



City of Rockville Fiscal Impact Analysis of Shady Grove Annexation Final Report April 2025

NewGen Strategies <mark>& Solutions</mark>

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Subject: Fiscal Impact Analysis of Shady Grove Annexation

Dear Ms. Tewari:

NewGen Strategies and Solutions is pleased to submit the enclosed Fiscal Impact Analysis Report completed for the City of Rockville, which evaluates the potential fiscal impact of annexing the Shady Grove Metro Station property.

It has been a pleasure working with the City throughout this engagement. We are especially grateful for the support and collaboration provided by City management and staff, whose contributions were instrumental to the successful completion of this study. We appreciate the opportunity to support the City on this important initiative.

Sincerely,

Tichael Maker

Michael Maker Partner

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1. STUDY OVERVIEW AND APPROACH

1.1 Background

With a population of just under 70,000, Rockville is Maryland's fourth-largest city. Spanning approximately fourteen square miles, the City is largely built out, with limited opportunities for greenfield development (i.e., previously undeveloped areas). As a result, most new construction consists of redevelopment or infill projects, often at higher densities that reflect the increasing value of land. Over the past fifty years, Rockville has transformed from a small suburban community into a thriving urban center. Given its assets and strategic location within the greater Washington, D.C. region, continued growth and redevelopment are expected.

While there are a host of considerations that the City uses to guide its growth and redevelopment policy, the fiscal impact of development is a critical factor that should not be ignored. In support of its long-term planning efforts, the City engaged NewGen to update its 2023 fiscal impact model to evaluate the potential annexation of the Shady Grove Metro Station property.

A fiscal impact analysis assesses whether the revenues generated by new development are sufficient to offset the associated operating and capital costs of public services. While it is just one of several factors— alongside economic, environmental, and transportation considerations—a fiscal impact analysis is an essential tool in evaluating the implications of development proposals.

1.2 Approach

This study was conducted to update the assumptions in the City's prior fiscal impact model and to use the tool to evaluate the viability of proposed development scenarios. Viability is assessed by comparing the projected costs of providing services to new development with the anticipated revenues generated.

Using the updated model developed by NewGen, expenses and revenues are forecast over a 25-year period, applying inflation rates to current budget figures. These projections are categorized and allocated across the City's population and workforce to calculate per capita and per employee fiscal impacts.

The model estimates revenue and cost impacts based on key demographic and development factors including the number of residential units, commercial square footage, assessed values, population, and employment projections. Three annexation scenarios for the Shady Grove Metro Station property were developed, with corresponding projections for square footage, residents, and employees based on data provided by the City:

- Scenario 1: Expedited development timeline, with construction beginning in FY 2031
- Scenario 2: Average development timeline, with construction beginning in FY 2036
- Scenario 3: Delayed development timeline, with construction beginning in FY 2041

1.3 General Fiscal Impact Assumptions

This overall fiscal impact analysis uses an average costing approach, which assigns service costs to new development based on the average cost per unit of service in existing development. Costs and revenues are calculated on a per capita and per employee basis, allowing the model to estimate fiscal impacts based on projected population and employment growth.

Development is broadly categorized as either residential or commercial. Residential development is further segmented into the following:

- Single-Family
- Townhouse
- Multifamily
- Senior housing

Commercial development is divided into the following:

- Office
- Retail
- Industrial
- Other (including hospitals, community centers, hotels, etc.).

For the Shady Grove annexation analysis, only Multifamily, Townhouse, and Retail property types were considered, though the model supports all development types.

It is important to note that this analysis includes only the costs and revenues related to services provided by the City. State and County services—such as public education, fire and rescue, and libraries—are excluded, as they fall outside the City's fiscal responsibility. For example, excluding public education costs results in a more favorable fiscal impact for residential properties than might be observed in jurisdictions that fund schools directly. Also, the costs for the replacement and reconfiguration of Shady Grove transit facilities and other public costs are not included in the analysis.

