

The Fiscal Impact of a Residential Development in Laurel, Maryland

PREPARED BY SAGE POLICY GROUP, INC.
ON BEHALF OF PULTE HOME COMPANY, LLC

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Executive Summary

Pulte Home Company, LLC seeks to construct 293 residential units in Laurel, Maryland. Using an ultra-conservative methodology that calculates fiscal costs on an average-per-household basis but revenues on a marginal basis that accounts for parameters specific to the proposed housing units, this analysis determines that the development would generate a net annual fiscal benefit of \$104,327 for the City of Laurel. Due to the assumptions and methodologies used in this analysis, the realized net fiscal benefit would likely be significantly greater.

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The Fiscal Impact of a Residential Development in Laurel

INTRODUCTION

Pulte Home Company, LLC seeks to construct 293 residential units in Laurel, Maryland. Those units would comprise 132 single family attached homes, 148 stacked townhouse condominium units, and 13 active adult villa units. Twelve of the single family attached homes will be built as live/work units which will allow residents to operate their business on the ground floor of their residential unit, and the project will allocate several homes for sale as “affordable” and “workforce” housing. The average sales price across all units is expected to exceed \$497,000, although that figure is subject to change based on market conditions.

Exhibit 1: Details by Unit Type of Proposed Development

Unit type	Units	Average Sales Price
Single Family Attached	132	\$530,000
Stacked Townhouse Condominium	148	\$460,000
Active Adult Villa	13	\$590,000
Total	293	\$497,304

Source: Pulte Home Company, LLC

This analysis estimates the net fiscal impact that the development would have on the City of Laurel by comparing the anticipated fiscal benefit—the tax revenues supported by the development—to the anticipated cost of services the City will incur as a result of the new development.

This report uses proprietary fiscal impact modeling techniques that utilize data from the U.S. Census Bureau, the Office of the Maryland Comptroller, and City of Laurel Audit Reports, to estimate the fiscal implications of the proposed development.

Note that this analysis provides an estimate of the net fiscal impact to the City upon full build out and does not consider the construction phase. The construction phase will, however, augment local incomes, and the increased economic activity that occurs as a result will lead to a one time increase in City revenues that will take place over the duration of construction. Based on conversations with Pulte, they will incur all costs related to necessary infrastructure improvements related to the development. To the extent there are any costs to the City associated with the construction phase, it is assumed that they will be covered by the \$575,000 in impact fees paid by the developer to the City. Note that Pulte also expects to pay an additional \$8.5 million in impact fees to Prince George’s County.

FISCAL BENEFITS

PROPERTY TAXES

Laurel taxes real property at a rate of \$0.71 per \$100 of assessed value, or at 0.71 percent. Real property taxes accounted for more than 55 percent of the City's total revenue in FY 2022 and more than 60 percent in FY 2021.

This analysis assumes that the assessed value of the new residential units will be equivalent to the sum of the sales price, as state law dictates that property should be assessed based on its fair market value. With 293 units and an average expected asking price of \$497,304, the total assessed value of the new development sums to approximately \$145.7 million.

Based on the relevant tax rate and the estimated assessed value, the development would generate more than \$1.0 million in real property tax revenues each year, an amount equal to 4.1 percent of the City's FY 2022 real property tax collections.

INCOME TAXES

The City of Laurel does not levy an income tax but does receive a portion of income taxes that Prince George's County collects from City residents. Specifically, the City receives the greater of 8.5 percent of the State income tax liability, 0.37 percent of the Maryland taxable income of municipal residents, or 17 percent of the county income tax liability of residents within its boundaries.

This analysis uses the latter method to estimate the income taxes that will be paid by the residents of the development and assumes that the residents have the minimum income that qualifies for a 30-year fixed-rate mortgage at the current average mortgage rate, assuming an 11.9 percent down payment.^{1,2} Based on these parameters, it is assumed that average household income for the purchasers of one of these homes would be \$126,514, and the aggregate annual income for the 293 units would be \$37.1 million.

Prince George's County taxes income at 3.2 percent, but that overstates the actual tax rate county residents pay on their income. To account for this discrepancy, this analysis uses an effective Prince George's County income tax rate of 2.8 percent, which is calculated using data regarding county-specific income and local tax payments from the Office of the Maryland Comptroller's FY 2022 Comprehensive Annual Financial Report.

¹ Mortgage rate data is sourced from Freddie Mac and corresponds to the U.S. weekly average as of 12/07/2023.

² The down payment of 11.9 percent corresponds to the average down payment made in Maryland in the third quarter of 2023, as compiled by the research team at Realtor.com.

