MONTGOMERY COUNTY, MARYLAND

2020

A Review of the Proposed County Growth Policy: Exploring Sustainable Solutions to School Overcrowding

ANALYSIS AND RECOMMMENDATIONS

REPORT BY OLIVIA RAINES
SUMMER FELLOW, MONTGOMERY COUNTY ECONOMIC DEVELOPMENT CORPORATION, 2020
ORAINES@LIVE.UNC.EDU

Table of Contents

About the Fellow

Olivia Raines is a Master's candidate at the University of North Carolina at Chapel Hill, pursuing her degree in City and Regional Planning with a focus in housing and community development. Olivia is passionate about downtown economic development, exploring the impact of public-private partnerships, and how towns can attract private investment and retain business. She is also interested in affordable housing policy, and the connection between historic preservation and maintaining affordable housing. Prior to attending UNC, Olivia received her B.A. in Global Development Studies at the University of Virginia, and then spent two years as a services coordinator for an affordable housing non-profit in Charlottesville, Virginia.

Acknowledgements

This report was made possible by the dedicated staff throughout Montgomery County government as well as the Montgomery County Economic Development Corporation. Special thanks to Pamela Dunn, Sarah Miller, and Brandon Bedford, who provided direct guidance through each stage of the report writing process.

Additionally, this report was enriched by the insights gained from conversations with several dedicated current and former members of Montgomery County; Glenn Orlin, Jason Sartori, Jane Lyons, Karl Moritz, and many others.

Finally, the tireless work of the Montgomery County Planning Board to produce the 2020-2024 proposed draft of the County Growth Policy provided a wealth of information used for the report.

Methodology

1. Preliminary research of the proposed County Growth Policy 2020-2024. Cursory reading of online materials, working group presentations, and public hearings.

2. Interviews with various stakeholders in the public and private sector – included local government employees. Gained qualitative information on various aspects of previous Subdivision Staging Policies.

3. Overview of available data and data analysis to assess financial, economic, and infrastructural impacts of SSP policies.

4.Literature review of reports, articles, government materials, case studies, and other scholarly sources.

Definitions

CLUSTER: A SCHOOL CLUSTER IS DEFINED BY AN INDIVIDUAL HIGH SCHOOL AND CONSISTS OF THE ELEMENTARY AND MIDDLE SCHOOLS THAT FEED INTO THAT HIGH SCHOOL. THERE ARE CURRENTLY 25 CLUSTERS WITHIN MONTGOMERY COUNTY.

IMPACT TAX: A CHARGE COLLECTED BY THE MONTGOMERY COUNTY DEPARTMENT OF PERMITTING SERVICES TO HELP PAY THE COSTS OF PROVIDING PUBLIC FACILITIES IN DESIGNATED AREAS. THE TAX IS GENERALLY COLLECTED AT THE TIME OF BUILDING PERMIT.

MORATORIA: A TEMPORARY HALT ON APPROVAL OF NEW RESIDENTIAL DEVELOPMENT APPLICATIONS THAT OCCURS WHEN CAPACITY UTILIZATION IN A SCHOOL OR CLUSTER MEETS CERTAIN THRESHOLDS. WHEN AN AREA IS IN MORATORIUM, PREVIOUSLY APPROVED PROJECTS CAN CONTINUE TO MOVE FORWARD.

STUDENT GENERATION RATE: A RATIO CALCULATING THE AVERAGE NUMBER OF STUDENTS PER DWELLING UNIT.

UTILIZATION: CAPACITY UTILIZATION IS THE RATIO BETWEEN A SCHOOL'S ENROLLMENT AND CAPACITY. A SCHOOL WITH A CAPACITY UTILIZATION OF 120% MEANS THAT ITS ENROLLMENT EXCEEDS THE SCHOOL'S CAPACITY BY 20%.

GREENFIELD DEVELOPMENT: CONSTRUCTION ON PREVIOUSLY UNDEVELOPED LAND.

ABBREVIATIONS

APFO – ADEQUATE PUBLIC FACILITIES ORDINANCE
CGP – COUNTY GROWTH POLICY
MPDU PROGRAM – MODERATELY PRICED DWELLING UNITS PROGRAM
SGR – STUDENT GENERATION RATE
SSP – SUBDIVISION STAGING POLICY
UPP – UTILIZATION PREMIUM PAYMENTS

*DEFINITIONS PROVIDED BY MONTGOMERY COUNTY PLANNING DEPARTMENT

Executive Summary

The SSP stems from the Adequate Public Facilities Ordinance (APFO) that was enacted in 1973 with the goal of synchronizing development with adequate public facilities such as transportation networks and educational facilities. Until 1986, there wasn't necessarily a guiding document to outline how that would be determined. In 1986, the Subdivision Staging Policy (SSP) was developed with the purpose of guiding the APFO and establishing criteria for determining adequacy. It is updated every four years, and the next version will be produced in 2020 for the 2020-2024 timeframe.

Part of the proposed SSP provides guidelines for School Impact Taxes, which are meant to help pay for the cost of providing educational facilities necessitated by new development. Impact Taxes are meant to ensure that new development pays its fair share. However, although 63% of new development is multifamily housing, most enrollment growth is caused by turnover of single family housing at 81.5%. **Consequently, impact taxes do not generate the revenue necessary to fully address school overcrowding.**

The 2020-2024 policy is proposed by the Planning Board as the County Growth Policy, and presents several substantive changes, most notably the end of the county-wide automatic moratoria on new development. The draft also makes strides in addressing issues of school overcrowding across the county. The document proposes the use of Utilization Premium Payments (UPPs), an impact tax that will charge residential developers a premium fee in areas with overcrowded schools in an effort to raise revenues for additional school facilities.

This report will explore selected features of the proposed County Growth Policy draft, namely the use of impact taxes and UPPs, and present sustainable alternatives to developer impact fees.

Summary of Recommendations

1. In order to accommodate enrollment growth in turnover and infill areas, assess the feasibility of utilizing vacant educational facilities and urban office spaces.

2. Perform an audit of the cost and facility requirements of building school facilities at the elementary, middle, and high school levels, and make efforts to reduce construction costs for new facilities as a way to increase available funds for additional facilities or building school capacity.

3. Consider a more proactive, county-wide approach to re-drawing school boundaries in an effort to relieve the burden of school overcrowding where over-utilized schools are adjacent to under-utilized schools.

Introduction

Adding to the overall body of knowledge that will contribute to the final version of the SSP, this report aims to specifically focus on the proposed Utilization Premium Payments (UPPs) and impact taxes as a tool for addressing school overcrowding. This report will explore the efficacy of these payments in meeting the County's goals of preventing school overcrowding and ensuring that Montgomery County Public Schools (MCPS) is able to provide adequate public school facilities, through expansions or additional facilities while meeting other county-wide goals, such as economic growth.