The fiscal impact analysis is based on the following set of assumptions:

1.3.1 Operating Expenditures and Revenues

The fiscal impact analysis includes all operating costs associated with existing or future development as captured in the City's General Fund. Costs related to the City's utility enterprise funds (e.g., water, sewer, stormwater) are excluded, as these services are designed to be self-supporting. Additionally, water and sewer service to the Shady Grove Metro property is provided by WSSC Water. On the revenue side, only General Fund revenues were considered—excluding revenues from the State or other external sources. Fiscal Year (FY) 2024 and 2025 General Fund budgets served as the basis for the analysis, with expenditures and revenues projected over a 25-year period.

1.3.2 Capital Expenditures and Debt

To align with the effort to isolate costs directly tied to development, capital expenditures and debt issuances were handled similarly. Capital and debt costs associated with enterprise funds were excluded from the analysis, while General Fund capital expenditures were included. For capital projects expected to be funded through debt, future debt service was estimated by amortizing the projected borrowing.

1.3.3 Allocation of Expenses and Revenues

To complete the fiscal impact analysis, General Fund operating expenses were allocated between residential and commercial development based on the type and nature of each expense. The primary allocation was determined using a composite of factors, including assessed value, number of parcels, housing units, and the ratio of population to employees. After excluding tax-exempt parcels, the resulting distribution was approximately 74% residential and 26% commercial.

The residential share was further segmented as follows:

- 43% single-family
- 13% townhouse

- 15% multifamily
- 3% senior housing

The commercial share was broken down as follows:

- 11% office
- 5% retail
- 6% industrial
- 5% other (e.g., hospitals, community centers, hotels)

Revenues generated within the City—excluding property taxes—were allocated using the same methodology.

1.3.4 Economic Assumptions

The fiscal impact analysis is based on a 25-year projection period, with the assumption that the current allocation of expenditures and revenues will remain consistent throughout. The following economic assumptions were used to forecast long-term costs and revenues:

- Inflation rate on expenses: 1.5% to 7.0%
- Revenue growth rate:
- 2.0% to 4.5%
- Real property tax rate:
- \$0.292 per \$100 of assessed value 20 years
- Maturity on financed capital:
- Interest rate on borrowing: 3.0%

1.3.5 Demographics

Current and projected demographic data form the foundation for calculating per capita and per employee costs and revenues in this analysis. The City provided baseline figures for population, households, and employment, along with 25-year forecasts in five-year increments. Additional data was supplied for anticipated residential and commercial development.

The accompanying exhibit summarizes demographic projections based on the City's Round 10 Cooperative Forecast from the Metropolitan Washington Council of Governments. It should be noted these projections cover only areas within the existing City limits and do not account for proposed annexations. The City is in the process of updating its estimates, which will be reflected in the forthcoming Round 10.1 Cooperative Forecast.





The City also provided assessed value data for all properties, which includes an implicit count of housing units. To support population forecasting, the City supplied assumptions on average household size by housing type. These assumptions are shown in the following exhibit.

Exhibit 1.3.2 Persons Per Household

Household Type	Persons Per Household
Single Family	2.990
Townhouse	2.597
Multifamily*	2.095
Senior	1.200

*Note: Multifamily includes both condominiums and apartment units.

For employment projections, the same property data was used, but employee counts were derived from commercial square footage rather than housing units. The City provided estimates of square footage per employee for each commercial property type, as shown in the following exhibit.

Exhibit 1.3.3 Squar	e Footage per	Employee
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Commercial Type	Square Feet per Employee
Office	294
Retail	633
Industrial	1,450
Other	500

These assumptions were applied to current and projected square footage to estimate the number of employees associated with commercial development.

1.3.6 Non-Fiscal Factors

It is important to recognize that fiscal impact is just one of many considerations when evaluating new development. This analysis does not account for a range of environmental, economic, and social factors that also play a critical role in the decision-making process.

2. INCREMENTAL REVENUES AND EXPENSES

This section outlines the methodology used to estimate the incremental revenues and expenses included in the fiscal impact analysis. The model applies per capita and per employee revenue and expense calculations based on the City's current demographics and General Fund budget. While the core methodology remains consistent with the City's original fiscal impact model, assumptions and budget figures have been updated for this study.

