October 30, 2023

FISCAL AND POLICY NOTE

TO: Jennifer A. Jenkins
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin
Director of Budget and Policy Analysis

FROM: David Williams D.W.
Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Impact Statement - REVISED
CR-098-2023 The Promise School Facilities Surcharge Waiver

CR-098-2023 (*Proposed and introduced by:* The Chair of the Council at the request of the County Executive)

Assigned to the Government Operations and Fiscal Policy Committee

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A RESOLUTION CONCERNING SCHOOL FACILITIES SURCHARGE WAIVER for the purpose of approving a partial waiver of the school facilities surcharge for all the units of the mixed-use project, The Promise, a transformative Transit-Oriented Development encompassing 15 acres in unincorporated Oxon Hill, developed by Petra.

Fiscal Summary

Direct Impact

Expenditures: No anticipated expenditure impact.

Revenues: Approximately $4,860,980[1] in foregone revenue with a 50% reduction in the school facilities surcharge.

Indirect Impact

Potentially favorable.

Legislative Summary:

CR-098-2023, proposed by Council Chair Dernoga at the request of the County Executive and sponsored by Councilmembers Watson, Fisher, Hawkins, and Franklin. This Resolution was introduced on October 17, 2023, and assigned to the Government Operations and Fiscal Policy (GOFP) Committee. CR-098-2023 approves a partial waiver of the school facilities surcharge for all of the residential units located at The Promise. The legislation waives 50% of the total school facilities surcharge for the project.

Background/Current Law:

Prince George's County Code Section 10-192.01(a) requires the County Council to impose a school facilities surcharge for "new residential construction for which a building permit is issued on or after July 1, 2003."[2] The surcharge is to be used to pay for "1) [a]dditional or expanded public school facilities such as renovations to existing school buildings or other systemic changes; or 2) [d]ebt service on bonds issued for additional or expanded public school facilities or new school construction" and is not intended to supplant other County or State funding.[3] As required under Section 10-192.01(b)(1)(B), this surcharge is adjusted yearly for inflation according to the Consumer Price Index (CPI) published by the United States Department of Labor for the preceding fiscal year.[4]

In accordance with Maryland General Assembly House Bill 225 of 2019[5], codified at §10-192.01 (c)(1)(B)[6] of the County Code enables the County Council to reduce the school facilities surcharge by 50% for multi-family housing projects with a building permit issued on or after April 1, 2019, constructed within an approved Transit District Overlay Zone or where there is no approved Transit District Overlay Zone, within one-quarter mile of Metro Station or a MARC station.

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[1] This amount could be as low as approximately $4 million, should some of the units not be subject to the Surcharge.
[2] Prince George's County Code, Section 10-192.01(a).
[3] Ibid. 10-192.01(f) and (e).
[4] Ibid. 10-192.01(b)(3).
[5] Maryland General Assembly- House Bill 225
[6] Ibid. 10-192.01 (c)(1)(B).

As established under CR-069-2023[7], the Fiscal Year 2023 school facilities surcharge increased 4.9% from the previous fiscal year in accordance with the CPI. The surcharge is as follows:

- $11,560 per unit "for permits issued for buildings located between Interstate Highway 495 and the District of Columbia and for permits issued for buildings included within a basic plan or conceptual site plan that abuts an existing or planned mass transit rail station site operated by the Washington Metropolitan Area Transit Authority or by the Maryland Transit Administration; and $19,826 per unit "for permits issued for all other buildings."

Resource Personnel:

Chris Ahn, Assistant Deputy Chief Administrative Officer, Economic Development

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Discussion/Policy Analysis:

Waiving or otherwise providing exemptions from County-established charges and fees is one of several ways in which counties may incentivize businesses to move to the area. Arguments for allowing exemptions point to the long-term positive effects of more businesses or residents in an area, thereby increasing the tax base over the benefits of a one-time charge. More housing and, specifically, more compact housing would increase transit-oriented development within the Developed Tier and help meet the County's Plan 2035. The school facilities surcharge fee is considered an impact fee due to the increased population and the probable increase in school-age children living in the new units.

The Developer of The Promise, the project that is the subject of this Resolution, is requesting incentives in the form of the waiver of fifty percent (50%) of the School Facilities Surge (this Resolution) and one hundred percent (100%) of the Public Safety and Behavioral Health Surcharge (CR-097-2023[8]). In addition, the Developer is seeking a payment in lieu of taxes agreement to support the project.[9] The Developer asserts that these incentives are necessary to obtain a rate of return sufficient to make the project feasible.

The Project

The Promise (the "Project"), located at 1501 Southern Avenue Oxon Hill, MD 20745, is a proposed mixed-income development project that will have a total of 841 units, over 100 of which will be affordable and priced at affordable for residents earning 65% of the Area Median Income for the Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area.[10] It is within

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[7] CR-069-2023
[8] CR-097-2023
[9] CR-105-2023
[10] HUD Income Limits

Transportation Service Area 1, within the Southern Green Line Station Area Sector Plan.[11] The development is within 0.25 miles of the Southern Avenue Metro station and within 0.2 miles of 14 Washington Metropolitan Area Transit Authority (WMATA) bus stops.