Applying that effective tax rate of 2.8 percent to the estimated aggregate income of \$37.1 million yields County-level income tax revenues of slightly greater than \$1.0 million per annum. **Laurel would receive 17 percent of that total, or approximately \$174,181 per annum, which equates to 3.4 percent of the city’s FY 2022 income tax revenues.**

CHARGES FOR SERVICES AND OTHER TAXES

The City of Laurel collected \$6.2 million in charges for services in FY 2022 and more than \$550,000 in “other taxes.” This analysis isolates the following components of those categories and applies an average benefit method—applying the per household rate of revenues based on FY 2022 financial data—to the following categories: recreation fees, facility rentals, refuse collection, parking tickets, and local admissions taxes. While the residents will also likely generate revenues via red light camera tickets, which generates approximately \$2.5 million for the City per annum, this analysis does not endeavor to estimate those revenues because of the large share that are likely generated by nonresidents.

Based on the above parameters, the 293 new households will generate approximately \$29,000 in charges for services per annum.

TOTAL FISCAL BENEFITS

The development will generate an estimated \$1.0 million in real property tax revenues, \$174,200 in income tax revenues, and about \$30,000 in charges for services and other taxes for the City each year. In total, the development would augment the City’s revenues by nearly \$1.24 million per annum.

Exhibit 2: Estimated Fiscal Benefits

Category	Annual Revenues
Real Property Taxes	\$1,034,541
Income Taxes	\$174,181
Charges for Services and Other Taxes	\$29,854
Total	\$1,238,576

Source: Sage

FISCAL COSTS

This analysis uses an average cost method to estimate the expenses the City of Laurel would incur as a result of the new housing units. This method simply divides the county’s FY 2022 expenditures by the number of households to determine the cost per household.

Importantly, this by definition overstates the marginal cost of adding a new household because it does not account for fixed costs. For instance, the addition of 293 new housing units will not change the

expenses associated with compensating the mayor and City council, nor would it have a material impact on information technology expenses.³

The City of Laurel was home to 11,142 households in 2022, and the City's FY 2022 expenditures totaled \$43.1 million. Based on these parameters, the City's expenditure per household is approximately \$3,870. **For the 293 unit development considered in this analysis, the annual expenses to the City would total \$1.13 million per annum.**

NET FISCAL IMPACT

This analysis finds that the development would generate \$1.24 million in annual revenues for Laurel while expenditures would increase by an estimated \$1.13 million per annum. **This results in a positive net fiscal impact of approximately \$104,300 per annum.**

Exhibit 3: Net Fiscal Impacts

Category	Annual Impact
Annual Fiscal Benefit	\$1,238,576
Annual Fiscal Cost	(\$1,134,249)
Net Fiscal Impact	\$104,327

Source: Sage

CONCLUSION

Critically, this analysis endeavors to be as conservative as possible in its methodology and assumptions in order to demonstrate that the development would, without a doubt, have a positive fiscal impact on the City of Laurel. Reasons why the estimated net fiscal impact presented in this analysis understate the potential realized fiscal impacts include:

- This analysis uses an average cost method which, by not accounting for fixed costs, overstates Laurel's marginal cost per household.
- While the expenses related to providing services are determined on an average per household basis, revenues that would be generated by charges for services are calculated only for the distinct categories that would be augmented by new households.
- Household income levels for the new residents are assumed to be the lowest possible level that could qualify for a mortgage at the respective prices. Many of the residents will likely have higher incomes, therefore generating greater income tax revenues for the City.

Despite these intentionally conservative assumptions, this analysis still finds that the development would generate an annual net fiscal benefit of approximately \$104,300 for the City of Laurel.

³ Because this development represents an increase of less than 3 percent to the number of citywide households, it is unlikely that the expanded population causes Laurel to hit thresholds at which costs must expand (e.g., if the parks department had to hire a new employee as a result of the expanded population).

About Sage Policy Group

Sage Policy Group is an economic and policy consulting firm headquartered in Baltimore, MD. Dr. Anirban Basu, Sage's chairman and CEO, founded the firm in 2004. Sage has created a client base that encompasses more than forty states and seven countries and includes Fortune 500 companies, NFL teams, aquariums and zoos, state and local governments, insurance companies, banks, brokerage houses, major medical systems, trade organizations, and law firms, among others.

The company is especially well known for its analytical capabilities in economic and fiscal impact estimation, economic development, forecasting, legislative analyses, litigation support, environmental economics, and industry outlooks.

In addition to leading Sage, Dr. Basu has emerged as one of the nation's most recognizable economists. He serves as the chief economist to Associated Builders and Contractors, the Maryland Bankers Association, and the International Food Distributors Association and as the chief economic adviser to the Construction Financial Management Association. He chaired the Maryland Economic Development Commission from 2014 to 2021 and currently chairs the Baltimore County Economic Advisory Committee.

Dr. Basu's lectures in economics are delivered to audiences across the U.S. and abroad. He has lectured at Johns Hopkins University and is presently the Distinguished Economist in Residence at Goucher College, where he teaches History of Economic Thought.