Currently, the SSP performs an Annual School Test to determine the utilization rate, or the number of students divided by the number of seats, of both individual schools, and at the cluster level (see definitions). At this time, a cluster or individual schools with a utilization rate greater than 120% capacity is considered overcrowded and inadequate. Under the current SSP, clusters or schools with inadequate facilities are placed under an automatic development moratorium, which restricts residential development with the exception of projects of 3 units or less, age-restricted housing, projects that remove a condemned structure, or projects that provide "deeply" affordable housing.

The Montgomery County Planning Board has recommended the removal of the automatic moratorium in the 2020 County Growth Policy draft, with the exception of the Clarksburg area, which is characterized by greenfield development. In this area, updated moratoria thresholds have been suggested. **The removal of the moratorium is a logical step for many reasons, including:**

- Moratoria have not slowed school overcrowding. Less than 30% of enrollment growth in the County is attributable to new development.
- Removing the moratoria will allow the County to reach its housing goal of 10,000 units by 2030.

At the same time that Montgomery County is working to address school overcrowding, the County is also facing concerns related to the global health pandemic caused by COVID-19, and revenue lost in part through the moratorium and subsequent lack of new construction. County staff members have projected a potential revenue loss of up to $600 million in FY 20 and FY 21 due to COVID-19. A 2019 study found that apartment construction, operation, renovation, and resident spending contributes $3.4 trillion, and 17.5 million jobs, to the national economy each year. The revenue generated by multifamily residential construction will be critical in bolstering the economy in light of probable economic downturn.

Though the removal of the moratorium is a necessary first step, an additional Utilization Premium Payment on top of the existing impact fees may discourage new multifamily development, which could stifle economic growth, prevent revenue generation, and avoid meeting important county-wide housing goals.

2020-2024 County Growth Policy

SSP Through the Years:

Highlights of Prior Subdivision Staging Policy Updates

1973

- Adequate Public Facilities Ordinance adopted.
- Ensuring that residential development keeps pace with public facilities becomes an official County goal.

1986

- County adopts an official Growth Policy.
- Growth policy is meant to inform how the APFO is carried out (criteria and guidelines for determining adequacy).
- Overcrowded schools can "borrow" excess capacity from undercrowded schools.

2007

- "Borrowing" excess capacity is eliminated. Development moratorium restrictions become more stringent.
- A cluster goes into moratorium if utilization 5 years from present would exceed 120%.
- School facilities payment is required if enrollment in a cluster will exceed 105% but be less than 120%.

2010

- Council renames Growth Policy as Subdivision Staging Policy.
- Council determines that SSP will be updated every four years to address changes more frequently.

2012

- 2012 SSP made major changes in transportation policy, including the development of the Transportation Policy Area Review (TPAR), which developed adequacy standards for roadways and transit development.
- 2012 SSP largely maintained previous policies in terms of school adequacy standards.

SSP Through the Years:

Features of the current Subdivision Staging Policy (2016)

In November 2016, the County Council approved the 2016-2020 Subdivision Staging Policy, which made major changes to the prior policy in terms of school adequacy standards and impact taxes.

Prior to the 2016 update, a School Facility Payment was required of developers if enrollment in a high school cluster's estimated utilization in five years exceeded 105%, but did not reach the 120% utilization rate. Clusters that reached 120% would go into an automatic development moratorium.

The School Facility Payment was calculated at 60% of a given residential unit's school construction cost impact. The construction cost impact was determined by using student generation rates, which estimate the number of students a unit will generate for a single-family development or a multi-family development, depending on the development type.[1]

Policy makers decided to eliminate the School Facilities Payment, on the basis that the SSP needed to be simplified – an increase of impact taxes was determined to be a more streamlined and efficient way to generate funding for school construction. Additionally, the payment was not found to significantly discourage development that continued to contribute to school overcrowding, or deliver significant revenue for construction funding.

The 2016-2020 Subdivision Staging Policy:

- Eliminated the School Facilities Payment, and replaced it with an increase in the impact tax, from 90% of a unit's school construction cost impact, to 120%.
- Updated the Annual School Test, which evaluates projected school utilization five years into the future, to conduct adequacy tests at the individual school level for elementary and middle schools. This prevents the test from overlooking overcrowded schools at the individual level when the cluster is not overcrowded.
- Initiated a new moratorium policy that stated moratoria can be initiated at the individual school level, if the school in a given area reaches 120% utilization, and has an 110-seat deficit at the elementary school level, or 180-seat deficit at the middle school level.
- Created a new policy for Student Generation Rates to determine how many students are generated by both single-family and multi-family development, mandating that they be updated every other year using the most recent MCPS data.

[1] Impact taxes are also based on a residential unit's school construction cost impact based on SGR, unit type and school construction costs.

Data Highlights

BUDGET

$2.8 billion

or 47% of the 2021 county operating budget has been allocated to MCPS.

This equates to

$16,770

per student. This is $1,992 higher than the Maryland State average of spending per student.

$1.72 billion

is the proposed CIP allocation to MCPS for FY21-26. This accounts for about 40% of the total CIP budget.

REVENUE GENERATION

From FY15-FY20 Montgomery County has collected

$164 million

in School Impact Taxes.

In FY20, the revenue generated from School Impact Taxes was less than

0.4%

of overall revenue in the County.

