



FREDERICK COUNTY COUNCIL

Local Government Fiscal and Policy Note

CONTACT INFORMATION AND GENERAL INSTRUCTIONS

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|---------------------------------|--|
| Bill Number/Reference: | 22-29 |
| Bill Title: | Exemption of Moderately Priced Dwelling Units from Development Impact Fees |
| Local Government Agency: | Finance Division |
| Prepared By: | Dan Lewis |
| Title: | Deputy Director of Finance |
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| Due Date: | September 27, 2022 |
| Date Submitted: | September 27, 2022 |

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| Date: <p>Please respond to the questions below. If you prefer to provide responses or additional information in a separate file or document, send the file or document in a separate e-mail to rcherney@frederickcountymd.gov with the bill number/reference in the subject line.</p> | |
| 1. | Describe the impact of this proposed legislation on your agency (operations, revenues, expenditures, etc). If there is no impact, <u>please explain why</u> . |
| <p>The proposed legislation would update and revise Chapter 1-22 (Development Impact Fee) of the Frederick County Code to exempt Moderately Priced Dwelling Units (MPDUs) from Development Impact Fees.</p> <p>Attempting to calculate the future fiscal impact related to the proposed MPDU legislation requires many variables and is complex in nature due to the unknowns related to future development for Frederick County and the various paths a developer could take when building dwelling units moving forward. The below information is a hypothetical representation based on available data at the time the fiscal note was created. Depending on decisions yet to be made by housing developers, there could be more than a \$5 million increase in revenue but this legislation also has the potential to decrease revenue by over \$11 million.</p> <p>To start, the Frederick County Residential Development Pipeline (Municipality-Residential-Development-Pipeline-July-2022 (frederickcountymd.gov)), maintained by the Frederick County Division of Planning & Permitting, was used to narrow down total approved dwelling units within Frederick County to only those that would be impacted by the proposed legislation changes. As of the last development pipeline information for Frederick County (July 2022), Frederick County has a total of 29,420 approved dwelling units yet to be build. From that total, any dwelling units (13,392) being developed within a municipal boundary were removed since properties within a municipal boundary are not subject to Frederick County's MPDU or zoning ordinances. Finally, any dwelling units (13,605) that already have an existing MPDU agreement with Frederick County were removed due to the proposed legislation only impacting future MPDU agreements. This left only 2,423 approved dwelling units that currently do not have an existing MPDU agreement.</p> <p>These developments include:</p> <ul style="list-style-type: none">• Blentlinger (675 units – 500 single family & 175 townhouse)• Casey (1,010 units – 707 single family & 303 townhouse)• Daysville Glen (95 units – 95 single family)• Ridges at Long Branch [Ratley] (43 units – 43 single family)• Cromwell (600 units - *443 single family & 157 townhouse)<ul style="list-style-type: none">○ *Note – No Development Rights and Responsibilities Agreement (DRRA) currently exists for the Cromwell development, so the unit split was derived from the weighted averages of the other new developments in the pipeline (listed above). | |
| 2. | Please indicate whether the proposed legislation will affect small businesses in Frederick County, and if it will, please provide any information you may have which could be useful in determining the economic impact on small businesses. |
| N/A – This legislation will not have an impact on small businesses in Frederick County. | |

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| FISCAL IMPACT SUMMARY – SHOW (DECREASE) IN PARENTHESES | | | | | | |
|---|--|---------|---------|---------|---------|---------|
| <u>REVENUES</u> | | | | | | |
| 3. | Analysis of estimated increase (or decrease) in government revenues . Please estimate below any anticipated increase (or decrease) in revenues resulting from this legislation. Please be aware of any delayed effective dates in the bill or other factors that may cause revenue increases/decreases to begin in later years. | | | | | |
| Source | | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| See below narrative – potential for more than a \$5 million revenue increase or over \$11 million decrease to revenues once all approved development occurs. | | | | | | |
| TOTAL \$ | | \$ | \$ | \$ | \$ | \$ |
| Please explain how the above estimated increase(s) or decrease(s) were arrived at, including any calculations and/or assumptions made. Please also explain any variation if the revenue increase(s)/decrease(s) are not constant. | | | | | | |
| <p>As mentioned above, the proposed legislation has several paths that can be taken as development continues in Frederick County and cannot easily be tied to a particular fiscal year or range of fiscal years, so the revenue impact is outlined below per scenario identified. This information is based on the approved dwelling units (2,423) currently known by the Frederick County Division of Planning and Permitting (DPP) that are not currently under an existing MPDU agreement.</p> <p><u>Scenario 1</u> – All approved development units (2,423) opt out of building MPDU's and pay the new payment-in-lieu (PIL) fee of \$2 per square foot as set forth in the proposed legislation.</p> <ul style="list-style-type: none">Under this scenario, it is estimated that an <u>additional \$5,546,416</u> in revenue will be collected in the <u>Housing Initiative Fund</u> (26 Fund) as all of the proposed development units are built out in the coming years.Note – One approved community, Cromwell, is not currently under a DRRA so its dwelling unit split was assumed based on the weighted average of all new communities in the building pipeline. <p><u>Scenario 2</u> – All required MPDU's are built for each new community and no PIL funds were collected as an opt out.</p> <ul style="list-style-type: none">Under this scenario, it is estimated that the County's <u>Impact Fee</u> revenue would <u>decrease by \$5,691,516</u> and the <u>Housing Initiative Fund's</u> (26 Fund) revenue would <u>decrease by \$5,546,416</u> as all of the required MPDU's are built out in the coming years.No revenue would be collected for either the <u>Impact Fee</u> (43 Fund) or the <u>Housing Initiative Fund</u> (26 Fund).<ul style="list-style-type: none">Impact fees are used to support school construction and libraries throughout Frederick County and would be <u>impacted negatively</u> in this scenario.Housing Initiative Funds are used to support local affordable housing opportunities in Frederick County and would be swapped for MPDU's in this scenario. | | | | | | |