The Developer has proposed to develop the Project into a mixed-use development, totaling roughly 810,000 gross square feet, over the course of four (4) separate phases expected to be substantially completed in 2030. The completed Project would consist of approximately 841 residential units of all types (including 134 senior living units, at least 100 affordable units, and 533 market rate units), a 12,000 square-foot grocery store, a childcare facility, over 9,000 square feet of retail space, and 133 surface and 627 structured parking spaces. The phasing of the Project is illustrated below:

PHASE	SUBSTANTIAL COMPLETION	DEVELOPMENT COMPOSITION						
		TOTAL SF	ACRES	TYPE	UNITS	GSF	PARKING	AMI
1	1/31/2027	156,948	1.67	MULTI-FAMILY	164	156,948	130	65%
2	1/31/2027	254,291	2.62	MULTI-FAMILY	283	240,053	283	
				GROCERY		12,000		
				RETAIL		2,238		
3	1/31/2029	136,459	1.11	SENIOR LIVING	134	127,006	113	
				DAY CARE		9,453		
4	1/31/2030	260,187	1.63	MULTI-FAMILY	260	253,336	210	
				RETAIL		6,851		
		807,885	7.03		841		736	

▶ **CONSTRUCTION PHASE**

Hurdle 1: MBE Compliance

▶ **PHASES 1 & 2**

Hurdle 2: Substantial completion of Phase 1

Hurdle 3: Substantial completion of Phase 2
*With grocery & retail component built and marketed for intended use

Hurdle 4: Phase 3 "Commencement Notice" submitted- 18-month clock

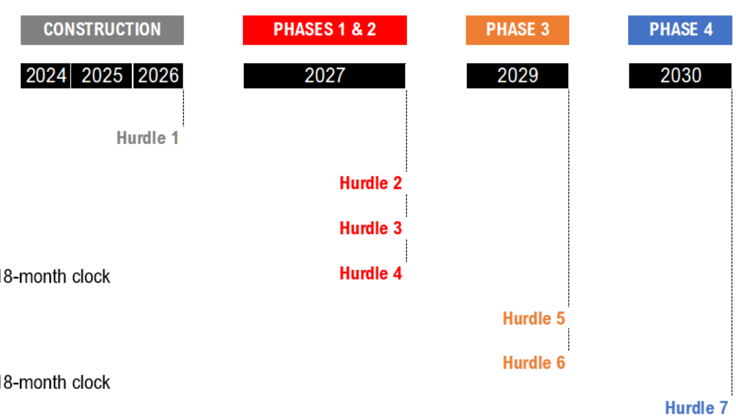
▶ **PHASE 3**

Hurdle 5: Substantial completion of Phase 3

Hurdle 6: Phase 4 "Commencement Notice" submitted- 18-month clock

▶ **PHASE 4**

Hurdle 7: Substantial completion of Phase 4
*With retail component built and marketed for intended use



[11] Prince George's County Planning Department: Southern Green Line Station Area Sector Plan

The cumulative net fiscal benefit of the project to the County through 2050, as calculated for the County's economic analysis, is $9.84 million. This figure is reached by adding the incremental real property tax revenue increases (including PILOT) and the incremental income tax revenue increases, and then netting out the incremental increases in County expenditures necessary to support the increased infrastructure demands of the Development. It is important to note that this $9.84 million figure is exclusive of the potential waiver of any surcharges; should the surcharges be waived as requested, the net benefit would be reduced by roughly $7 million.

Cumulative Net Fiscal Benefits, 2024 to 2050

Phase	Incremental Real Property Tax	Incremental Resident Income Tax	Incremental County Expenditures	Net Fiscal Benefits/(Costs)
Phase 1	$8,800,000	$7,480,000	($18,700,000)	($2,420,000)
Phase 2	$13,800,000	$20,700,000	($31,000,000)	$3,500,000
Phase 3	$7,600,000	$9,760,000	($10,400,000)	$6,960,000
Phase 4	$11,400,000	$17,000,000	($26,600,000)	$1,800,000
Total	**$41,600,000**	**$54,940,000**	**($86,700,000)**	**$9,840,000**

Also important to note are: (1) real property tax revenue and resident income tax revenue will continue beyond 2050; and (2) it is possible that this Project may serve as a catalyst for future development along the Southern Green Line corridor, leading to additional benefits to the County.

Fiscal Impact:

- *Direct Impact*

The adoption of CR-098-2023 would result in an adverse fiscal impact on the County in the form of $4,860,980, as follows:

Surcharge	times	Units		Total Revenue
$11,560	*	841	=	$9,721,960

Total Foregone Revenue with 50% waiver = $4,860,980

It is possible that some of the units in the proposed Project will not be subject to the School Facilities Surcharge, *which could reduce the amount of foregone revenue to as low as approximately $4 million*.

- Indirect Impact

The adoption of CR-098-2023 may have a favorable indirect impact in the form of increased real property and income tax revenues, as well as a potential increase in economic and development activity along the Southern Green Line Corridor.

- *Appropriated in the Current Fiscal Year Budget*

No.

Effective Date of Proposed Legislation:

The proposed Legislation shall be effective on the date of adoption.

If you require additional information or have questions about this fiscal impact, statement, please contact me.