2.1 Property Tax Revenues

Property taxes are the primary source of General Fund revenue, accounting for approximately 42% of total revenues—over \$45 million in the City's FY 2025 adopted budget. To estimate property tax revenue from each development, the model multiplies the total land and improved assessed value of each site by the City's current property tax rate of \$0.292 per \$100 of assessed value. Assessed values for existing developments were provided by the City, and future assessed values are assumed to grow at an annual rate of 2.5%. The tax rate itself is held constant throughout the projection period.

2.2 Income Tax Revenues

Income taxes are the second-largest source of General Fund revenue, contributing approximately 19% or \$20.3 million—in FY 2025. These taxes are collected by Montgomery County at a 3.2% rate, with 17% of the collected amount (an effective 0.54% rate) allocated to the City. The model projects income tax revenue by estimating population growth, applying income inflation assumptions, and then calculating the City's share based on the County tax rate.

2.3 Gas, Admissions, and Hotel Tax Revenues

Additional revenues come from taxes on gas purchases, amusement events, and hotel stays. These sources are modeled based on projected population growth, under the assumption that increased density leads to more trips and higher service demand. The model estimates the number of annual trips generated by each property type and employment center. These trips are then converted into spending instances, which are multiplied by the average tax revenue per instance to estimate total income from these sources.

2.4 Other Revenues

General Fund revenues not included in property, income, gas, admissions, or hotel taxes are grouped into the following categories:

- Charges for Service
- Fines and Forfeitures
- Revenue from Other Governments (excluding income, gas, and admissions taxes)
- Licenses and Permits
- Other Revenue (excluding hotel taxes)
- Property Taxes (other than real property taxes)
- Transfers
- Use of Money and Property

To estimate other revenues generated by development, the City's adopted FY 2025 operating budget was used as a baseline. The model calculates these revenues on a per capita and per employee basis, based on projected population and employment associated with new development.

2.5 Allocation of Revenue

The allocation process involved assigning each revenue item to either residential development, commercial development, or both. For items relevant to both sectors, an allocation factor—based on assessed value, parcel count, housing units, and population-to-employee ratios—was applied. This resulted in an overall distribution of 74% residential and 26% commercial, consistent with prior allocations in the analysis.

Each revenue item was assumed to grow according to category-specific growth rates. The result was an annual estimate of revenue generated by residential and commercial properties, which was then divided by the City's population and employment base to calculate per capita and per employee revenue values.

2.6 Operating Expenses

Operating expenses associated with new development were estimated using the same approach applied to revenues. The analysis is based on departmental expenditures from the City's adopted FY 2025 operating budget. The departments reviewed included the following:

- City Attorney
- Human Resources
- Mayor and Council
- City Manager
- Community Planning and Development Services (CPDS)
- Housing & Community Development
- Finance
- Information Technology
- Police
- Public Works
- Recreation and Parks
- Non-Departmental

Each department's expenses were evaluated to determine whether they supported residential development, commercial development, or both. For shared services, a 74% residential and 26% commercial allocation was applied, consistent with the broader model. Subcategory splits were used as applicable. Inflation assumptions were applied by category (e.g., personnel, healthcare, retirement, capital outlay), allowing costs to escalate appropriately over time. This produced per capita and per employee operating expense estimates used in the fiscal impact projections.

2.7 Debt and Capital Expenses

Debt and capital expenditures were also incorporated into the analysis. The City provided amortization schedules for existing General Fund debt, and capital project data, including timing and funding source (PAYGO or bond), from the FY 2025–2029 Capital Improvement Program (CIP) was used to establish the near-term capital outlook.

For years beyond the current CIP, average annual capital spending was projected and escalated accordingly. For bond-funded projects, future debt service payments were calculated.

As with operating costs, debt, and capital expenditures were allocated using the 74% residential and 26% commercial split, with further breakdowns by development type where applicable. This allowed for the calculation of per capita and per employee costs for both debt service and capital investments.

