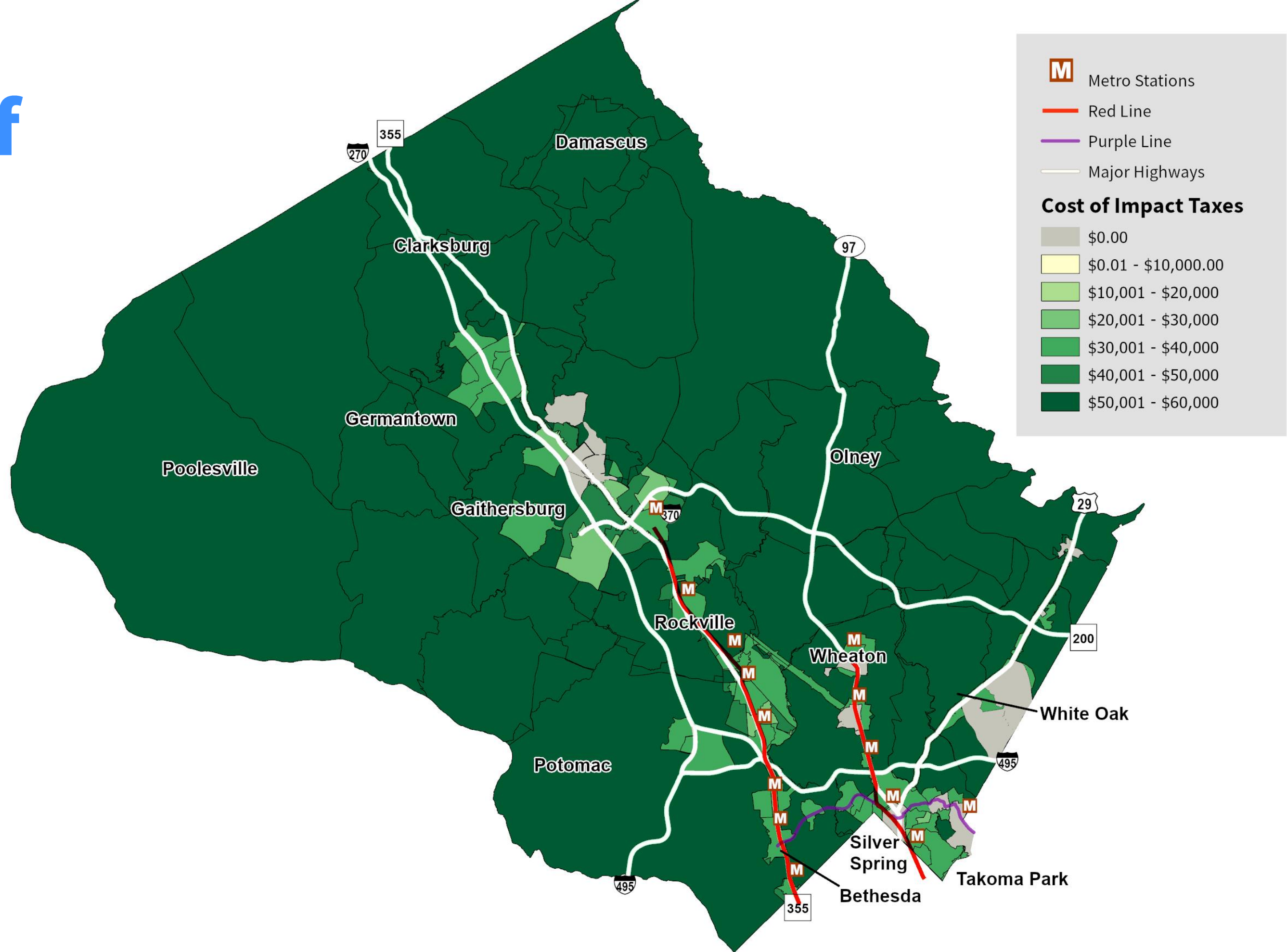
# Total Impact Tax Revenues in Montgomery County