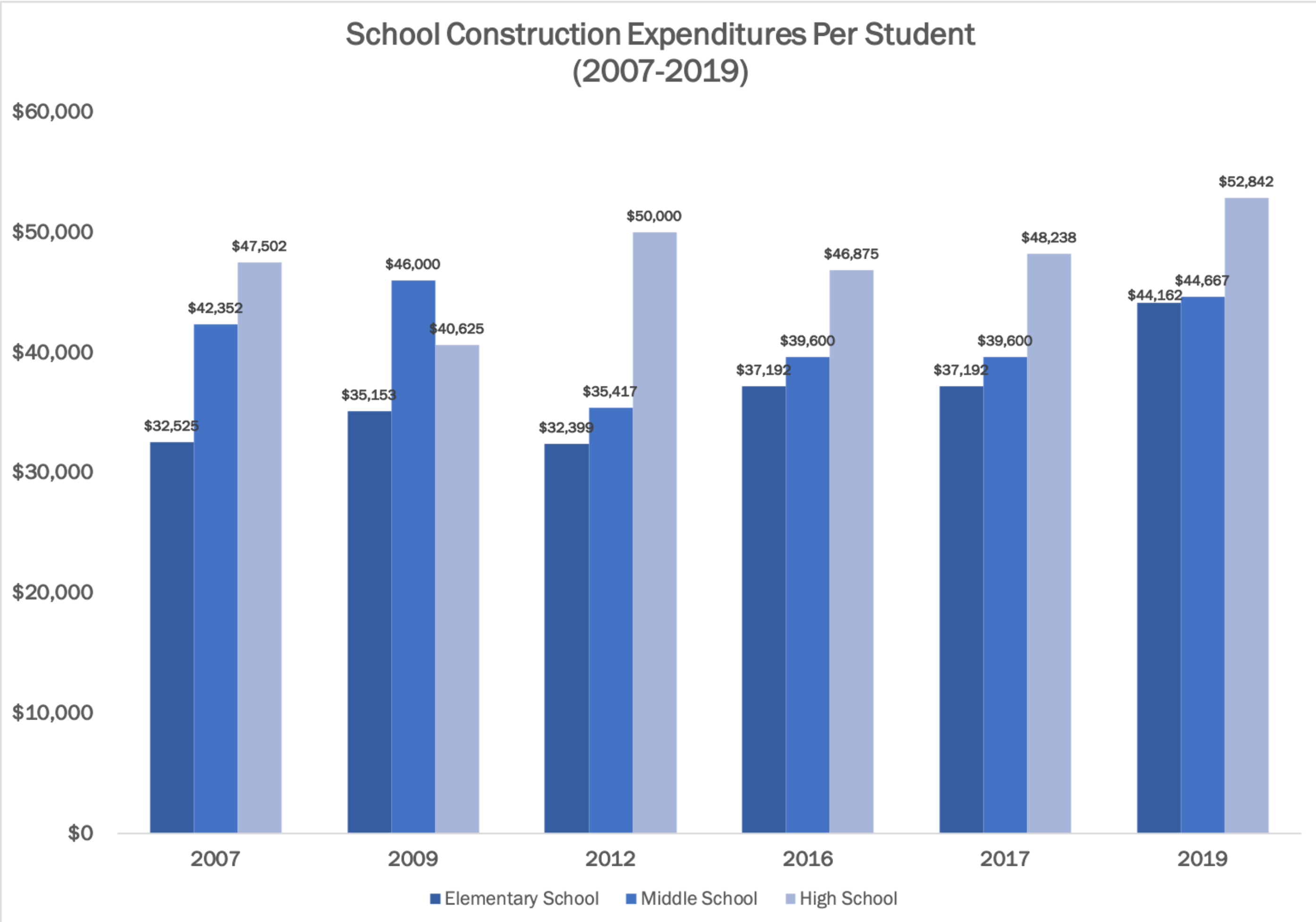
Only

8.3%

of MCPS' FY20 CIP budget was generated by the impact tax.

Data Highlights

Since 2007, the cost of new school construction per student in Montgomery County has continued to rise. This in part reflective of rising construction costs across the nation. In fiscal year 2019, Montgomery County Public Schools cited allocating over $741 million to school construction and renovation projects.



Factors contributing to rising school costs include:

- More stringent mechanical/HVAC requirements to meet health and meet public health and safety mandates.
- Greater focus on science and technology (STEM) in schools comes with increased construction costs.
- Market trends suggest that the economic uptick has brought with it escalating construction costs.

Proposed Changes: 2020-2024 SSP

In May of 2020, the Montgomery County Planning Department released its initial draft of the 2020-2024 Subdivision Staging Policy, or what it is recommended to now be called the County Growth Policy.

The County Growth Policy proposes wide-sweeping amendments to the 2016-2020 SSP that, if approved, will have substantial effects on the determination of adequacy for both transportation and schools. This section will focus on three major changes related to schools suggested in the draft.

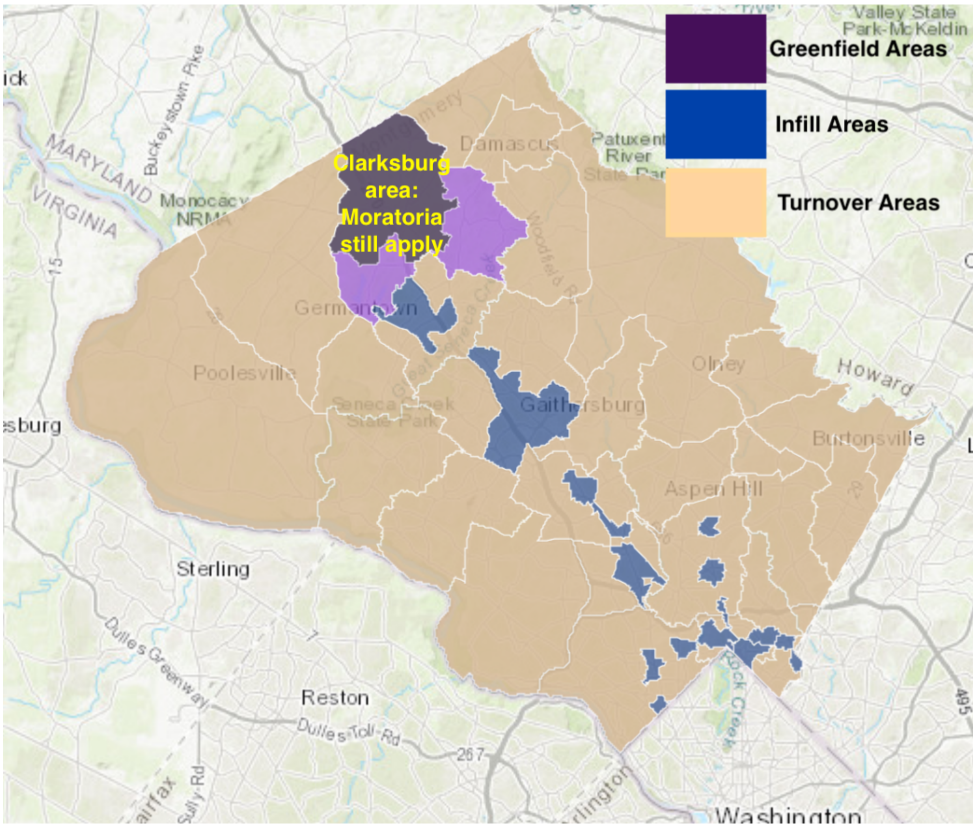
#1 -Recommendation 4.8: ***Moratoria will only apply in Greenfield Impact Areas. The Planning Board cannot approve any preliminary plan of subdivision for residential uses in an area under a moratorium, unless it meets certain exceptions.***

•The Planning team is suggesting the elimination of moratoria in all parts of the County with the exception of the Clarksburg area, which is defined by greenfield development. In this area, moratoria will kick in when projected utilization exceeds 125%, as well as specified seat thresholds at the elementary and middle school level. As stated previously, this is in part because a) the moratorium has not slowed enrollment growth, and b) moratoria prevent the County from meeting a housing goal of 10,000 additional units by 2030. In addition, several data points demonstrate why removing the moratoria with the exception of the Clarksburg greenfield area is a logical step for the County:

· From 2010-2015, student enrollment in the County grew by 23.3%. Notably, **81.5% of this is attributable to the turnover (or resale) of single family housing.**

· 63% of new development was characterized by multifamily housing, while **only 18.5% of enrollment growth was characterized by multifamily housing.**

· In infill and turnover areas, where new development is predominately characterized by multifamily development, 2018 **student generation rates were .208 and .442 respectively.** Conversely, the student generation rate in greenfield areas was .661.



