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Home sale slump hurts impact fees

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SALISBURY -- As "for sale" signs continue to line Wicomico County home lawns and condo windows faster than they can be removed, residential builders have changed the county's construction machine mantra to a wait-and-see approach.

At the end of July, the number of active inventory listings jumped to nearly 800, or double the amount on the market in January 2006, the Lower Shore-based Coastal Association of Realtors reports. In the last 12 months, there has been more than a 35 percent increase in listings, and sales are down 6 percent.

While the news is good for would-be buyers, especially those first-timers interested in entering the housing market, the opposite is true for sellers and Wicomico County. At the height of the housing boom of 2003, single-family home construction topped 417 units. Four years later, the county may barely reach 25 percent of that stellar amount.

This housing downturn translates into less revenue for the county through its education impact fees, enacted to pay off principal and interest bonds for expanded school construction. To offset higher capacity needs within the public schools, \$5,231 is tacked on to every single-family home permit and \$1,524 for each unit in a multifamily building. In the 2007 fiscal year, the county collected about \$1.1 million. Another \$1.7 million is projected for fiscal 2008, but the county's conservative estimates may not be conservative enough.

"For certain, the county is going to collect less money," said Tom Ruark, president of Salisbury-based Thomas H. Ruark Builders. "There is substantially less construction than anybody anticipated."

Ruark, who is actively building three developments -- Parson's Lake, Sassafras Meadows, and Sleepy Hollow -- said the county continues to have market potential, and he'll still secure final development approvals. When he'll start construction, however, is unclear.

"We'll evaluate the market and then decide whether or not we break ground," he said.

Ruark is not alone. Since 2000, single-family housing permits have averaged about 300. Between 2000 and 2006 calendar years, permits have averaged 314, but last year's total only reached 21. Even shorter will be 2007, according to permit figures kept by Wicomico County. In the first seven months of this year, only 77 permits have been issued. During the same time last year, 183 of the 215 permits had already been issued.

"In the realm of the 'theoretically possible,' if the housing market continues to slow in Wicomico County over and above that projected, then yes, it is possible that we could see a reduction in impact fees, which would affect our revenue," said County Finance Director Pat Petersen.

Before the impact fees became required in June 2006, there was a rush to get permit paperwork into the county, said Jack Lenox, county Planning and Zoning director. The county expected this rush, and estimated \$400,000 was lost last year due to anticipatory building. This year's \$1.7 million projection calculated this lost revenue back in.

"We knew that there was a growth spurt there that would not continue indefinitely," Lenox said.

During the budget projections made six months ago, Petersen and other administrators said they saw the downturn and projected conservatively. Only six weeks into the 2008 fiscal year, however, Petersen could not say if an adjustment is needed.

"When we did the FY2008 projection, we looked at historical data on building permits and tried to come up with what was an average year, then decreased it to take the economy into account," Petersen said. "I can't give you an answer to whether we were conservative enough. I can't extrapolate where we will be."

Pete Johnston, an Eastern Shore planning consultant based in Easton who has worked in nearly every Wicomico municipality, said impact fees were supported to give the county a chance to catch up.

"We have a school problem that's not going to go away. We have this problem up and down the Shore and that's the result of sins of the past," Johnston said. "In an aging infrastructure, we need to pay for the promise of the future."

These badly needed construction dollars are also why the fees won't be waived, even temporarily, to give the housing market a boost.

"(County Executive Rick) Pollitt said that he would not consider suggesting changes on the impact fee until he can truly assess its overall effect," said Pollitt's spokesman Jim Fineran. "He noted that it's only been collected since June 2006 ... and a 'wait-and-see' attitude is the most prudent approach regarding the impact fee as it relates to the current housing market."

Former County Council President Tony Sarbanes had voted against the impact fees in 2006, but he, too, agrees that waiving the fee now creates inequity.

"Everybody pays the same amount regardless of wealth," Sarbanes said. "At what point would you put it back in?"

The fees aren't likely to be increased either. Since Wicomico's neighbor, Worcester County, doesn't have the fees, it could further hurt county sales.

"Truthfully, I don't think it's not an unnecessary amount of money, but I would hate to see it get any higher," Ruark said. "It would make our products noncompetitive with the counties around us."

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