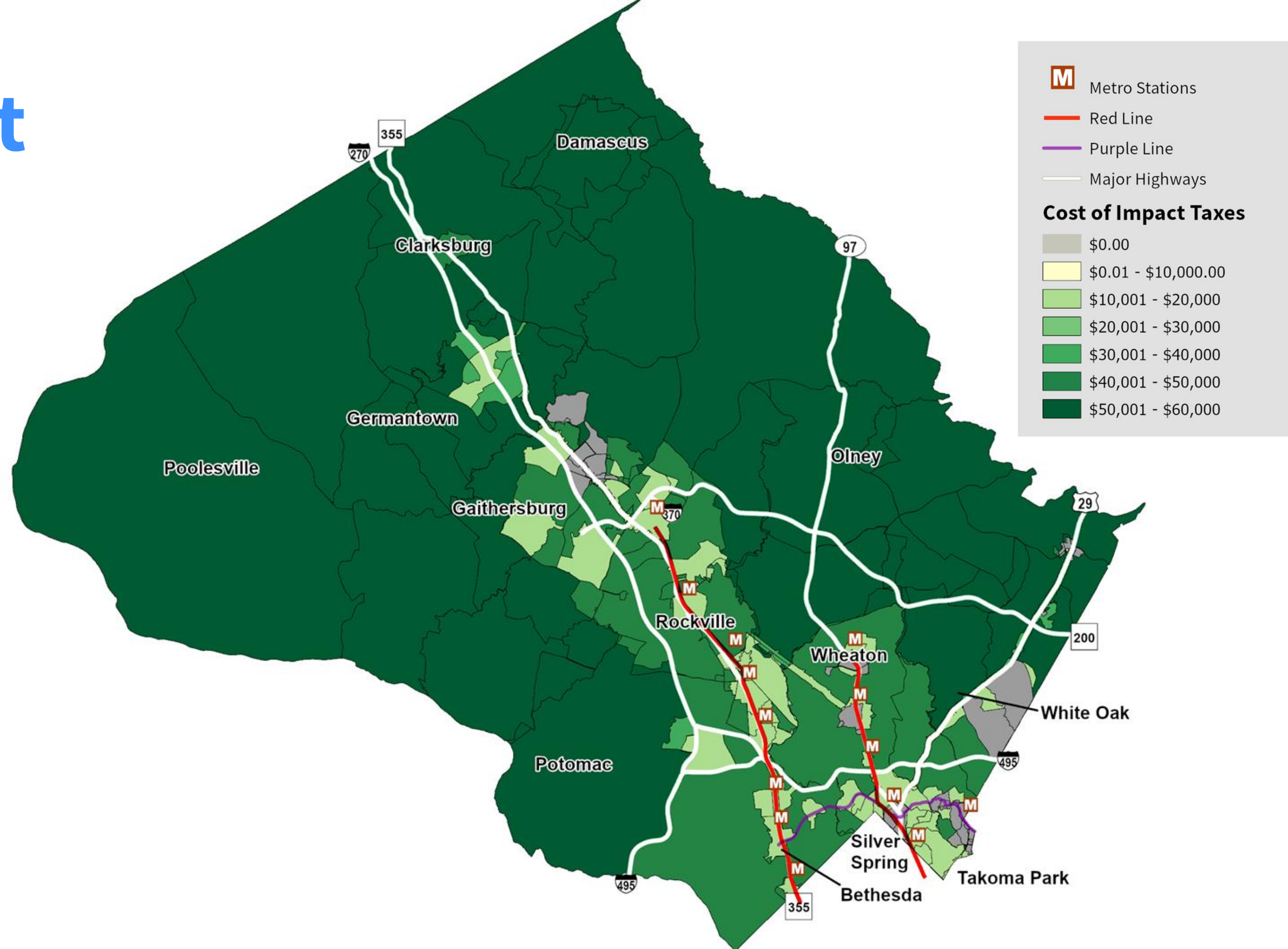
# Total Cost of Impact Taxes Maps

- Maps show the total cost of impact taxes in the county.
- The maps include transportation policy areas and school impact areas costs.
- The maps also include:
  - Desired Growth and Investment Areas discounts for transportation impact taxes.
  - Opportunity Zone waivers.
  - Current Enterprise zone waivers.
- The maps do **NOT** include project specific discounts and waivers (i.e. senior housing, affordable units, 25% MPDU discounts/waivers, three-bedroom dwelling units in a multifamily structure located in an Infill Impact Area).