Base map provided by Montgomery County Growth Policy Website.

<u>#2 -Recommendation 4.11:</u> *Calculate countywide and School Impact Area student generation rates by analyzing all single-family units and multifamily units built since 1990, without distinguishing multifamily buildings by height.*

•Student generation rates (SGRs), which are used to calculate impact taxes, are currently calculated for only single-family units that have been built in the past ten years, but for all multifamily units regardless of the year built. Additionally, the SSP calculates different SGRs based on the height of the multifamily building. The proposed recommendation will only analyze multifamily buildings built since 1990, and will not calculate different SGRs for varying building heights.

•Research shows that multifamily developments built after 1990 have fewer bedrooms, are smaller, cost more, and are generally less family-oriented. Modifying the SGR calculation for multifamily dwellings is a positive proposed change that more accurately reflects the impact of multifamily development on schools, and reflects a more appropriate impact tax for multifamily developers.

<u>#3 -Recommendation 4.16:</u> *Require applicants to pay Utilization Premium Payments when a school's projected utilization three years in the future exceeds 120%.*

•Under the proposed SSP, the impact tax premium of 120% that was instituted in 2016 for areas with overcrowded schools would be reduced to 100%, and replaced with a Utilization Premium Payment (UPP). The UPP Thresholds are proposed when schools meet or are expected to exceed 120% utilization three years in the future. The premium payment factors are as follows*:

- **Elementary:** 25% premium
- **Middle:** 15% premium
- **High:** 20% premium

•Theoretically, if schools at all three levels exceed the threshold of 120%, a developer would have to pay the UPP for each level, resulting in a maximum impact tax premium of 160%. Currently, there are no areas where all three school levels are over capacity. The UPP schedule is listed below:

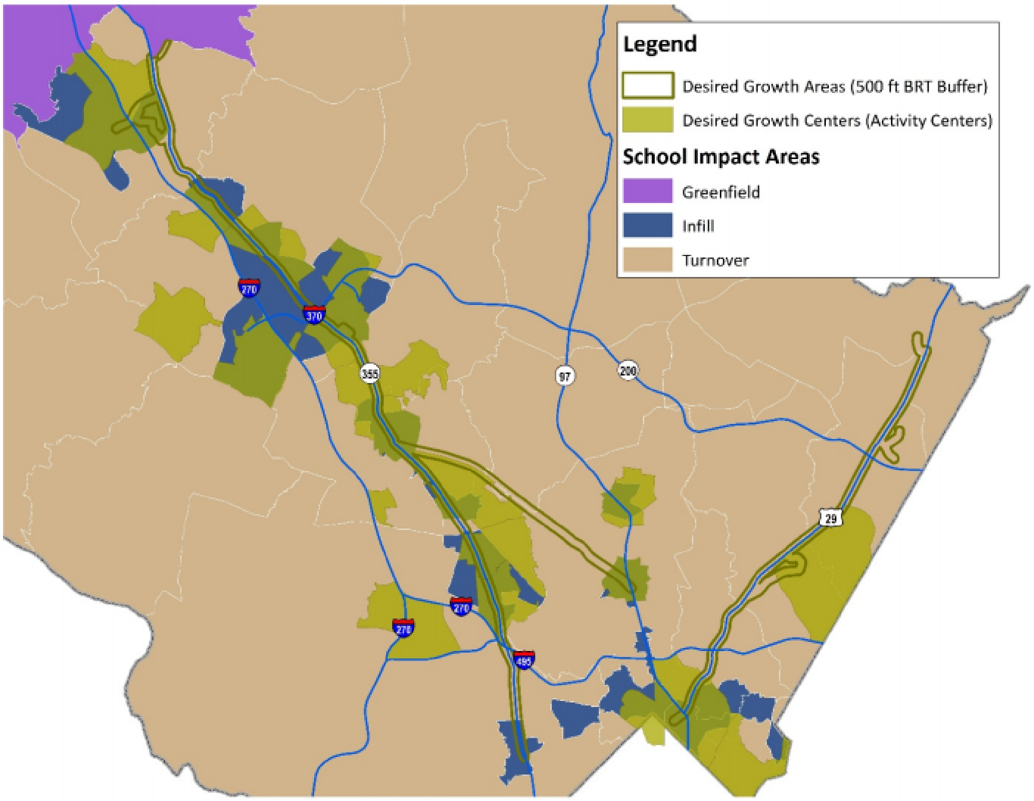
		Single-family Detached	Single-family Attached	Multifamily
Infill Impact Areas	Elementary School	$4,927	$4,328	$1,093
	Middle School	$2,956	$2,597	$656
	High School	$3,941	$3,462	$874
Turnover Impact Areas	Elementary School	$5,396	$5,982	$2,422
	Middle School	$3,237	$3,589	$1,453
	High School	$4,316	$4,786	$1,938
Greenfield Impact Areas	Elementary School	$8,452	$7,173	$6,225
	Middle School	$5,071	$4,304	$3,735
	High School	$6,762	$5,738	$4,980

**The varying premium payment factors are meant to represent the length of time that is spent at each school level. For example, because students spend six years at the Elementary School Level, the UPP is 25%. Conversely, because students only spend three years at the Middle School level, the UPP is reduced to 15%.*

Exploring the Utility of Impact Taxes and UPPs

The UPPs are meant to serve as an alternative to the automatic development moratorium, and charge residential developers a premium rate if they choose to develop in areas with overcrowded schools. In theory, a premium payment will help to raise the necessary funding to address school overcrowding through additional schools and/or school expansions. However, there are two factors that are important to consider when analyzing the utility of UPPs and impact tax premiums more generally:

· **Recommendation 6.2** of the proposed SSP suggests a 60% impact tax discount in selected areas called Desired Growth Centers, where future housing growth is desired due to transportation and employment networks. The green areas on the map to the right show these designated areas. Because no area currently has overcrowded schools at all three levels, the impact tax plus UPP in these centers would not even reach 100%. Keeping in mind that the Impact Tax in FY20 only generated 8.3% of the Capital Improvements Budget at 120%, an impact tax of less than 100% in a Desired Growth Center would generate even less revenue.



