



Annexation Plan & Fiscal Impact Analysis

Mayor and Council Work Session

Annexation of WMATA property with
Shady Grove Metro Station and a portion
of the CSX Transportation, Inc. land

May 12, 2025

Presentation Outline



- **Project background**
- **Annexation Plan**
- **Fiscal Impacts on City services related to the annexation**
- **Review of Options**
- **Outline next steps**



Question for the Mayor and Council

How would you like to move forward with the annexation?

Potential options:

- 1. Annex the area as proposed.**
- 2. Annex only the west side of the proposed annexation area.**
- 3. Delay annexation.**

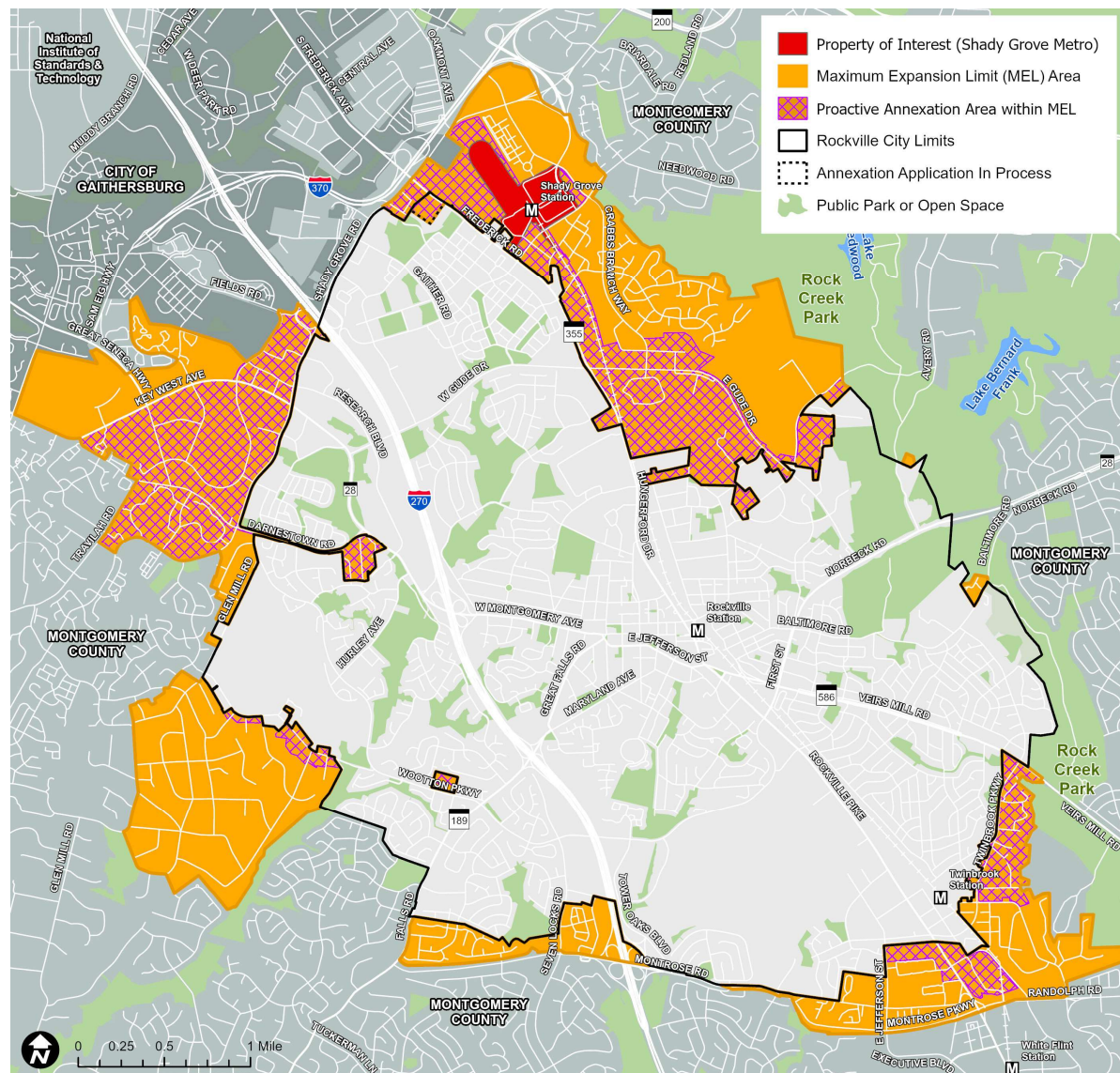
Background



- **Comprehensive Plan adopted (Aug 2021)**
- **Implementation strategies for Municipal Growth Element outlined (Feb 2022)**
- **Mayor and Council introduce annexation (Oct 2023)**
- **Planning Commission reviewed and approved preliminary annexation plan (Feb and April 2025)**

Maryland State Law for Annexations

Rockville's Comprehensive Plan Municipal Growth Element



Maryland State Law – Annexations



- **Owners can initiate annexations.**
- **A municipality's legislative body may initiate an annexation after meeting consent requirements.**
- **The Maryland Supreme Court has ruled that a municipality may introduce a resolution to annex tax-exempt land without obtaining the consent of the owners of such land.**