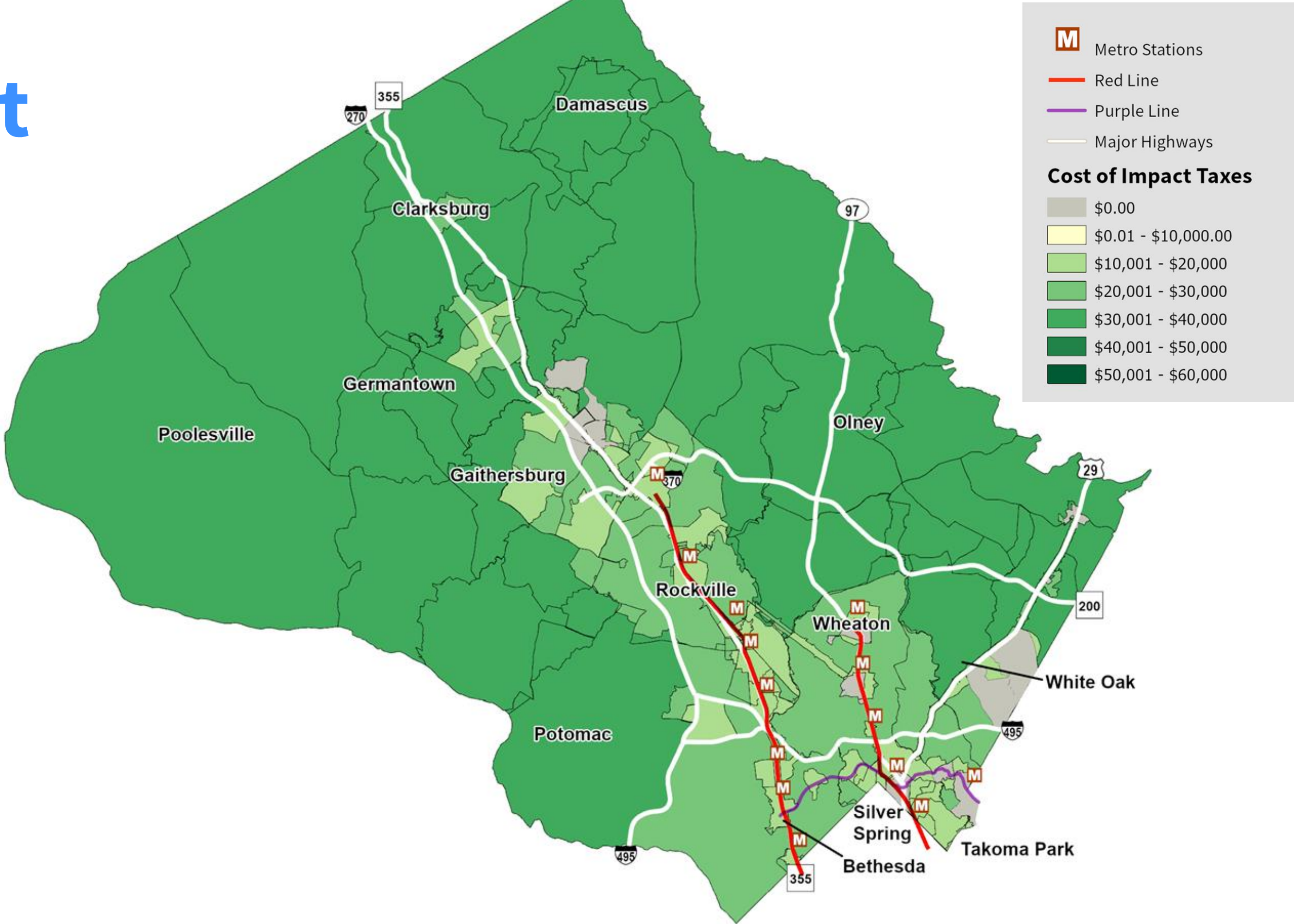
# Total Cost of Impact Taxes: Single-Family Detached