3. SHADY GROVE FISCAL IMPACT ASSUMPTIONS

The previous sections described the structure of the fiscal impact model and its primary inputs. While the Shady Grove annexation scenarios are built upon those core drivers, additional adjustments were made to reflect the unique characteristics of the proposed annexation. This section outlines the specific assumptions incorporated into the revenue and expense estimates for the Shady Grove analysis.

3.1 Police Costs

A key cost consideration in the Shady Grove annexation analysis is the need for expanded police services to cover the new area. Based on estimates provided by the City, the annual cost per officer in Year 1 is approximately \$127,000, with an additional one-time cost of just over \$42,000 per officer. The model assumes that six new officers will be required, resulting in a total first-year cost of roughly \$1,015,000. Ongoing costs are projected to grow at a rate of 4% annually, reaching approximately \$2.0 million by Year 25.

3.2 Development Program

The potential development program for the Shady Grove annexation, as provided by the City, serves as the foundation for the fiscal impact projections. While specific site planning details may change, the analysis reflects development consistent with the current assumptions.

- Residential Use (60% of area):
 - 45% multifamily units
 - 15% townhomes
 - 15% of all residential space is assumed to be affordable housing
 - Full buildout includes approximately 960 multifamily units, 50 townhomes, and more than 2,100 residents
- Commercial Use (25% of area):
 - Currently assumed to be entirely retail, though office uses could yield similar or greater fiscal impacts
- Open Space (15% of area):
 - Assumed to have no direct fiscal impact in terms of revenue or cost
 - Treated conservatively to avoid overstating potential fiscal benefits

These development assumptions were designed to produce a realistic and moderately conservative projection of fiscal impacts tied to the annexation.

3.3 Scenario Development Timelines

The fiscal impact analysis for the Shady Grove annexation is intended to represent a range of potential outcomes rather than predict precise future events. To model varying development timelines, three scenarios were created, with construction assumed to begin 6, 11, and 16 years after annexation. The 6-year timeline reflects an aggressive buildout pace, while the 16-year timeline represents a more gradual, delayed start.

In addition to the assumed start year for construction, this analysis incorporates assumptions about the duration and pace of development. All three scenarios use a 5-year ramp-up period, with 20% of the total development completed each year until full buildout is reached in Year 5. While the actual construction

timeline will likely be uneven—varying by building type and market conditions—this evenly phased approach provides a reasonable and consistent estimate given the absence of detailed development schedules. It offers a practical way to simulate impacts without speculating on the timing of individual project components.

3.4 Development Area

The following assumptions form the basis for all three development scenarios:

Class	Units	Square Footage	Employees	Residents	Assessed Value
Multifamily	1,800	484,024	-	3,771	\$168,014,701
Townhouse	97	161,341	-	252	\$83,963,212
Retail Space	N/A	268,901	425	-	\$116,797,386
Open Space	N/A	161,338	-	-	\$0
Total	1,897	1,075,604	425	4,023	\$368,775,299

Exhibit 3.4.1 Shady Grove Assumptions

The development area, which includes multiple pad sites, is summarized by property type for modeling purposes:

- 45% allocated to multifamily use
- 15% to townhomes
- 25% to retail space
- 15% reserved for open space

Additionally, 15% of the residential units (both multifamily and townhomes) are assumed to be affordable housing.

3.5 Additional Assumptions

This analysis incorporates conservative assumptions to ensure that any positive fiscal outcome occurs despite several variables that could otherwise result in more favorable projections. Key assumptions include:

- Residential Occupancy Rate: A 90% occupancy rate is assumed for residential units after construction. While this may appear optimistic for early development years, higher occupancy increases service-related expenses. Property taxes are assumed regardless of occupancy, but service costs scale with resident presence. Thus, 90% occupancy reflects a conservative approach by maximizing cost exposure.
- Building Height Restrictions: The number of residential units assumed is based on existing height limits within the City. While discussions have taken place regarding relaxing these restrictions, the analysis is based solely on what is currently permitted. This maintains a conservative estimate by not assuming expanded density.
- Tax-Exempt Status Until Completion: The analysis assumes properties remain tax-exempt until full buildout is complete, meaning no property tax revenue is collected during construction. In reality, partial assessments or early revenue generation may be possible as parcels are developed or transferred to private ownership, but no such assumptions are made in this model.