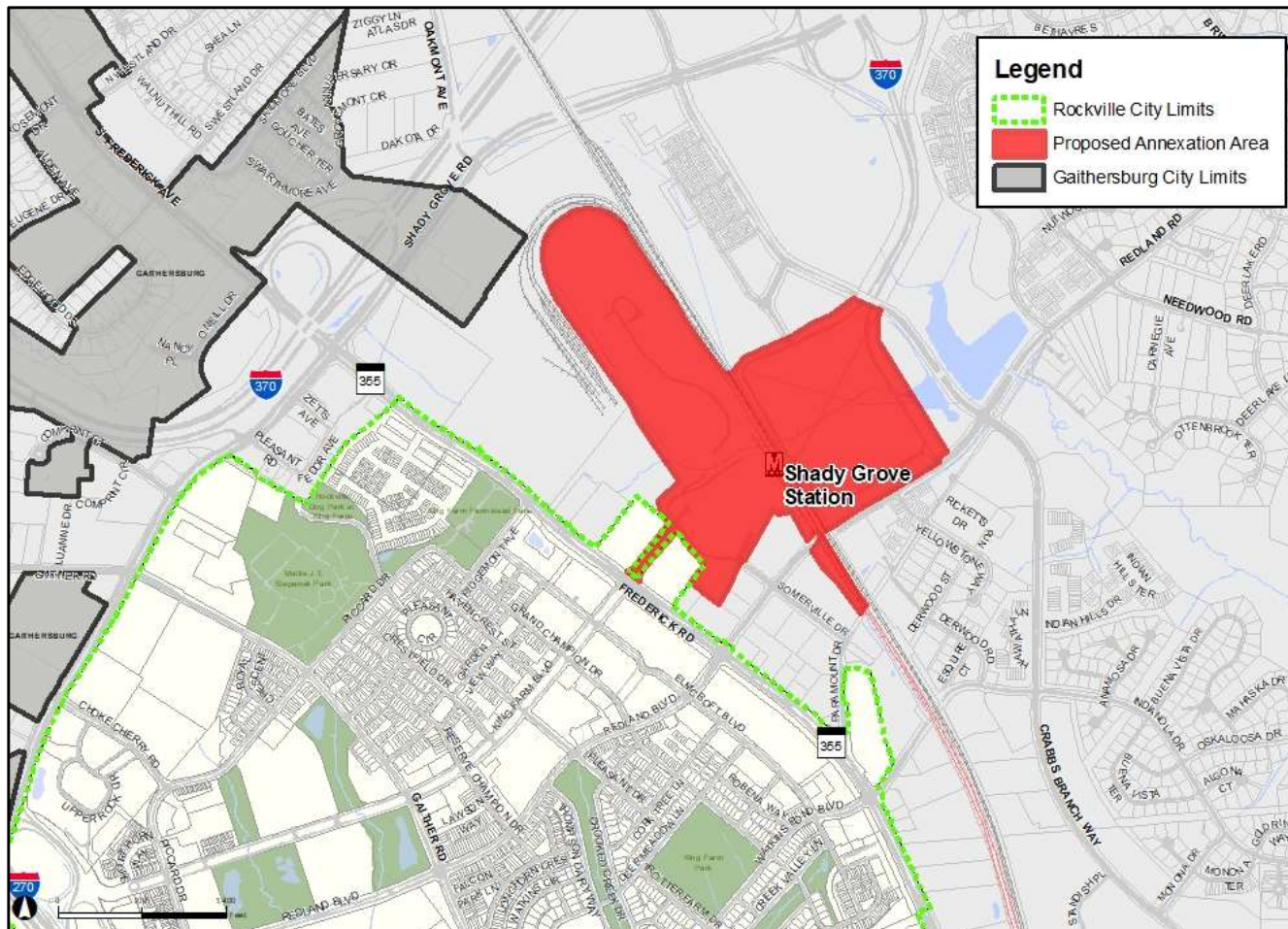
Maryland State Law – Annexations

The Annexation Plan with the following findings must be adopted:

- **Consistency with MGE and appropriate zoning**
- **Capacity to provide public services**
 - ❖ **Water and Sewer (WSSC)**
 - ❖ **School Services (County)**
 - ❖ **Fire, EMS and Rescue Services (County)**
 - ❖ **Public Libraries (County)**
 - ❖ **Road Capacity**
 - ❖ **Parks and Recreation**
 - ❖ **Police Services (6 additional police officers)**
 - ❖ **Fiscal Impacts (Optional, not required per State Law)**

Adequate Public Facilities Ordinance (APFO) analysis is completed during the site plan review

Location Map - Proposed Annexation Area



Proposed Annexation Area



Preliminary Annexation Plan



Planning Commission at their April 2023 meeting, after conducting a public hearing, determined that:

- **The proposal is consistent with the City's Municipal Growth Element.**
- **The proposed Mixed-Use Transit District (MXTD) zoning designation is appropriate.**
- **The City has the capacity to provide public services.**



Fiscal Impact Analysis

NewGen Strategies and Solutions



General Fiscal Impact Assumptions

Inflation rate of expenses:	1.5% to 7.0%
Growth in revenues:	2.0% to 3.0%
Real property tax rate:	\$0.292 per \$100 of assessed value
Maturity on financed capital:	20 years
Interest rate on borrowing:	3.0%
Development factors:	

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

Commercial	Square Feet per Employee
Office	294
Retail	633
Industrial	1,450
Other	500