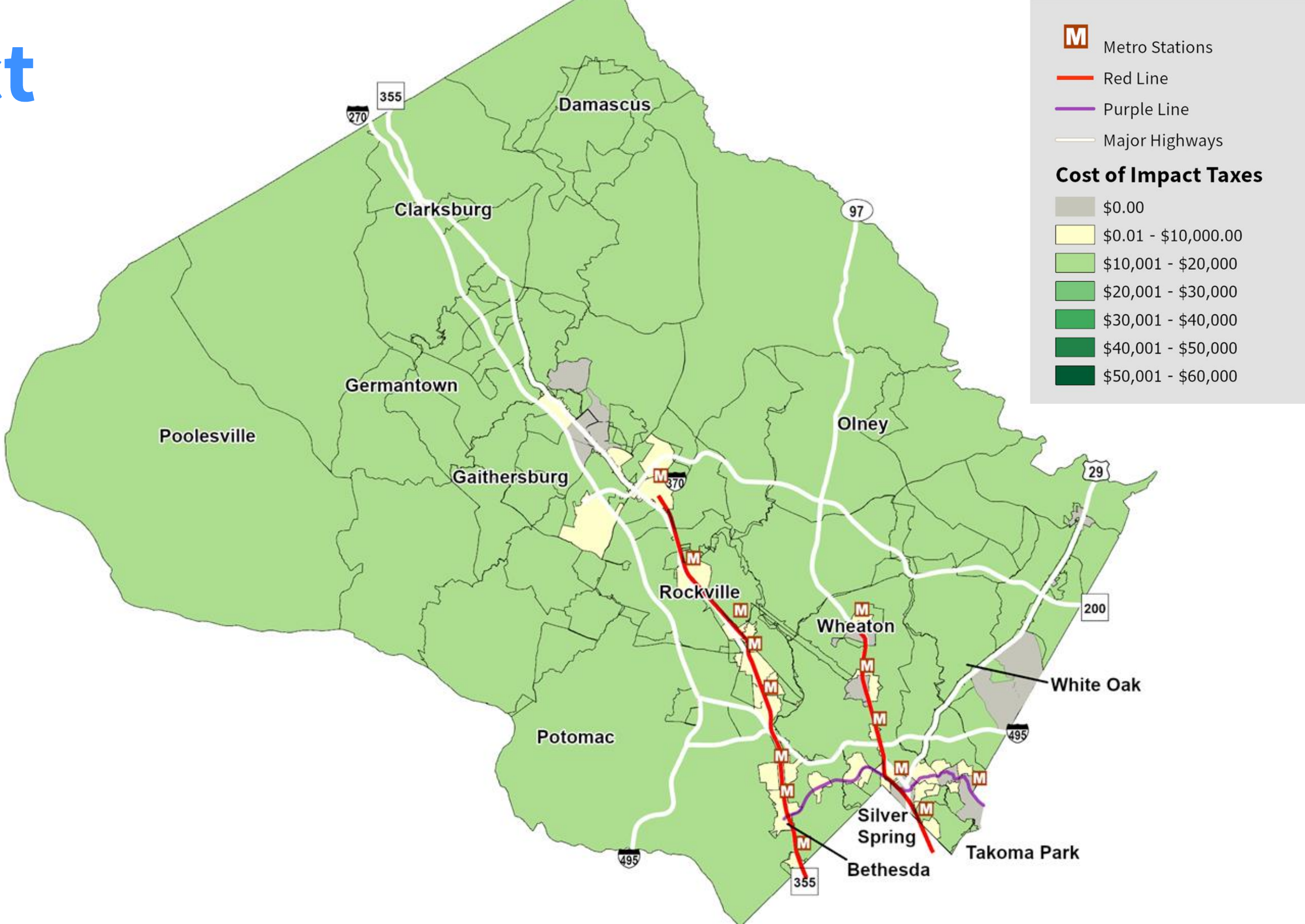
# Total Impact Taxes: Single-Family Attached



# Total Impact Taxes: Multifamily Low



# Total Impact Taxes: Multifamily High





# Utilization Premium Payment Rates and Application

- Assessed in addition to school impact tax for residential units proposed in school service areas found to be overutilized by the Annual School Test.
- The following factors are applied to school impact tax rates.

School Level	Payment Factor			
	No UPP	Tier 1	Tier 2	Tier 3
Elementary School	-	16⅔%	33⅓%	50%
Middle School	-	10%	20%	30%
High School	-	13⅓%	26⅔%	40%
<b>Total</b>	-	<b>40%</b>	<b>80%</b>	<b>120%</b>

# Recordation Tax

- The recordation tax is paid on the sale of a property by the purchaser.
- The tax is progressive in that the amount paid is based on the sales price of the property and the rate paid increases at higher sales prices.
- The recordation tax is another source of funding for the MCPS Capital Improvements Program (CIP).

