Issue Paper #4
Revised December 4, 2013

School Construction Funding

Issue: County funding sources. Whereas the combined revenues received from projects making mitigation payments through a DRRA and the School Construction Excise Tax approximates the costs per dwelling unit, there are a large number of projects with preliminary plan approval and school allocations including St. Charles that do not pay an additional cash contribution to cover the funding shortfall. Note that St. Charles makes contributions through school site donation and infrastructure improvements to serve those sites.

Summary of Findings

The Committee found that State funding sources do not keep pace with the identified construction needs in the County or Statewide. To meet this shortfall and to augment the excise tax revenues, the Committee evaluated alternative revenue sources used in other Maryland Counties. The sources included those sources from development related fees and other general fund revenue sources. Generally, it was found that most counties need to supplement the development generated revenues and State funding to implement their Capital Improvements Program (CIP). The Committee learned that not all costs associated with the start-up of a new school including furnishings, equipment and the initial costs for staffing were taken into consideration when planning and budgeting for new schools.

Alternatives Identification

Identify and implement alternative revenue sources to supplement the shortfall from State funding and development generated funding sources. Potential sources identified were income tax increases, real estate taxes, increased DRRA contributions, School Facilities payment or fee, impact fees, transfer taxes, utility taxes and/or increased excise tax.

Revenue Source Alternatives Evaluation

Income Tax Increase – Charles County is currently at an income tax rate of 3.03%. The current maximum for counties is 3.20%. If the County increased the income tax to 3.20%, it would generate approximately **$6.0 million** per year.

Real Estate Tax Increase -- Charles County currently ranks second only to Baltimore City in property tax rates; therefore, this revenue source was not further evaluated.

~~**Increased DRRA contributions** – In 2013 the County will receive **$4.5 million** from DRRA payments. This current figure is the most indicative of the current market and school allocation program restrictions. This figure does not include Heritage Green or Scotland Heights since they are currently renegotiating their agreements. According to the Department of Fiscal and Administrative Services (DFAS), these payments from DRRAs will provide adequate funding to initiate the funding of the St. Charles High School and a new elementary school assuming that the State continues to fund their share which will reimburse the County. Increasing DRRA~~

~~contributions for future projects or phases of projects may be feasible in some cases; however, since each project has unique financing arrangements, some projects may not be able to afford increased contributions and would opt out of the voluntary program. One justification for the increased contributions is to factor in the start-up costs associated with the opening of a new school not typically considered with the evaluation of DRRA proffers.~~

School Facilities Payment – Frederick and Montgomery Counties use this form of mitigation payment over and above the established impact fees when the development will impact schools that are considered over capacity. For example, Frederick County allows a mitigation payment for schools over 100% SRC, but less than 120% of SRC. The payments are generally based on a combination of per pupil school construction costs and pupil generation rates by housing types.

Using the assumption that virtually all projects will send students to a school over SRC, estimates of potential school facilities payments are based on the current 12 month building permit numbers. The estimates below use payments from Frederick and Montgomery for a SFD with an elementary school over capacity.

County	Payment (SFD –Elem.)	Building Permits (12 mos.)	Annual Revenue
Montgomery	$6,493	796	$5.2 M
Frederick	$3,870	796	$3.1 M

Based on the estimates above, a school facilities payment approach for schools over capacity could generate revenues comparable to the current level of DRRA payments. The payments would vary based on school level and housing type.

Impact Fee – Adding impact fees would take enabling legislation. The addition of an impact fee could serve to implement the School Facilities Payment described above.

~~**Transfer tax** – Though Charles has not, most counties have enacted a transfer tax under State authority. Charles may enact up to a 0.5% tax without State legislative authority and up to 1.5% with legislative authority. If Charles applies a 0.5% tax to real estate transfers, it would yield approximately $2.5 million per year based on FY 2013 sales data.~~

Utility Taxes – Six counties have enacted utilities taxes. The State allows the Counties to tax telephone service and electricity usage. The projected revenues below are based on a per capita amount generated by other counties.

Tax	Rate	Potential Yield
Telephone	8% sales tax (Res. Only)	$1.5 million
Electricity	$0.0125 per Kwh	$1.2 million

~~**Increased Excise Tax** – The Excise Tax for School Construction is based on formulas that would need to be renegotiated with the State Legislative Delegation. One justification for the increased contributions is to factor in the start-up costs associated with the opening of a new school not considered in the formula for establishing the excise tax. Again, this would require changes in the law. Some of the start-up costs discussed by the Committee such as computers and salaries are not costs that would typically qualify for long term financing through bonds. Some items such as furnishings and library books could be financed through long term bonds as described in the Excise Tax legislation; however, the effort and expense to change the law may not offset the justifiable increase in tax.~~

Supplemental Information (Issue Paper #4)

Utility Taxes – Six counties have enacted utilities taxes. The State allows the Counties to tax telephone service and energy usage. The projected revenues below are based on a per capita amount generated by other counties.

Tax	Rate	Potential Yield
Telephone (Residential only)	8% sales tax (AA Co.)	$1.5 million
Telephone (non-residential, residential and wireless)	8% sales tax (PG Co.)	$6.3 million
Electricity	1.25% per Kwh (St. Mary's)	$1.2 million
Electricity	$0.006489 per Kwh (PG Co.)	$8.8 million

While Charles County's predominate energy usage is from electricity, it should be noted that 5 counties tax other energy sources such as natural gas, LP gas, and fuel oil.