Map from Public Hearing Draft
**Note: None of the Desired Growth Centers are located within the Greenfield Impact Area. The 60% discount would not apply in this Impact Area.*

· In areas that are not designated as Desired Growth Centers and that have overcrowded schools, a UPP of 115% or greater may discourage residential development.[2] Due to current economic conditions in the County, as well as concerns of a potential recession in light of COVID-19, discouraging development may further harm the County's revenue generation prospects over the coming years.

[2] The minimum UPP is 15% (middle school level premium payment factor) of the construction cost impact, or impact tax, and in non-Desired Growth Centers, the impact tax is 100%. Thus, the minimum combined impact tax plus UPP would be 115%.

I. Economic Conditions in Montgomery County

Despite being home to a diverse, affluent, and highly-educated population, Montgomery County has been showing signs of economic stagnation and slow growth.

SIGNS OF ECONOMIC STAGNATION:

· Population growth is stagnating. The rate of change in 2018 was only 0.4%. In comparison, the rate of change was 1.6% in 2011.

· Median income in the County dropped from $106,307 in 2007 to $98,115 in 2010, and has only just recovered from the Great Recession, sitting at $108,188 in 2018.

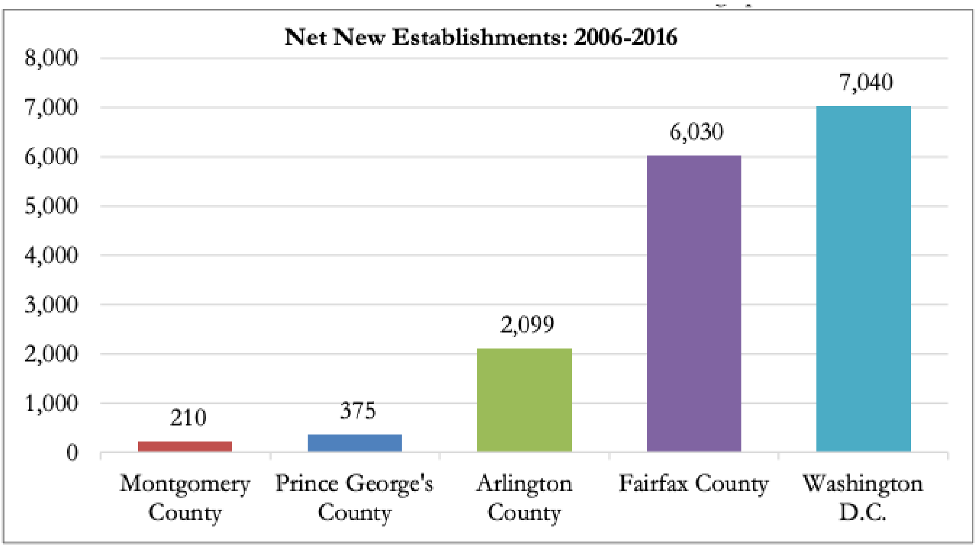
· Real wages in the County did not significantly increase between 1990 and 2016, and remain mostly stagnant.

· Demand for office space in the county has decreased significantly since the 1990s. At the end of 2017, office vacancy sat at 14%.

· Though real estate growth in the commercial sector is still increasing, the rate of increase has slowed significantly.

· Between 2011 and 2016, the County added 6 net new establishments. In comparison, the County added 1,841 net new establishments between 2001 and 2004.

· Due to automatic development moratorium and increasingly high development fees, residential development has been slow, causing the County to fall short of its housing goals.



Comparison of net new establishments in Montgomery County and surrounding areas from 2006-2016. Graphic provided by Sage Policy Group report, 2018.

With these economic trends in mind, school impact taxes and additional Utilization Premium Payments may place additional financial burdens on residential developers that will further discourage development. Studies show that new residential development brings with it job creation and revenue generation from new residents. To combat signs of economic stagnation or downturn in the county, policy makers might consider more sustainable and development friendly solutions to school overcrowding.

II. Long Term Impact of COVID-19

In May of 2020, the County Council approved an operating budget that was based off tax revenue estimates from March 2020. Since that time, communities all over the world have been heavily impacted by the novel COVID-19 outbreak and subsequent health pandemic. On June 8th, the National Bureau of Economic Research stated that the United States is officially in a recession caused by COVID-19. Economic experts have indicated that the long-term nature of the health pandemic is likely to result in a continuation of this recession; unemployment continues to soar, millions of Americans have lost health benefits, and businesses are continuing to close.

In Montgomery County, policy experts have estimated significant tax revenue losses in FY20 and FY21. Importantly, **FY20 tax revenue estimates were reduced by $47 million**, and **FY21 estimates were reduced by $191 million.** Of the expected tax revenue decrease in FY21 , 62% stems from losses in income tax. **These combined losses in revenue between FY20 and FY21 are $51.4 million greater than the amount lost in FY10 and FY11 due to the Great Recession.**

The new tax revenue forecasts do not take into account the expected loss in impact tax over the next two years as a result of the COVID-19 recession. However, given the current economic conditions in the County, for example stagnant residential development and nearly non-existent new establishment growth from 2006-2016, an economy in recession is not likely to encourage increased growth.

Although removing the automatic development moratoria in turnover and infill areas will remove barriers for residential developers, replacing the moratoria with impact tax premiums, particularly in areas that are not Desired Growth Centers, may have similar impacts. For example, a multifamily housing developer in a non-"Desired Growth Center" with an over-utilized elementary school, for example Resnik Elementary, would pay a 125% premium plus tax. And, if two school levels were overcrowded, the premium plus tax could be as high as 145%. Burdening developers with additional costs in an already difficult economy might force developers to pass up on projects, which harms economic growth and housing goals in the County.

On the flip side, as the County faces the prospect of massive revenue loss, areas in Desired Growth Centers that do not have overcrowded schools would only pay a 60% impact tax rate. As this report has shown, impact taxes even at 120% raised minimal revenues.

In light of the current economic and health crisis, the proposed UPP may be a double-edged sword, potentially both discouraging development and therefore reducing revenue generation, and failing to deliver enough revenue from impact tax discounts in Desired Growth Centers. Ultimately, it is unclear whether the proposed UPP schedule will alleviate overcrowding or generate sufficient revenue for the County.