Development Assumptions

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
Free Space	N/A	161,338	-	-	\$0
Total	1,897	1,075,604	425	4,023	\$368,775,299



Two Methodologies

Per Capita Method

- Distributes all City costs (including 6 additional police officers) across all residents and employees
- Reflects general municipal funding practices
- Annexation benefits from shared Citywide services
- More likely to show net positive impact if costs are absorbed collectively

Direct Cost Method

- Assigns the cost for additional police officers directly to annexed area
- Tests whether annexation can “pay for itself”
- No cost sharing with existing City population
- More conservative; may result in fiscal deficit if revenue is insufficient



Shady Grove Project Scenarios

Scenario 1: Expedited development timeline

- First 20% of construction completion expected in FY 2031
- Development completed by FY 2035

Scenario 2: Average development timeline

- First 20% of construction completion expected in FY 2036
- Development completed by FY 2040

Scenario 3: Delayed development timeline

- First 20% of construction completion expected in FY 2041
- Development completed by FY 2045

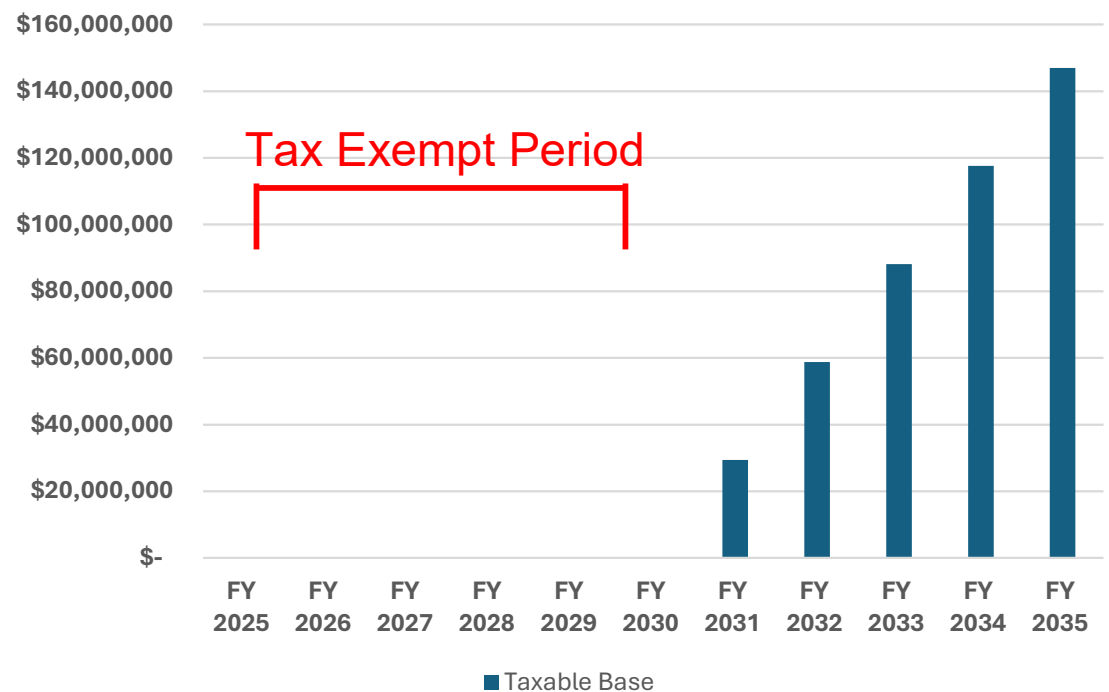
All scenarios assume a 5-year build out with 20% of development completed each year



Project Assumptions

- Existing regulations (height restrictions, open space, affordable housing) applied
- Properties tax-exempt (i.e., no property tax revenue) until construction completion
- Timeline is illustrative—not an actual development plan
- Police costs assumed to begin at annexation and escalate annually

Taxable Assessed Value (2031 Scenario)