 Police Cost Treatment: The treatment of police expenses varies between the two fiscal impact methodologies presented in the following sections. These differences are addressed in detail within each scenario.

3.6 Fiscal Impact Analysis Methodologies

The remainder of this report evaluates two distinct methodologies for assessing the fiscal impact of the Shady Grove annexation. The first approach distributes all City costs (including the need for six new police officers) evenly across residents and employees, reflecting a citywide sharing of service expenses. The second approach isolates costs directly tied to the annexation—such as added police services—and assigns them solely to the annexed area. Both methods offer valuable insights: while public services are typically funded through broad-based revenue generation, it is also important to examine whether the annexation can support its own costs and operate in a fiscally self-sustaining manner.

4. FISCAL IMPACT ANALYSIS – PER CAPITA METHOD

Under the per capita method, the fiscal impact of the Shady Grove annexation is assessed by distributing Citywide costs (including the cost of the six new police officers) across all residents and employees. This approach applies per capita and per employee revenue and expense estimates to the projected population and employment associated with the development.

Revenue and expense estimates are calculated using per capita (residents) and per employee (commercial) figures. Property taxes are calculated separately based on the assessed value of each development type. The resulting revenue, cost, and net fiscal impact projections for each scenario are presented in the sections that follow.

4.1 Scenario 1 (2031 Development Start)

In Scenario 1, initial development at the Shady Grove site is assumed to begin five years after annexation, with 20% of the total buildout completed by FY 2031. Full buildout is achieved by FY 2035, following a consistent five-year construction ramp-up. This scenario represents the most accelerated, yet plausible, development timeline and serves to illustrate the potential fiscal impact under early buildout conditions.

The exhibit below presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.





Under this scenario, no operating expenses are incurred until FY 2031, as there are no taxable structures or residents to generate service demand prior to that time. Revenues begin in FY 2031 with the completion of 20% of the development, increasing by an additional 20% annually through FY 2035. The project is projected to produce a net positive fiscal impact starting in the first year of development completion.

The following table breaks down the average annual net fiscal impact by development type.

Development Type	Average Annual Net Fiscal Impact
Multifamily	\$327,737
Townhouse	\$175,981
Retail Space	\$188,505
Open Space	-
Total	\$692,223

Exhibit 4.1.3 Development Type Fiscal Impact Summary (2031 Start)

All development types are expected to yield a positive net fiscal impact over the 25-year period. Townhomes generate the highest impact relative to their share of the site due to higher assessed values per square foot and lower population-related costs. While multifamily and retail also contribute positively, their impacts vary based on cost structure and occupancy assumptions.

Subsequent scenarios explore the implications of delayed development timelines and their effect on fiscal outcomes.

4.2 Scenario 2 (2036 Development Start)

Scenario 2 assumes the same development program as Scenario 1; however, construction does not begin until FY 2036, with 20% of the development completed in that year. As a result, property tax and related revenues are not realized until 2036. In the years prior to construction, police costs associated with the annexation are assumed to be absorbed by the existing City population, while no new revenue is generated from the site.

The exhibit below presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.



Exhibit 4.2.1 Shady Grove Scenario Fiscal Impact Summary (2036 Start)

Because there are no revenues or annexation-driven expenses prior to 2036, the early years reflect a neutral fiscal impact. Once development begins, however, the scenario immediately generates a positive net fiscal contribution, which grows annually as the buildout progresses through FY 2040. Retail and townhome development drive much of this impact.

The following table breaks down the average annual net fiscal impact by development type.

Class	Average Annual Net Fiscal Impact
Multifamily	\$265,376
Townhouse	\$139,050
Retail Space	\$163,875
Open Space	-
Total	\$568,301

Exhibit 4.2.2 Development Type Fiscal Impact Summary (2036 Start)

Compared to other classes, the multifamily component has a lower net fiscal impact on a per unit basis but performs the strongest as it is 45% of total development. This is due to its higher service costs associated with the per capita expenses, which are applied once development is complete. On a per-unit basis, multifamily properties typically produce lower net returns than townhomes or retail due to having more expenses compared to the assessed value of the associated space. This explains their reduced relative impact despite occupying a larger share of the site.

