

Department of Legislative Services  
Maryland General Assembly  
2002 Session

FISCAL NOTE  
Revised

Senate Bill 628

(Senator Middleton)

Budget and Taxation

Ways and Means

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Charles County - New School Capacity Financing Mechanism

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This bill alters the financing mechanism for new public school facilities in Charles County by repealing the existing school construction impact fee and establishing a new school construction excise tax. Charles County may issue ten-year new school capacity construction bonds to be repaid with revenues from the school construction excise tax.

The bill takes effect June 1, 2002.

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Fiscal Summary

**State Effect:** None.

**Local Effect:** Charles County revenues would increase by a significant amount. Expenditures would not be affected.

**Small Business Effect:** Potential minimal.

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Analysis

**Bill Summary:** Charles County is authorized to issue up to \$100 million in new school capacity construction bonds to fund all county costs in providing new school facilities. The bonds would be repaid over a ten-year period by a special excise tax levied against new residential property. For fiscal 2003, the special excise tax may not exceed \$9,700 for a single-family detached home, \$9,200 for a town house, and \$7,000 for a multifamily housing unit. The maximum excise tax in future years is adjusted by the change in the producer price index for the materials and components for construction. The special excise tax constitutes a lien on the real property for a ten-year period or until the lien is

satisfied by repayment. If revenue from the special excise tax is insufficient to cover debt service costs, the county can impose an ad valorem tax on all assessable property within the county and other taxes as necessary to cover the debt service expenses.

The Charles County Commissioners must: (1) conduct an annual study to determine the current school construction costs and the current pupil generation rate by dwelling type before setting the excise tax rate; and (2) hold a public hearing prior to issuing new school capacity construction bonds and enacting an ordinance to implement the excise tax. The Charles County Commissioners must report to the General Assembly on or before August 1 of each year, on the following items for the preceding fiscal year: (1) the amount of the excise tax; (2) the amount of the bond proceeds; (3) the number of parcels of real property improved by new residential development; and (4) the number of square feet of new public school capacity approved for construction in Charles County by the Interagency Committee on School Construction.

**Current Law:** Charles County is authorized to impose a maximum \$5,000 impact fee on new residential construction. The county must demonstrate a rational nexus for the impact fee through a comprehensive impact fee analysis.

**Background:** The General Assembly authorized Charles County to impose a school construction impact fee in 1989 to offset the local costs of providing new public school facilities to accommodate residential growth. The impact fee was set by school type and housing type within each defined school district. The maximum fee authorized by the General Assembly was \$3,500 for a single family detached dwelling with townhouses and multi-family units paying a lesser amount. The impact fee was based on student generation rates by housing type. Chapter 287 of 1998 increased the maximum impact fee that can be imposed on new residential construction from \$3,500 to \$5,000 per unit.

Based on an analysis by Tishcler and Associates, the cost to provide new school facilities to accommodate residential growth has exceeded the impact fee's statutory limit, with the current impact fee accounting for only 55% of the costs to construct new school facilities. Charles County estimates the local cost to construct new public school facilities at \$33.7 million for a high school, \$17.5 million for a middle school, and \$11.2 million for an elementary school. **Exhibit 1** indicates the percentages of local school costs that are paid through existing impact fee revenues.

**Exhibit 1**  
**Charles County Share of Construction Costs**

<u>School Level</u>	<u>County Costs</u>	<u>Existing Impact Fees</u>	<u>% of Costs</u>
Elementary School	\$11,246,000	\$6,327,000	56%
Middle School	\$17,512,000	\$9,607,000	55%
High School	\$33,670,000	\$19,057,000	57%

Charles County estimates that to cover the cost of new school facilities, the impact fee on each new single-family detached dwelling would have to total \$9,674. For townhouses and multi-family units, the impact fee would have to be \$9,124 and \$6,976, respectively. **Exhibit 2** shows the estimated increase in impact fees to cover the local cost for new public school facilities. This estimate is based on the following:

- New residential construction in the county would be based on guidelines set in the county’s comprehensive plan that provides for 70% of building permits being for single-family detached dwellings, 20% for townhouses, and 10% for multi-family units.
- A new high school serves 1,600 students, a new middle school serves 940 students, and a new elementary school serves 704 students, as established by the official policy of the Charles County Board of Education.
- The number of students per single-family detached dwelling is 0.17 for a high school, 0.13 for a middle school, and 0.24 for an elementary school.
- Issuing 10,650 building permits for new residential construction (including single-family detached dwellings, townhouses, and multi-family units) would require the need for a new high school; 7,673 building permits would require a new middle school; and 3,036 building permits would require a new elementary school.
- Approximately 6.6 building permits for new residential construction are issued for each additional high school student. This amount is 8.2 for a middle school and 4.3 for an elementary school.

**Exhibit 2**  
**Difference in Current Impact Fee and Actual Cost to Construct**  
**Public School Facilities Per Residential Unit**

<u>Housing Type</u>	<u>Current Fee</u>	<u>Actual Costs</u>	<u>% Difference</u>
Single-Family Detached	\$5,000	\$9,674	93.5%
Townhouses	\$5,000	\$9,124	82.5%
Multi-family	\$3,908	\$6,976	78.5%

**Local Fiscal Effect:** It is estimated that approximately 1,000 new residential units will be constructed in Charles County annually over the next five years. Assuming Charles County imposes the maximum excise tax, the new school construction excise tax could generate an additional \$4.4 million in revenue. This estimate is based on the difference between the maximum excise tax and the current impact fee. The actual revenue increase would depend upon the special excise tax rate imposed by the county.

Currently, the county collects an impact fee from developers of new residential construction. These costs are passed along to the homebuyer in the form of a higher purchase price. Pursuant to this legislation, the county would impose a special excise tax directly on the property owner. The excise tax would be collected over a ten-year period as part of the county's property tax bill.

Assuming the county imposes a \$9,700 excise tax on single-family detached homes over a ten-year period, the homeowner's annual tax payment with interest would total approximately \$1,179. Over a ten-year period, the property owner would pay \$11,785 (\$9,700 in principal and \$2,085 in interest). This amount is equivalent to the total payments that a homeowner would make over a 30-year period for the increased mortgage cost associated with the current \$5,000 impact fee. If the current impact fee is increased to \$9,700, the homeowner's total mortgage costs associated with the impact fee over a 30-year period would total over \$22,800.

Charles County advises that a \$9,700 excise tax paid over ten years is more feasible than increasing the current impact fee to \$9,700. However, since the excise tax is collected over a shorter time period, 10 years instead of 30 years, the homeowner's annual payments under the excise tax are higher than the increased mortgage cost of an equivalent impact fee. For example, the annual cost of a \$9,700 excise tax paid over 10 years is \$1,179 compared to \$759 for an equivalent impact fee paid over 30 years. In addition, the excise tax would be an additional direct cost to the homeowner through a special tax rate on the homeowner's property tax bill, whereas the impact fee had only an indirect effect on the homeowner's mortgage payment. **Exhibit 3** shows the projected impact on a homeowner's property tax bill from the special excise tax assuming a home price of \$169,000 and a special excise tax of \$9,700 (the maximum allowed by the bill). The homeowner's mortgage payment would decrease by approximately \$391 each year for 30 years, to reflect the elimination of the \$5,000 annual impact fee that is built into the purchase price of the home.

**Exhibit 3**  
**Potential Impact on the Average County Property Tax Bill**

	<u>Annual Tax Amount</u>	<u>Annual Tax Rate</u>
County Property Taxes	\$1,717	\$1.016
School Excise Taxes	\$1,179	\$0.698
Combined Taxes	\$2,896	\$1.714

\*The estimated mortgage payment would decrease by \$391 each year for 30 years.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1017 (Charles County Delegation) - Ways and Means.

**Information Source(s):** Charles County, Department of Assessments and Taxation, Maryland State Department of Education, Department of Legislative Services

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