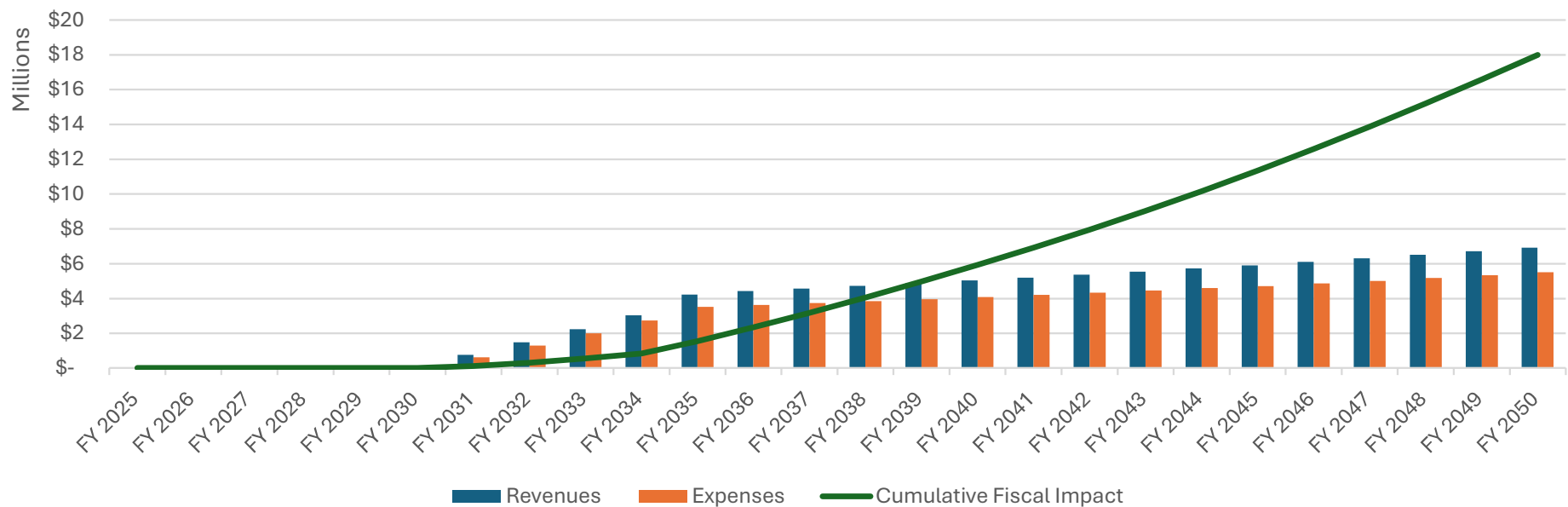




Per Capita – Scenario 1

Development Starts in 2031

- Fiscal impact breakeven is achieved in FY 2031 with current Assessed Values
- Full revenue recognition by 2035
- Results in a cumulative fiscal impact of \$18 million by 2050

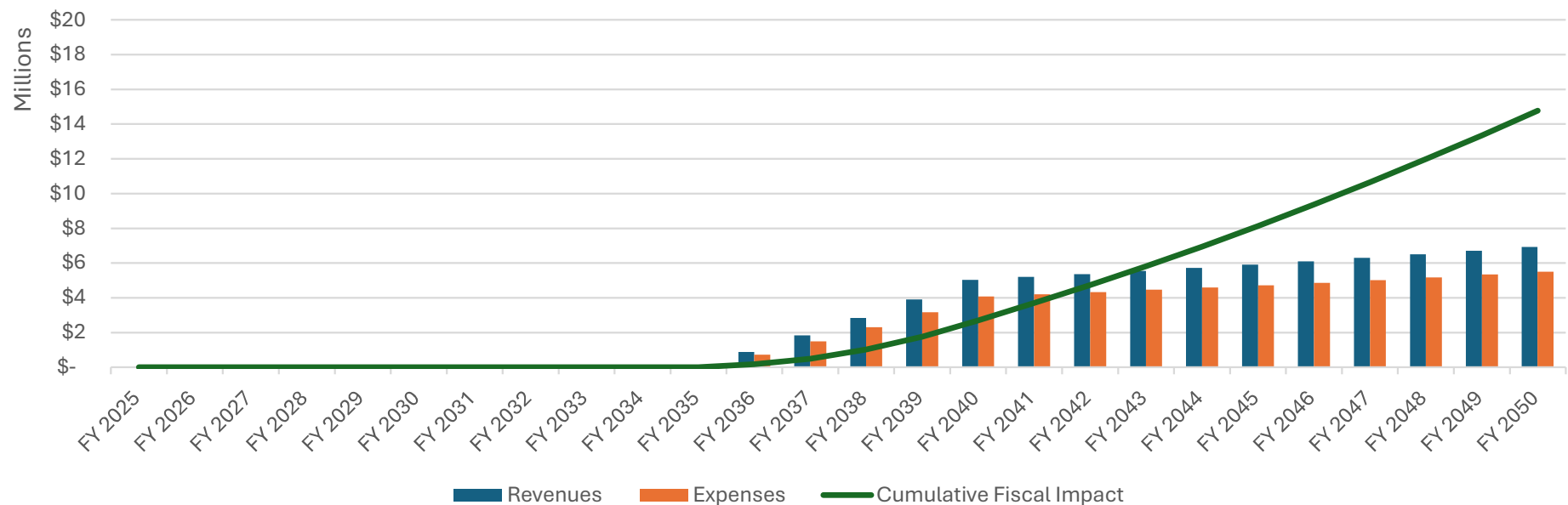




Per Capita – Scenario 2

Development Starts in 2036

- **Fiscal impact breakeven is achieved in FY 2036 with current assessed values**
- **Full revenue recognition by 2040**
- **A 10-year delay in revenue onset results in ~80% of fiscal impact compared to Scenario 1 by 2050**