The delay in development also postpones revenue generation, resulting in a lower average annual net fiscal impact than Scenario 1. This effect becomes even more pronounced in Scenario 3, which assumes a significantly later buildout.

4.3 Scenario 3 (2041 Development Start)

Scenario 3 assumes that development does not begin until FY 2041, with 20% of the project completed in that year. This represents a 15-year delay following annexation, during which no revenues are generated, but police costs associated with the annexation are incurred and borne entirely by the existing City population.

The exhibit below presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.



Exhibit 4.3.1 Shady Grove Scenario Fiscal Impact Summary (2041 Start)

The scenario assumes no partial or phased development prior to 2041, meaning the City receives no fiscal benefit from the property during the first 15 years. After construction begins, the site follows the same five-year ramp-up as other scenarios, with full buildout completed by FY 2045—20 years after annexation. Despite this extended timeline, the development ultimately produces a positive substantial cash flow upon completion and produces a significant fiscal impact by FY 2050.

The table below summarizes the average annual net fiscal impact by development type.

Development Type	Average Annual Net Fiscal Impact
Multifamily	\$187,515
Townhouse	\$92,978
Retail Space	\$108,861
Open Space	-
Total	\$389,354

Exhibit 4.3.2 Development Type Fiscal Impact Summary (2041 Start)

Compared to earlier scenarios, Scenario 3 reflects reduced fiscal returns due to its longer development timeline but still makes a substantially positive fiscal impact. The extended delay in revenue generation and continued accumulation of costs places a greater fiscal burden on the rest of the City which will have to support any costs that could be generated by the area until development completion. Although the project becomes revenue-generating upon buildout, the long lag time means fewer years remain in the 25-year projection period to generate cash flows.

As with previous scenarios, retail and townhomes provide stronger per-unit fiscal impacts, while multifamily development has a lower net return due to higher population-related service costs.

5. FISCAL IMPACT ANALYSIS – DIRECT COST METHOD

An alternative approach to assessing the fiscal impact of the Shady Grove annexation is to determine whether the revenues generated by the annexation are sufficient to cover the direct cost of additional police services required for the area. This method isolates a key cost component—police staffing—and applies it exclusively to the annexed property rather than distributing it across the entire City.

This analysis is based on the following assumptions:

- Police costs begin in Year 1, immediately upon annexation, reflecting the point at which City police would assume responsibility for the area currently served by County police.
- Police expenses are treated as a direct cost associated solely with the annexation. The premise is that if the annexed area cannot generate sufficient revenue to cover this cost, the annexation would not be fiscally sustainable.
- Other costs remain unchanged, with general operating expenses and revenues still allocated on a per capita and per employee basis. However, to avoid duplication, the per capita share of police costs in the general model is excluded from the annexation area.

This method treats the additional police cost as a required investment for enabling the annexation and helps determine whether the Shady Grove Metro Station area can operate on a fiscally self-sustaining basis if it must independently cover the cost of police services.

5.1 Scenario 1 (2031 Development Start)

This scenario mirrors the most accelerated development timeline presented in the per capita method. It assumes that development begins in FY 2031 and is fully built out by FY 2035. However, under the direct cost approach, police expenses begin in Year 1 of the model—well before any development-related revenue is generated.

The following exhibit presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.

This scenario illustrates the fiscal challenge of assigning full police costs to the annexation area. The police costs are uncontested in the early years of the projections, accumulating almost \$4.5 million in losses before construction begins. The burden of the police costs continues to create losses in all development years leading up to the full buildout, which is the first year of positive cash flows. At this point, however, the cash flow generation must overcome almost \$6 million in deficit.

Between the full buildout completion date of FY 2035 and the forecast end of FY 2050, the scenario is able to chip away at the losses from its peak at almost \$6 million dollars to just under \$1.8 million in cash deficit by FY 2050. At the current trend, a positive fiscal impact would be able to occur close to FY 2055.





