

**Office of the County Auditor
Auditor’s Analysis**

REVISED - Council Bill No. 37-2024

Introduced: June 3, 2024

Auditor: Rebecca Gold

Fiscal Impact:

We are unable to determine the foregone revenue resulting from this legislation, as we are unable to determine the square footage of future residential construction that would qualify for the proposed reduced School Facilities Surcharge (Surcharge) rate of \$1.32 per square foot, versus construction assessed at the current rate.

For future residential construction that will be eligible for the \$1.32 per square foot rate, there will be forgone revenue of \$6.83 per square foot. This amount is based on the difference between the proposed Surcharge rate of \$1.32 for certain residential construction and the current maximum rate of \$8.15, which went into effect July 1, 2024.

We received the following information regarding annual Single Family Detached (SFD) construction and Surcharge revenue from the Department of Inspections, Licenses and Permits’ “School Surcharge Report.” The FY 2024 totals are current through June 6, 2024.

Fiscal Year	Total SFD Sq. Ft.	Total Surcharge Revenue
• FY 2020	2,210,749	\$ 2,994,338
• FY 2021	2,442,072	4,470,834
• FY 2022	2,916,025	12,921,665
• FY 2023	2,019,075	13,298,923
• FY 2024 (as of June 6)	1,447,442	9,124,565

The Director of the Department of Inspections, Licenses and Permits (DILP) estimated that less than 5 percent of construction would be eligible for the reduced rate. The table below shows the forgone revenue that might have resulted from the proposed change if 5 percent of new SFD construction were eligible for the reduced rate, based on the total square feet and total Surcharge revenue above:

Fiscal Year	5% of Sq. Ft.	\$1.32 Surcharge on 5%	Average Surcharge Rate	Average Surcharge on 5%	Potential Forgone Revenue
FY 2020	110,537.5	\$ 145,909	\$ 1.3544451	\$ 149,717	\$ 3,808
FY 2021	122,103.6	161,177	1.8307545	223,542	62,365
FY 2022	145,801.3	192,458	4.4312601	646,083	453,625
FY 2023	100,953.8	133,259	6.5866415	664,946	531,687
FY 2024 as of June 6	72,372.1	95,531	6.3039248	456,228	360,697

Purpose:

This legislation proposes reducing the School Facilities Surcharge rate from \$8.15 to \$1.32 per square foot of occupiable area for residential dwellings on single lots that meet the following paraphrased criteria:

- Construction must be built by an individual who owned the lot before the submission of a building permit application and who intends to use at least one of the dwellings as their primary residence; and
- Construction must not be built by a developer, builder, group, or other individual who does not meet the criteria above.

Other Comments:

The Director of the DILP indicated that the department does not currently have a mechanism in place for distinguishing between properties that would be eligible or ineligible for the reduced rate under the proposed legislation. Implementing a new procedure to categorize and track square footage eligible for the reduced rate may involve additional work hours and/or staff, according to the Director.

The Director of the DILP confirmed during the July 23, 2024, Legislative Work Session that the Surcharge rate per square foot has been updated from \$7.50 to \$7.87 effective July 1, 2023, and from \$7.87 to \$8.15 effective July 1, 2024. The Surcharge rate is adjusted annually for inflation in accordance with the Consumer Price Index.