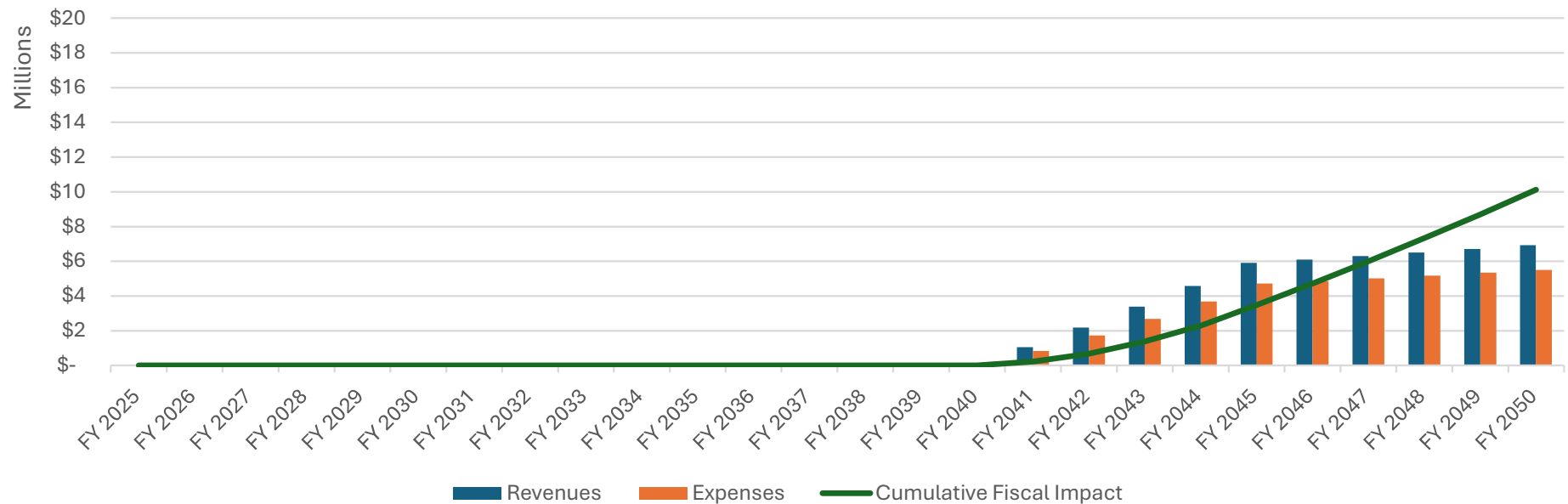




Per Capita – Scenario 3

Development Starts in 2041

- **Fiscal impact breakeven is achieved in FY 2041 with current assessed values**
- **Full revenue recognition by 2045**
- **A 15-year delay in revenue onset results in ~60% of fiscal impact compared to Scenario 1 by 2050**

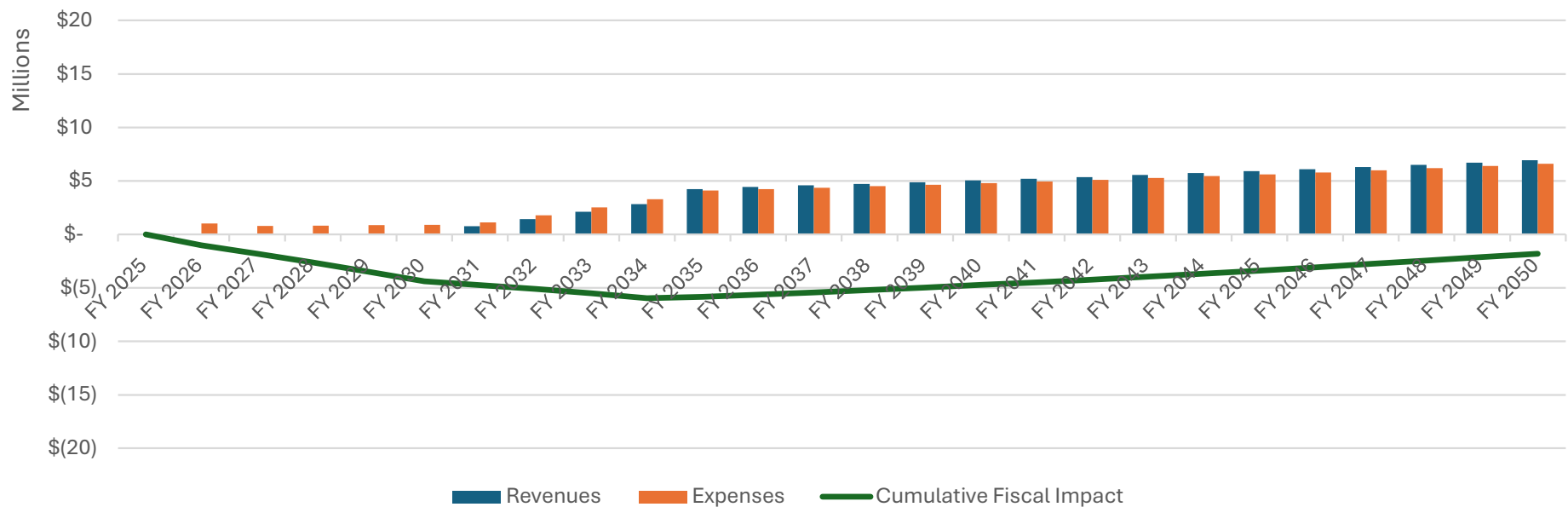




Direct – Scenario 1

Development Starts in 2031

- The area incurs substantial fiscal losses during the pre-development period
- However, a positive fiscal impact is eventually anticipated