# Recordation Tax Terms

- Three elements of the recordation tax:
- “Base” recordation tax – The “base” recordation rate is paid on the sale price or, if refinancing, on the additional amount borrowed over the remaining principal
  - if acquiring a home as a first-time homebuyer, the first \$100,000 of the sale cost is exempt.
- The “school increment” went into effect in 2004. It is also based on the sale price or, if refinancing, on the additional amount borrowed over the remaining principal.
  - The net revenue must be reserved for and allocated to the cost of capital improvements to public schools.

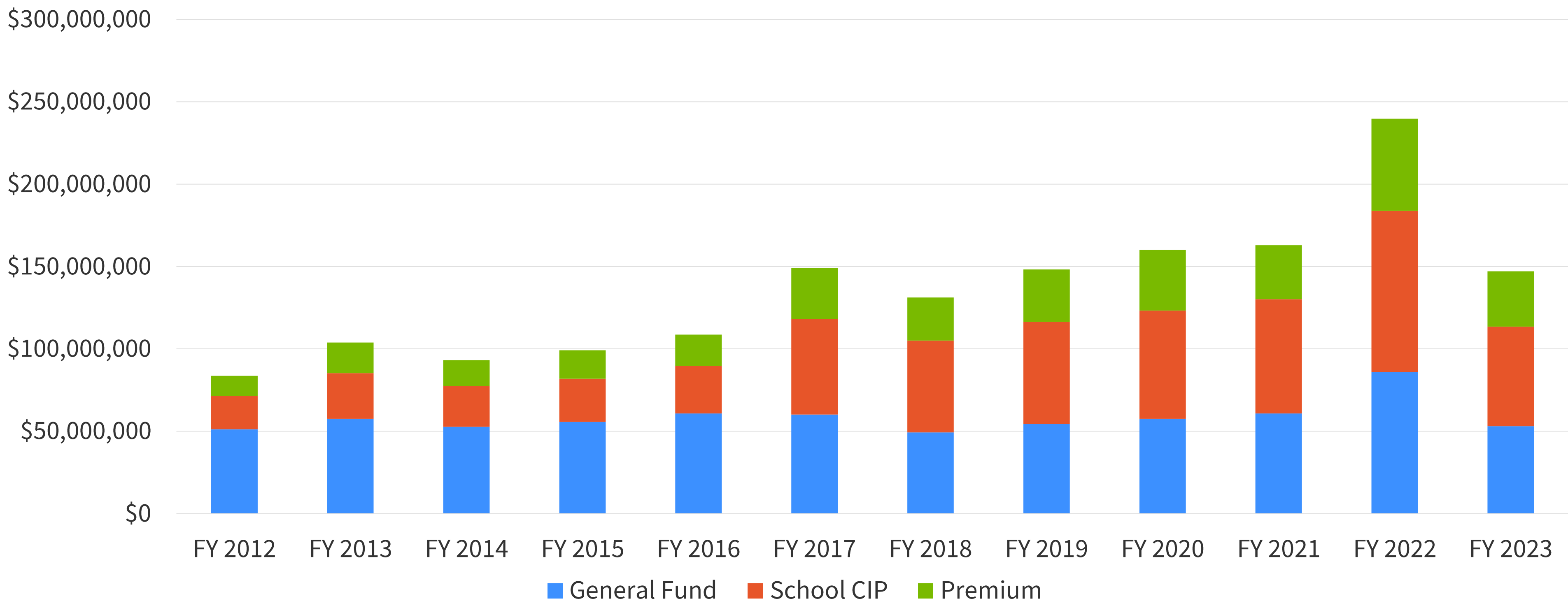
# Recordation Tax Terms

- Three elements of the recordation tax:
- The “Recordation Tax Premium” went into effect in 2008. Unlike the other two elements, the Premium applies only to the cost of a property or a refinancing that is more than \$500,000.
  - 1/3<sup>rd</sup> for the cost of County government capital improvements; an
  - 1/3<sup>rd</sup> rent assistance for low- and moderate-income households, which must not be used to supplant any otherwise available funds; and
  - 1/3<sup>rd</sup> for the cost of capital improvements for public schools.

