

Posted on Sun, May. 22, 2005

The Charlotte Observer

Board will seek approval for impact fees

To combat growth, taxes on new homes would fund schools, roads

JEN ARONOFF
Staff Writer

When Union County commissioners voted 3-2 Monday to join counties seeking legislative approval for an "impact tax" on residential development, they took a leap into uncertain territory.

They're not sure if the proposal will ever make it to the floor of the General Assembly. But they're convinced it has a better chance than the county's past attempts at gaining Raleigh's go-ahead for impact fees.

In early April, Union commissioners sought permission to hold a referendum on impact fees and were promptly turned down by local legislators.

This time might be different, commissioners said, because it's a more coordinated effort. In a closed session Monday with county attorney Jeff Crook, the board learned of an effort among several counties -- including Durham, Orange, Chatham and Cabarrus -- to draft legislation permitting an "impact tax."

Impact charges are levied on new homes to help compensate for the cost of services like schools and roads. In Union's case, commissioners said, any money they raise would go toward schools, which consume an increasingly large chunk of tax dollars.

"That's the beauty of it," commissioner Hughie Sexton said. "It would help address school construction, the number one challenge as far as we're concerned."

"It's the fairest way to address the burgeoning growth in Union County," commissioner Roger Lane said. Lane, Chairman Richard Stone and commissioner Kevin Pressley voted for the measure.

Sexton and Stony Rushing voted no. Sexton objected to wording that said the county would prefer -- but not require -- to put the tax before residents in a referendum. He said that would send a weak and confused message to those drawing up the bill.

According to a 2000 survey by the Government Accountability Office, 38 percent of counties in metropolitan areas nationwide require developers to contribute to project-related infrastructure costs through impact fees. They're particularly used in booming counties in Florida, California and Maryland.

Those looking to build in areas where housing values have skyrocketed often find the charges can be steep. For example, applicants for building permits for single-family homes in Montgomery County, Md., next to Washington, must pay an \$8,000 school impact tax and a transportation impact tax ranging from \$2,750 to \$8,250, depending on the development's location.

But the fees' legal footing in North Carolina is tenuous: in January, Superior Court Judge Orlando Hudson ruled Durham County's school impact fee, which was enacted in September 2003, was illegal.

Cabarrus County has been collecting per-lot fees for school costs for six years, but only gained legislative approval last summer. The fee is now \$4,034 a lot.

The idea of an impact tax, too, has come up before, as part of the "Growth Management Act of 1999," which was proposed by N.C. Rep. Joe Hackney, an Orange County Democrat. The new impact tax legislation will likely be based on that plan, county staff said.

Though impact fees and impact taxes appear similar in wording and concept, the two differ significantly, county finance director Kai Nelson said.

"Fees have to be related to the cost of services provided," he said. "(With) a tax, there is not the required relationship."

In other words, the commissioners would determine the impact tax rate and could easily adjust it each year. A fee would be much more difficult to change.

In addition, a fee would be flat, but the tax would be levied countywide based on the size of a home -- the larger the home, the larger the fee. Commissioners said commercial buildings would not have to pay.

Rushing later said he felt commissioners hadn't had enough time to consider the issue. But he also said he'd oppose it in the future, and questioned the fairness of charging a higher tax on larger homes, which generate more tax revenue and thus better help "pay for themselves."

Sexton was not optimistic on the legislation's chance of success following the split vote, and commissioners said late last week that they hadn't spoken with Union's legislative delegation about the plan.

Even if the effort moves forward, board Chairman Stone said, it may not be taken up until the 2007 legislative session.

"If things fly right, it may happen, but I can't believe it won't be controversial," he said.

Pros and cons: Impact taxes

Pro

- **Generate extra school funding, which helps reduce the county's debt and overall tax burden**
- **Assessed only on newcomers -- brings no additional burden to existing residents**
- **Proportionate -- levied based on the size of a home**
- **Usually absorbed into the price of a home, so the cost is spread out over a long period**
- **Charge is typically added to the price of a home and passed along to the buyer.**
- **May decrease amount of affordable housing.**
- **May increase home prices in neighboring counties, as developers can add on to prices of homes there and still compete with the price of Union subdivisions**

- **Must be applied countywide, so residents in slow-growing spots pay the same rate as those in booming areas.**

© 2005 Charlotte Observer and wire service sources. All Rights Reserved.
<http://www.charlotte.com>