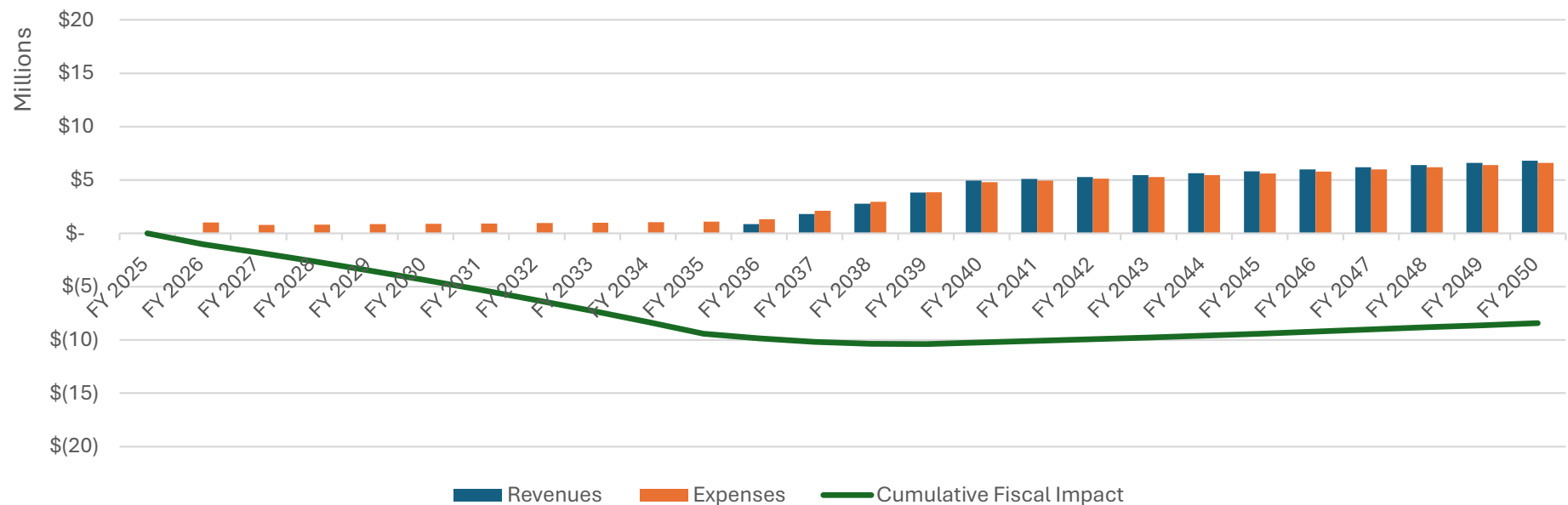




Direct – Scenario 2

Development Starts in 2036

- By the time development is fully underway, the annexation area has incurred nearly \$10 million in cumulative police-related deficits

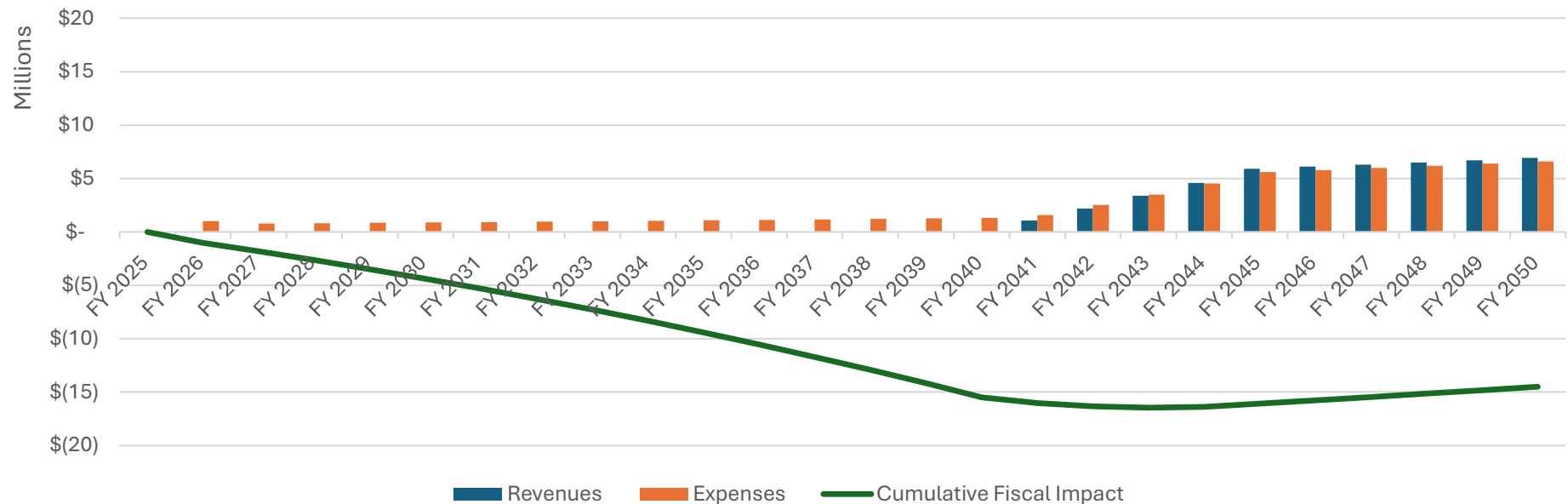




Direct – Scenario 3

Development Starts in 2041

- **This scenario generates the largest deficit of all, with cumulative losses reaching \$16 million before development even begins and \$14.5 million by FY 2050**