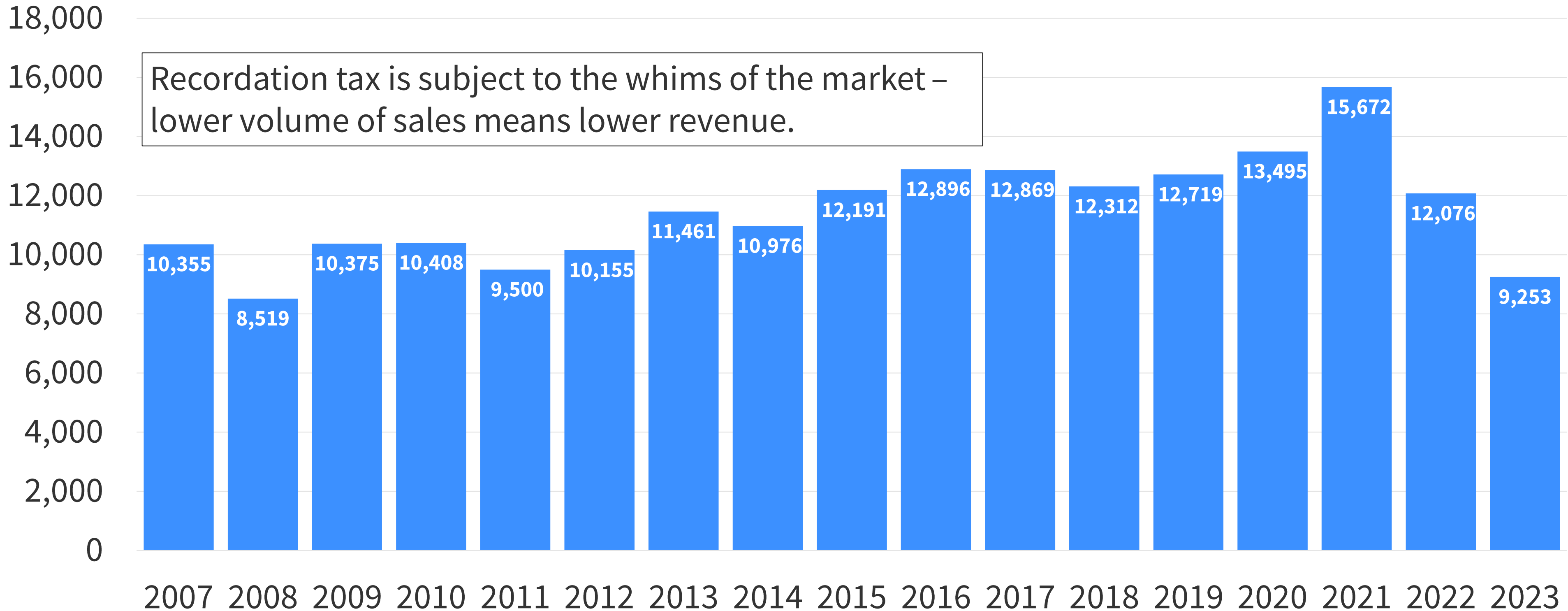
# Bill 17-23 Recordation Tax Changes effective October 1, 2023

	Consideration Paid	Old Rates	New Rates
Base Rate	All Amounts	\$2.08 /\$500	Same (No Change)
School Increment Rate	All Amounts	\$2.37/\$500	Same (No Change)
Premium 1 Rate	(\$500,000 to \$600,000)	\$2.30/\$500	Same (No Change)
Premium 2 Rate	(\$600,000.01 to \$750,000)	\$2.30/\$500	\$5.75/\$500
Premium 3 Rate	(\$750,000.01 to 1,000,000)	\$2.30/\$500	\$6.33/\$500
Premium 4 Rate	(\$1,000,000.01 and over)	\$2.30/\$500	\$6.90/\$500
<i>Premium: 1/3<sup>rd</sup> goes to the cost of county government capital improvements, 1/3<sup>rd</sup> for rental assistance, and 1/3<sup>rd</sup> for the cost of capital improvements for public schools.</i>			