III. Case Study: Moderately Priced Dwelling Unit Program (MPDU Program)

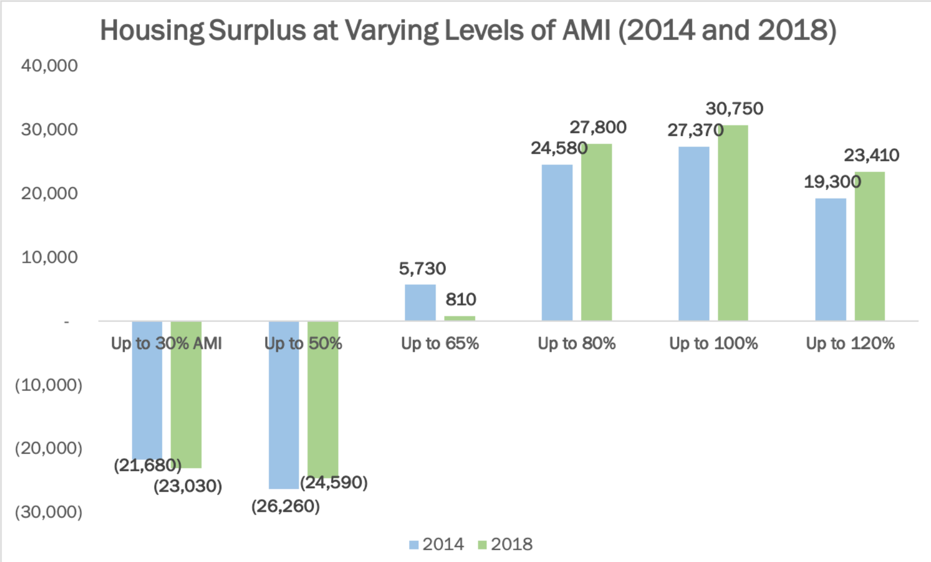
The MPDU program delivers affordable housing in the County to lower-income residents by providing home costs and rents at reduced rates. Under the MPDU program, developers are required to build a minimum percentage (12.5%-15%) of affordable units in a residential development. The current SSP provides impact tax exemptions to residential developers that deliver 25% or more Moderately Priced Dwelling Units (MPDUs) in a development. The proposed 2020-2024 SSP also recommends exempting developers that build 25% or more MPDUs from UPPs, and instead charging the lowest standard applicable impact tax amount.

Why are MPDUs exempt from impact tax premiums?
In a 2020 Housing Needs Assessment, Montgomery Planning determined that:

· 1 out of every 2 new households in the County is low-income, earning less than $50,000 a year.

· In 2018, the household income required to afford the median home price was $17,000 less than the median income.

· In 2018, there were only 800 surplus units that were affordable to residents earning 65% AMI.



Housing surplus at varying income levels in 2014 and 2018. Affordable housing to those making up to 65% AMI fell from 5,730 to 810.

Since 2016, four major residential developments have taken advantage of this impact tax exemption. While this may sound insignificant, this accounts for 579 MPDU units, or 29% of all MPDUs from approved residential developments since 2016. This clearly demonstrates that impact tax reductions are a useful way to meet county-wide goals. In this instance, there is a recognition that reducing financial burdens on developers can help meet important housing needs and social policy goals. Going forward, and considering the impacts of economic stagnation and COVID-19, a more sustainable solution to school overcrowding that does not center around additional developer burdens may be more apt. Incentivizing development can help to spur revenue generation and kickstart the economy, while the County Council and MCPS investigate alternative methods to alleviate overcrowding.

Recommendations

Impact taxes, and more specifically the recommended Utilization Premium Payments, are currently the County's tools for addressing school overcrowding and, though minimal, for revenue generation. It would be irresponsible and impractical to eliminate these tools overnight.

However, impact taxes are designed to ensure that developers pay their fair share of the burden of overcrowding to ensure adequate public facilities. Keeping in mind that new development has been 63% multifamily residential, while only generating 18.5% of recent enrollment growth, it is unrealistic to expect that taxes on new development will fund enough school infrastructure to address overcrowding in full. In light of the economic constraints the County is likely to face over the next few years, it is worth considering what some alternative solutions to alleviating school overcrowding might look like.

Rather than putting the impetus of funding enrollment growth primarily on residential developers, these alternative solutions will look toward what both the County Council and Montgomery County Public Schools can do to address school overcrowding. Executing any of these recommendations will require collaboration between the two entities to fully investigate the financial, socioeconomic, and political impacts of the recommended actions.

To re-cap, this report recommends the following:

1. In order to accommodate enrollment growth in turnover and infill areas, assess the feasibility of utilizing vacant educational facilities and urban office spaces.

2. Perform an audit of school facility construction costs, and make efforts to reduce costs for new construction in order to increase available funds for additional capacity needs.

3. Consider a more proactive, county-wide approach to re-drawing school boundaries in an effort to relieve the burden of school overcrowding.

The following section will explore each of these recommendations more fully, and provide guidance on how the Council and MCPS might proceed in exploring these sustainable alternatives to school overcrowding. If these measures are taken, Montgomery County may be able to move away from overburdening the SSP as the sole tool for addressing school overcrowding.

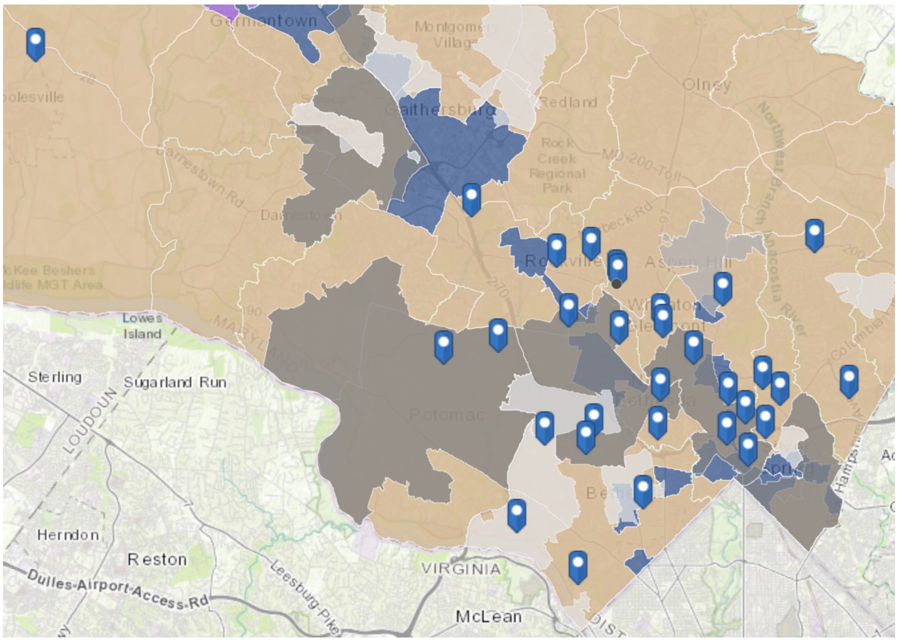
Recommendation #1

In order to accommodate enrollment growth in turnover and infill areas, assess the feasibility of utilizing vacant educational facilities and urban office spaces.