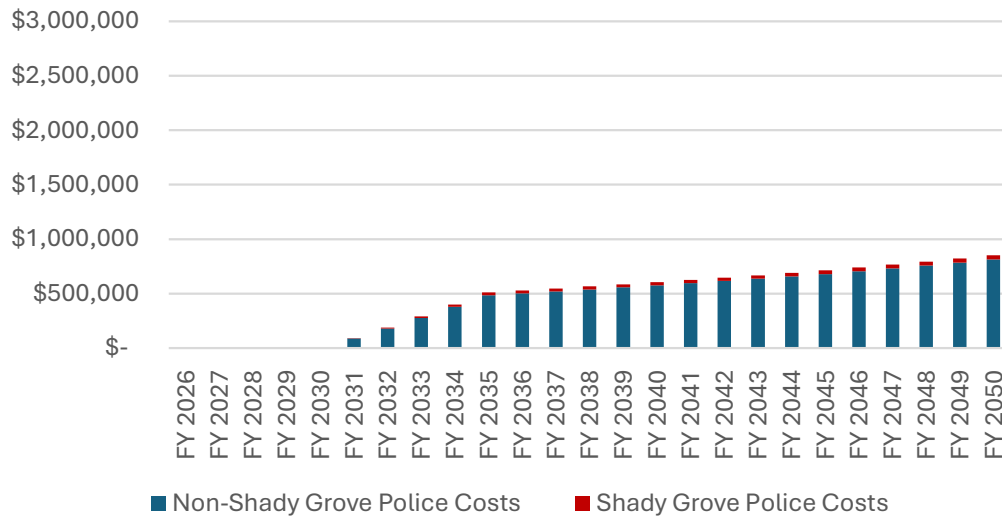


Two Methodologies

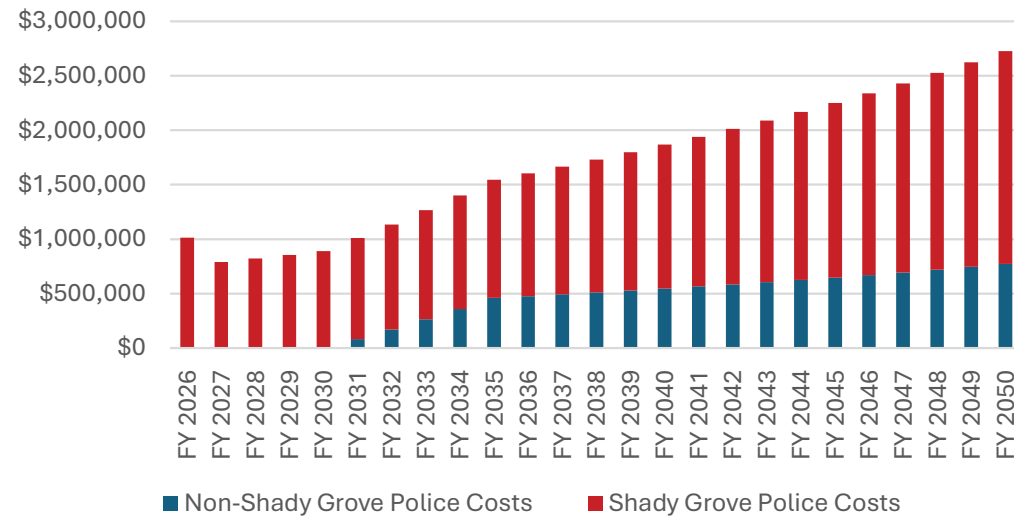
Treatment of Police Costs (Scenario 1)



Per Capita Police Cost



Direct Method Police Costs





Summary of Fiscal Analysis – Annexing Entire Site

- **Under the Per Capita Method, the annexation becomes net positive shortly after development begins in each scenario.**
- **Under the Direct Cost Method, the annexation struggles to cover police costs during the forecast period, but over time the expectation is for a positive fiscal impact to occur.**
- **While fiscal impact analysis is a valuable tool, it should not be the sole basis for decision-making. Environmental, economic, and social considerations—many of which are outside the scope of this analysis—must also be taken into account.**



Three Options to Consider



- 1. Annex the entire annexation area as proposed, both the east and the west side (discussed above)**
- 2. Annex only the west side of the proposed annexation area.**
- 3. Delay annexation for some time in the future.**



Annexation Advantages (All Options)

- **Any future development on the property, including housing, will be consistent with Rockville's vision.**
- **Tax revenue generated by future new development will add to the City's tax base.**
- **Once adjacency is achieved, other properties could be encouraged to annex into the city and redevelop.**
- **Improve Rockville's branding prestige, as being the only municipality in Maryland with three metro stations.**



Annexation Disadvantages (All Options)

- **Development does not occur in the near-term, and no revenue is generated (Property is placed under Group 4 in WMATA's strategic plan for joint development).**
- **Significant burden on the City budget with the cost of additional police officers to meet the public safety needs.**

Proposed Annexation Area Option 1



Specific Advantages (Option 1)