# Recordation Tax Revenue



# Housing Units Sold

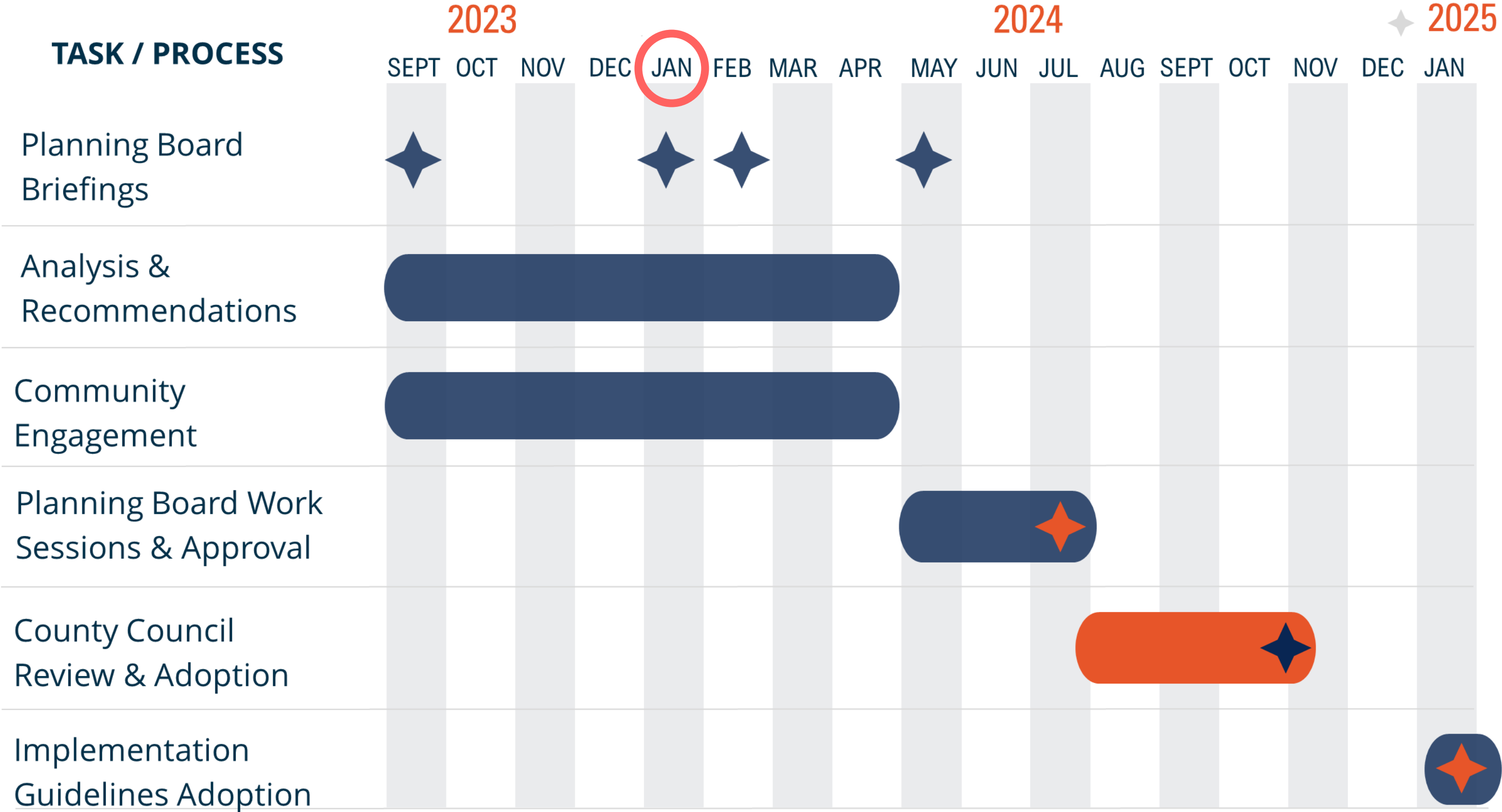


# Discussion

- Do you think the current impact system regime is working?
- Does the current impact tax system incentivize the type of housing we want, in the places we want to see it?
- Do we have the right exemptions for impact taxes?
- Are there any other discounts or exemptions we should look into?
- Any other additional research we should conduct?



# Project Schedule



# STAT #4 Preview

- Review housing and enrollment data by area
- Briefing on:
  - Student Generation Rates
  - School Impact Area classifications
- Circle back on previous topics and discuss potential areas of improvement in current GIP.