Much of the main premise for impact fees is that they help to pay for the cost of providing additional needed infrastructure. Schools are inherently costly (see recommendation #2) and the need for new school facilities drives the need to charge developers a premium for their residential development. However, the County might look to renovating and restoring closed school facilities as a way to cut construction costs and more quickly accommodate enrollment growth. According to an MCPS Property Inventory study from 2019, the County currently has 31 closed school facilities: 27 are owned by Montgomery County Government; 1 by the City of Rockville, 1 by M-NCPPC, and 2 are privately owned.

The map below shows the 31 closed school facilities. Of the 31 closed facilities, 13 are in areas that have an over-utilized schools for at least one school level, and that would be subject to the proposed UPPs. All 13 of these facilities are owned by Montgomery County Government. Though the schools are dated and would need improvements, utilizing these schools eliminates the cost of land acquisition. Additionally, the majority of the closed facilities are former elementary schools, and some would need to be upgraded to meet the needs of other school levels. Additionally, though some schools are relatively small compared to newer schools, MCPS may choose to house fewer grades, for example K-3, to accommodate this.

Land is increasingly expensive, and MCPS spent $8 million on land alone from FY19-FY20. Using existing land would reduce these costs significantly.



Areas highlighted in gray indicate over-utilized schools for at least one school level

Closed school facilities in impact areas with overutilized schools:

-Lake Normandy ES (Churchill Cluster)
-Georgetown Hill ES (Churchill Cluster)
-Alta Vista ES (W. Johnson Cluster)
-Ayrlawn ES (W. Johnson Cluster)
-Congressional ES (W. Johnson Cluster)
-Kensington ES (W. Johnson Cluster)
-Clara Barton ES (Whitman Cluster)
-Fernwood ES (Whitman Cluster)
-Pleasant View ES (Einstein Cluster)
-Dennis Ave ES (Einstein Cluster)
-Forest Grove ES (Einstein Cluster)
-Montgomery Hill JHS (Einstein Cluster)
-Woodside ES (Einstein Cluster)

Recommendation #1, cont'd.

Additionally, a 2015 Office Market Assessment conducted for the Planning Department found that Montgomery County's office space sat at a 15% vacancy rate, and had 12 major office buildings at 2.1 million square feet that were completely vacant. Office vacancy was measured at 17.5% in 2018, but no recent office market assessments have been conducted. Montgomery Planning should perform a more updated office market assessment and audit of vacant space. Keeping in mind that new establishment growth is stagnant in the County, these spaces could be re-purposed to accommodate enrollment growth.

A Perkins-Eastman study on adaptive re-use and commercial conversion cited the following benefits to converting vacant commercial/office space to school facilities:

- Converting an existing building allows school systems to occupy a building more quickly in response to overcrowding.
- If school systems are amenable to non-traditional school models, existing buildings can be converted in a more cost-effective manner.
- Providing additional space for schools that may need to undergo construction or renovation is more cost-effective than phased-occupied renovations.

CASE STUDY: BASIS INDEPENDENT - McLEAN, VA

Basis Independent School in McLean, VA was built out of a vacant corporate headquarters building in Tysons Corner. The school serves grades pre-K through 12th, and is situated on an 11-acre former corporate campus.

Though the corporate campus has over 220,000 available square feet, the school currently only utilized 120,000 square feet during its first phase of occupancy. This demonstrates that if MCPS were to acquire a large vacant corporate campus, renovation for occupancy could be completed in phases to meet immediate capacity needs, and further renovations could be completed at a later date to accommodate further growth. While construction costs would still be significant, utilizing a vacant existing building rather than building from the ground up would eliminate some construction costs while also reducing vacant office space in the County that is unlikely to be re-occupied in the near future.

Upon auditing vacant office space, these buildings could also be assessed and ranked for their adaptability.

Recommendation #2

Perform an audit of school facility construction costs, and make efforts to reduce costs for new construction in order to increase available funds for additional capacity needs.

As demonstrated in the report's data highlights, construction costs for schools in Montgomery County are rising substantially. In 2017 alone, the School Board approved $1.8 billion for three projects; re-opening Woodward High School, expanding John F. Kennedy High School, and building Crown High School in Gaithersburg. This level of spending is not entirely unique to the County, as school districts across the United States are seeing costs rise year-over-year exponentially.

Still, Montgomery County may be able to reduce construction costs. High school construction spending per pupil averaged over $52,000 in 2019. Comparatively, the average cost of new high school construction in Virginia in 2020 is $47,530. So, if a new high school in Montgomery County held 3,000 students, the same school in Virginia would cost $13 million less to build. MCPS should perform a detailed audit of new construction spending at each school level, and look closely at where reductions can be made.

Some school districts have managed to find ways to cut school construction costs significantly. For example, Hoke County in North Carolina cut costs by leasing educational space from a private developer. Leasing space through a private developer can save school systems millions of dollars each year. Leasing space at a more affordable rate can make the process of bringing schools online much more cost-effective in addressing enrollment growth.

CASE STUDY: SANDY GROVE MIDDLE SCHOOL – HOKE COUNTY, NC

When Hoke County realized they could not afford a badly needed new middle school, they turned to a private developer for a solution. The school system leased the building for seven years from Raleigh-based architectural firm, Firstfloor.

Firstfloor built a school with over 2,300 solar panels, and leased the school to Hoke County for $450,000 a year, with the option for the school system to buy Sandy Grove outright after seven years. This saved Hoke County significant money, while providing a state of the art school that generates more energy than it consumes.

Recommendation #3

Consider a more proactive, county-wide approach to re-drawing school boundaries in an effort to relieve the burden of school overcrowding.

In January 2019, the Board of Education commissioned a study to conduct a districtwide boundary analysis, which is set to be released in December of 2020. The report will look at factors such as school capacity and utilization, demographics, and travel patterns. The analysis will not recommend any boundary changes, but the information gained from the report will ideally help policy makers decide where boundary changes could relieve overcrowding quickly.

To use Gaithersburg as an example, while Resnik Elementary School is currently at 130% capacity with a nearly 150-seat deficit, neighboring Sequoyah Elementary is at only 78% capacity and has 114 available seats. The schools are only 4.8 miles apart. Policy makers should use the boundary study to look at cases such as this where severely overcrowded schools sit right next to underutilized schools of the same level. While UPPs can help raise necessary funding for school construction already in the pipeline, re-drawing school boundaries can create an environment where UPPs are not a necessary tool to solve overcrowding issues in the County.

The argument for re-drawing school boundaries is not only one of efficiency in that it could easily and cost-effectively address school overcrowding, but also one of equity. In light of the most recent racial equity and justice movement, looking at re-drawing school boundaries is a feasible way to transform dialogue into action.