5.2 Scenario 2 (2036 Development Start)

In this scenario, development begins five years later than in Scenario 1, reaching 20% completion in FY 2036 and full buildout by FY 2040. Police costs still begin in Year 1, accumulating over a decade before any revenue is generated.

The following exhibit presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.

By the time development is fully underway, the annexation area has incurred nearly \$10 million in cumulative police-related deficits. FY 2040 is the first year when revenues have the ability to outpace expenses, coinciding with the completion of all development. This means that an additional five years is required on top of any lead-up to the construction to achieve a revenue level that can generate positive cash flows.

The police expense clearly creates a significant deficit to overcome, but as soon as development reaches completion, the scenario is able to generate hundreds of thousands of dollars in positive cash flow each year, beginning to chip away at the accumulated losses. It is implied that with the upward trajectory, a positive fiscal impact would occur sometime in the future.



Exhibit 5.2.1 Shady Grove Scenario Fiscal Impact Summary (2036 Start)

5.3 Scenario 3 (2041 Development Start)

Scenario 3 represents the most delayed timeline, with development not starting until FY 2041 and full buildout completed by FY 2046. Police costs begin in Year 1 and accumulate unchecked for 15 years before any offsetting revenue is received.

The following exhibit presents the projected revenues, expenses, and net fiscal impact over the 25-year analysis period.

This scenario generates the largest deficit of all, with cumulative losses reaching \$16 million by FY 2042 and recovering to a shortfall of \$14.5 million by 2050. Once revenues do materialize, they are insufficient to reverse the fiscal imbalance completely, although the trend begins to head towards fiscal positivity. One can assume that unless the relationship between the inflation of expenses and revenues changes, a positive fiscal impact will occur at some point in the distant future.





6. SUMMARY OF FISCAL IMPACT ANALYSIS

The fiscal impact analysis for the Shady Grove annexation highlights how outcomes can vary significantly based on how costs are defined and attributed. If police costs are treated as a shared Citywide responsibility—consistent with how public services are typically funded—then the annexation is projected to generate a positive fiscal impact once development is underway, with stronger results as the development approaches full buildout.

However, if police costs are treated as a direct burden of the annexation area alone, the analysis suggests that the revenues generated under current development assumptions would not be sufficient to fully offset those expenses—estimated at an average of nearly \$1.3 million per year over the 25-year analysis period.

Beyond this central finding, several key factors may influence the fiscal outcome:

- Development Types Have Positive Potential: All evaluated development types—multifamily, townhomes, and retail—show potential for positive fiscal impact when police costs are excluded.
- High-Value Development Mitigates Police Costs: To fully offset police costs, the assessed value of new development would need to be approximately 90% higher than the current average. While possible, it should be emphasized that high-value development (e.g., luxury units or high-end commercial space) would be needed to close the fiscal gap.
- Occupancy Assumptions Are Conservative: The analysis uses average occupancy assumptions. Lower occupancy reduces service-related costs, which may improve the fiscal outlook. In that sense, assuming higher occupancy is a more conservative approach.
- Buildout Pace Matters: While a five-year phased development timeline is assumed, actual buildout may be uneven. Faster completion would generate revenues earlier and reduce the relative burden of early fixed costs, such as police services.
- Assessed Value Will Vary: Recent developments in Rockville have trended toward higher assessed values. If the Shady Grove annexation follows this trend, the fiscal outcome could be more favorable. Conversely, lower-than-expected values would weaken the net impact.
- No Method Is Perfect: The per capita method may understate fiscal pressures by spreading costs across the full population, while the direct cost method may overstate them by assigning expenses that aren't entirely attributable to the annexation. Each method provides a different lens for evaluating fiscal viability.

Regardless of the methodology used, the timing and quality of development are critical. Accelerated buildout and higher-value properties—such as townhomes or luxury multifamily units—will yield stronger fiscal outcomes. The sooner the development reaches substantial completion, the greater its potential to contribute positively to the City's finances.