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| <u>EXPENDITURES</u> | | | | | | |
|--|---|----------------|----------------|----------------|----------------|----------------|
| 4. | Analysis of estimated increase (or decrease) in government expenditures . Please estimate below any anticipated increase (or decrease) in expenditures resulting from this legislation. Please be aware of any delayed effective dates in the bill or other factors that may cause expenditure increases/decreases to begin in later years. | | | | | |
| A. Salaries & Wages | | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| FTE Employees - _____ # of positions Fringe Benefits | | \$0 | \$0 | \$0 | \$0 | \$0 |
| TOTAL (Salaries, wages & benefits) | | \$0 | \$0 | \$0 | \$0 | \$0 |
| | Please provide an explanation of the need for the number and type of any personnel listed above, including (1) what specific provision(s) of the bill necessitate additional staff; (2) what the duties of each type employee will be; and (3) why existing personnel cannot absorb the additional work. Please also certify the wage/salary rate and % fringe rate (if differing rates apply) for each personnel classification. | | | | | |
| B. Other Operating Expenses | | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
| Technical/Special Fees, Grants/Subsidies Communications-Phone, Postage Travel, Food, Auto, Fuel & Utilities Contractual Services Supplies Equipment-Replacement Equipment-Additional Land & Structures, Fixed Charges Other (Please Specify on Extra Page(s)) | | \$27,000 | \$27,000 | \$27,000 | \$27,000 | \$27,000 |
| TOTAL (Expenditures) | | \$27,000 | \$27,000 | \$27,000 | \$27,000 | \$27,000 |
| | On the next page, please provide brief descriptions/breakdowns of the above "Other Operating Expenses." | | | | | |
| | Please explain below any additional calculations or assumptions made in estimating the "Other Operating Expenses" that will help us to understand the amounts and timing of the expenses. | | | | | |
| <p>The MPDU workgroup, comprised of stakeholders across the Frederick County community, utilized various data sources in their MPDU analysis. One participant in the MPDU workgroup had access to a source called Zonda Analytics. This source was found to provide most of the data necessary to determine the updated payment-in-lieu fee structure. No County agency currently has access to this data source, so an annual subscription is needed to perform the payment-in-lieu calculation moving forward.</p> | | | | | | |

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4. (cont'd)

C. Operating Expense Descriptions/Breakdowns

Please provide below a short description of the specific purpose of each expense listed under 4B. If any amount(s) listed under 4B represent(s) a total of multiple expenses, provide a breakdown of the fiscal 2021 amount with a short description of each expense (for example, if \$2,500 is listed for Communications – Phone, Postage, a statement such as “\$1,500 for cellphone charges for two new inspectors and \$1,000 for postage for mailings to permittees to notify them of changes to inspection requirements.”)

Fiscal 2023 Expenditures

| | |
|---|--|
| Technical/Special Fees, Grants & Subsidies description/breakdown | \$ |
| Communications – Phone, Postage description/breakdown | \$ |
| Travel, Food, Auto Operations, Fuel & Utilities description/breakdown | \$ |
| Contractual Services description/breakdown | \$27,000 Annual subscription to Zonda Analytics |
| Supplies description/breakdown | \$ |
| Equipment-Replacement description/breakdown | \$ |
| Equipment-Additional description/breakdown | \$ |
| Land & Structures, Fixed Charges description/breakdown | \$ |
| Other (Please Specify) description/breakdown | \$ |

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ADDITIONAL POLICY IMPLICATIONS/CONCERNS

The data used by the MPDU workgroup is multiple years old at this point and several variables (i.e., housing prices, mortgage interest rates, etc.) have changed significantly over the last several years.

The Board of Governors of the Federal Reserve System have raised interest rates five times so far in calendar year 2022 and there are no signs of this rate hike cycle slowing any time soon. Rates have gone from near zero percent early on in 2022 to over three percent during this time period and have caused corresponding mortgage rates to jump to over 6% (30-year fixed rate) as of 09/22/22. Based on updated HUD Area Median Income for the Washington-Arlington-Alexandria metro area (AMI - 2022), converted Frederick County Area Median Income (FCMI), and the interest rate on a 30-year fixed-rate mortgage, the Affordability Gap widens to over \$75,000. This then creates a per unit fee of almost \$9,400 on all MPDU's or an estimated payment-in-lieu fee of over \$3 per square foot.