In Montgomery County, much of the school overcrowding is taking place in predominately white districts. As a result, money is spent to address these overcrowded schools, and neighboring areas with larger communities of color are not given financial attention. For example, Luxmanor Elementary School has a population of 61% White and Asian students, and is 144% over-capacity with a 177-seat deficit. Meanwhile, neighboring Viers Mill Elementary, with a Black and Hispanic student population of 77%, is at 81% capacity with 138 surplus seats. As an additional example, while millions of dollars have been spent to build additions to Whitman and Bethesda-Chevy Chase High, Springbrook High School (77% Black and Hispanic) has nearly 400 surplus seats. Re-drawing school boundaries can address issues of racial segregation in public schools, while providing a cost-effective solution to addressing overcrowding.

> ***"...Today, the [2019] EdBuild report shows, nearly 9 million students in the U.S., or one in five, live next door to a whiter and richer school district."***
>
> **-U.S. News, 2019**

Concluding Remarks

This report offers the County Council and Montgomery County Public Schools a document of reference when considering the proposed 2020-2024 County Growth Policy. The proposed document makes some important positive changes to better reflect residential development and how it impacts enrollment growth; namely the removal of the automatic moratoria in turnover and infill areas, and the update of student generation rate calculations to more accurately reflect the impact of multifamily housing on student enrollment growth.

The Utilization Premium Payments are intended as a stopgap for enrollment growth, and this report does not suggest that they are removed outright from the County Growth Policy draft. However, UPPs are a form of impact tax premium, and existing data in Montgomery County shows that impact taxes have not generated significant revenue. With the addition of the 60% impact tax discount in Desired Growth Centers, it is unlikely that UPPs generate significant revenue, and it is unknown if they will discourage further residential development.

The recommendations proposed in this report are not meant to serve as a replacement the Subdivision Staging Policy. Instead, they are meant to bring into focus the limitations to impact taxes as a means for relieving school overcrowding, and provide the Council and MCPS with the basis for more sustainable solutions. By taking inventory and assessing the feasibility of vacant office space and closed education facilities; performing an audit of school construction costs and looking for flexibility in reducing major costs; and by fully considering the fiscal and equity implications of re-drawing school boundaries, it is the hope of this report that more sustainable solutions can be utilized that relieve pressure on the SSP.

References

Adhikusuma, Brian. “Montgomery County could lose up to $600 million in tax revenue from pandemic.” Bethesda Magazine, 2020. https://bethesdamagazine.com/bethesda-beat/coronavirus/montgomery-county-might-lose-up-to-600-million-in-tax-revenue-from-pandemic/.

"Apartment Industry & Its Residents Contribute $3.4 Trillion to the National Economy.” National Multifamily Housing Council, 2019. https://www.nmhc.org/news/press-release/apartment-industry-its-residents-contribute-3-4-trillion-to-the-national-economy/.

“Commercial Conversion.” Perkins-Eastman, 2018. http://www.perkinseastman.com/white_papers.

“Comprehensive Annual FY 2019 Financial Report.” Montgomery County Public Schools, 2019. https://www.montgomeryschoolsmd.org/uploadedFiles/departments/financialservices/FY19CAFR.pdf.

“Determination of the February 2020 Peak in US Economic Activity.” The National Bureau of Economic Research, 2020. https://www.nber.org/cycles/june2020.html.

“Editorial: How North Carolina is cutting school construction costs.” Roanoke Times, 2019. https://roanoke.com/opinion/editorials/editorial-how-north-carolina-is-cutting-school-construction-costs/article_f6d50aee-b7c2-5735-8fee-a84be22ba459.html.

“Housing Needs Assessment’s Key Findings.” Montgomery Planning, 2020. https://montgomeryplanning.org/wp-content/uploads/2020/04/Housing-Needs-infographic.pdf.

Maciag, Michael. “States that Spend the Most (and Least) on Education.” Governing.com, 2019. https://www.governing.com/topics/education/gov-state-education-spending-revenue-data.html.

“Memorandum; GO COMMITTEE #1.” Glenn Orlin, 2018. https://montgomerycountymd.granicus.com/MetaViewer.phpview_id=169&clip_id=14434&meta_id=148230.

Montgomery County MD Operating Budget, 2020. https://apps.montgomerycountymd.gov/BASISOPERATING/Common/Department.aspx?ID=MCPS.

“Montgomery County Public Schools: Boundary Analysis.” Montgomery County Public Schools, 2020. https://www.montgomeryschoolsmd.org/uploadedFiles/departments/publicinfo/Boundary_Analysis/200121_FAQGlossary_update_3-Cram-NoMarkUp.pdf.

“Montgomery County Trends.” Montgomery Planning, 2019. https://montgomeryplanning.org/wp-content/uploads/2019/01/MP_TrendsReport_final.pdf.

References

"Office Market Assessment." Partners for Economic Solutions, 2015. https://www.montgomeryplanning.org/research/documents/MontgomeryCountyOfficeFinalReport061815.pdf.

Planning Board Working Sessions #1-5, 2020. https://montgomeryplanningboard.org/meetings/watch-online/.

"Real Property Inventory Report." Montgomery County Public Schools, 2019. https://www.montgomeryschoolsmd.org/departments/facilities/rem/reports.aspx.

Reed, Dan. "Montgomery County is finally talking about its segregated schools. But can we fix them?" Greater Greater Washington, 2019. https://ggwash.org/view/71803/montgomery-county-is-finally-talking-about-its-segregated-schools.-but-can-we-fix-them.

"The Coming Storm: How Years of Economic Underperformance are Catching up with Montgomery County." Sage Policy Group, Inc., 2018. https://www.empowermontgomery.com/wp-content/uploads/2018/04/Montgomery_County_EM_Final.pdf.

"School Construction Cost Data." Virginia Department of Education, 2020. http://www.doe.virginia.gov/support/facility_construction/school_construction/costs/index.shtml.

"Schools Technical Advisory Team, Meeting #1." Montgomery Planning, 2019.

Smith, Gene. "Update on County Tax Revenue Estimates." Montgomery County Government, 2020. https://www.montgomerycountymd.gov/council/Resources/Files/agenda/col/2020/20200714/20200714_4.pdf.

Smoot, Sebastian. "MCPS School Demographics and Utilization." 2020. https://www.arcgis.com/home/webmap/viewer.html?webmap=f09bf368ae4d4b7f98e9ef98b4230366&extent=-77.3397,39.0661,-77.0861,39.1698.

"Subdivision Staging Policy." Montgomery Planning, 2020. https://montgomeryplanning.org/planning/functional-planning/subdivision-staging-policy/.

"Subdivision Staging Policy Schools Comparison Chart." Montgomery Planning, 2016. https://montgomeryplanning.org/wp-content/uploads/2016/12/SSP-Schools-Comparison-Chart-final.pdf.