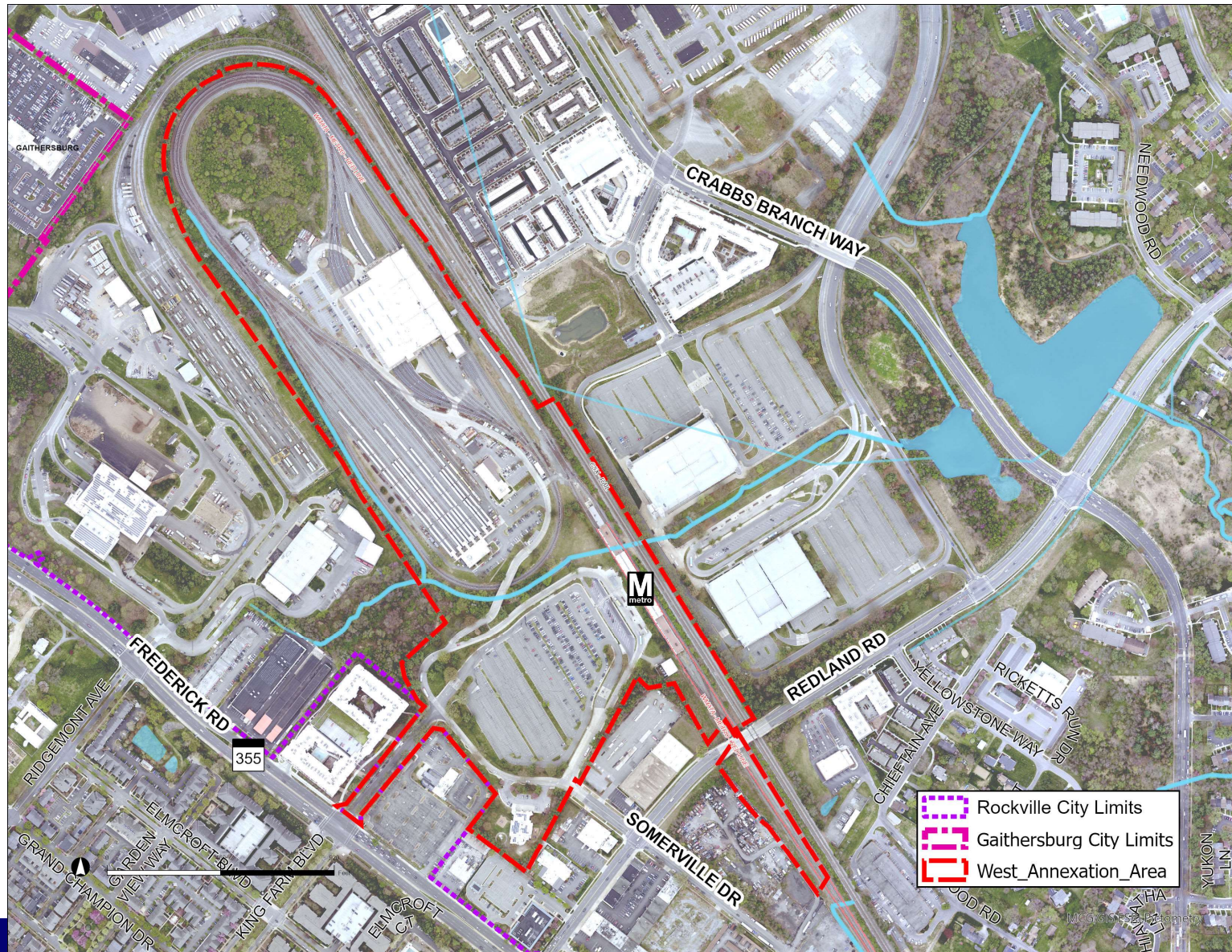
- **The entire Shady Grove WMATA property will be within City limits.**
- **Future development will be better coordinated in accordance with Rockville's vision on both the east and the west side.**

Specific Disadvantages (Option 1)



- **An existing stream bisects the property and presents environmental challenges, mostly on the east side.**
- **Cost of relocation of two parking structure garages and parking relocation is significant.**
- **Potential development restrictions related to the water mains.**

Proposed Annexation Area Option 2





Specific Advantages (Option 2)

- **Area on the west side (approx. 17 acres) comparatively has lesser development constraints.**
- **Once adjacency is achieved, the City could move forward with the annexation of the east side at the right time.**
- **County funds new transportation facilities planned on the west side (BRT station) with no anticipated City costs.**
- **Shady Grove Station will be within City limits.**
- **Prevents Gaithersburg from annexing the property in the future.**

Specific Disadvantages (Option 2)



- **Police costs are comparatively less but will still need to add 4 additional police officers when annexed.**
- **CSX may withdraw the consent to annex.**

Specific Advantages of Delaying Annexation (Option 3)



- **Gives time to coordinate with WMATA on any development.**
- **Once the ZOR process is completed, the heights by right for MXTD zone will be more than what the County permits.**
- **No additional costs to the City.**

Specific Disadvantages of Delaying Annexation (Option 3)



- **Montgomery County offers tax abatement, may still be more attractive for a developer to work with the County.**
- **If WMATA identifies a private developer, then the property will not be tax-exempt.**
- **City of Gaithersburg annexes the property prior to Rockville (Would be alerted by Gaithersburg's Comp Plan amendment).**

Current Schedule



Worksession on Annexation Plan and Fiscal Impact Analysis	May 12, 2025
Adoption of Annexation Plan, set public hearing dates and revise resolutions	June 9, 2025
County Review of Zoning Consistency	June – July 2025
Annexation Public Hearing Adoption of the annexation resolution. Introduction and adoption of the Ordinance to amend zoning map to include annexed property.	July 21, 2025
Annexation effective 45 days after enactment of annexation resolution.	Sept. 2025



Question for the Mayor and Council

How would you like to move forward with the annexation?

Potential options:

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