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Counties, builders clash over impact fees

Jurisdictions exacting fees when new houses are sold; Harford may join trend

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In search of a semirural lifestyle and a good school for their growing family, Mark Hasegawa and his wife recently settled on Howard County to build a new house, unwittingly becoming part of a fierce dispute over who should pay the costs of sprawl that has engulfed the rapidly developing counties ringing Baltimore.

The price tag on their $650,000 custom home on 2.5 acres in Highland included a $4,762 excise tax Howard County imposed on new homes last July 1 to help pay for new schools. Their son, now 7, is likely to attend one of those new schools -- Fulton Elementary, which is already crowded -- and eventually, their infant daughter.

Howard, Anne Arundel and Carroll counties have all adopted impact fees or excise taxes to help pay for schools and roads amid fears by residents that new homes bring more costs, more congestion and a loss of open space. Now, Harford County is poised to join the trend: The county council is considering a measure that would assess impact fees that could boost the cost of a detached new home by more than $8,000.

"We do have to pay our fair share," said Hasegawa, 36, a NASA engineer who moved with his wife, Patricia Takahara, from the San Francisco area. They view the home price as a bargain, especially compared to the superheated real estate market they left behind.

Not everyone agrees. The Maryland Homebuilders Association sponsored a recent study of six Baltimore area counties that argues at today's high prices, new homes provide much more revenue than they cost and carry too much of the tax load.

"What we have found is that new development tends to more than pay for itself and disproportionately finances the growth in government," said economist Anirban Basu, whose firm, Sage Policy Group, conducted the study.

Baltimore County planning director Arnold F. "Pat" Keller said he thinks expensive new homes pay for themselves, but that alone is just a portion of a complex social equation in balancing the benefits and demands of growth.

"There's no doubt there's a point at which a home will break even, but it raises all sorts of other issues," he said. Critics of the study say it uses question able assumptions, and fails to properly account for intra-county commuters and the full social costs of the congestion caused by new homes.

Vincent J. Gardina, a Baltimore County councilman who represents the growing Honeygo and White Marsh sections of the northeastern county said revenue isn't the county's primary interest in development anyway.

"In Honeygo, we wanted a market for middle-income residents so they wouldn't move to other jurisdictions," he said.

"Honeygo houses are selling for an arm and a leg," he conceded, "but if you look at one house with two children in school, that [cost per pupil] approaches $20,000 a year. No way we get that kind of revenue from a property tax."

The Basu study shows that nearly every new home produces a net gain in revenue for the jurisdiction, paying not only its own cost, but also bearing the financial burden for existing homes, which are protected from big property tax increases by assessment caps.

In Baltimore County, for example, homeowners enjoy a 4 percent annual cap on assess ment increases, no matter how fast property values are climbing, while Anne Arundel's cap is half that, and Howard's cap is 5 percent. Carroll County recently lowered it's cap from 10 to 7 percent.

The full tax burden based on full market value falls due only after a property is sold, or if a house is new.

Even excluding the various excise taxes, impact fees and other targeted taxes, new homes produce a profit for county cof fers, the builders argue.

Don Sample, a partner of Fallston-based Land Development Services LLC., and president of the Home Builders Association of Maryland, testified against Harford's impact fee bill at a recent county council hearing.

"These people are already paying more than their share of county services," Sample said, "Way more, way more."

Basu's study asserts that after the costs of schools, roads, police, fire and other public services are accounted for, the six local county governments profit on average from $1,233 in excess revenues per house in Cecil County to a high of $10,786 per house in Howard county. Carroll and Anne Arundel are nearer the top of that scale, at $8,038 and $7,289 respectively, and Harford County is on the low end at $1,423. Baltimore County is in the middle at $4,914.

That profit is generated on houses that sell above a "break-even price" Basu calculated in the study, which is $174,000 in Cecil, $213,000 in Baltimore county, $219,000 in Harford, $234,000 in Carroll, $282,000 in Anne Arundel and $326,000 in Howard.

"Over time, new development is taxed at higher and higher rates, because the future residents have no voice and no vote," Basu said.

The average new home price in the Baltimore metropolitan area last year was $366,012, according to statistics compiled by Hanley Wood Market Intelligence.

But the market is outstripping averages. The newest townhouses offered in Howard's huge upscale Maple Lawn Maryland development in Fulton start at $550,000 and detached homes go for up to $1 million each.

Basu used Baltimore County's total budget to divide school and other service costs -- including debt service on bond loans -- among all new homes -- including those without children. He calculated the average cost of public schools at $2,179 per new household in Baltimore County, where the average cost of all services per new home was $3,953.

All taxes on new homes and their residents in Baltimore County produced an average of $8,867, for a revenue profit of $4,915 per new home, the study said. That created a revenue bonus for Baltimore County of $8.8 million.

Howard officials, including county executive James N. Robey and former budget director Raymond S. Wacks, said they don't doubt Basu's results.

"They pay their way," Robey said about the builders, and he agrees that Howard's new $1 per square foot excise tax for school construction puts too much of the burden on new homes in stead of spreading the costs to older homes that change hands like the transfer tax increase he initially sought.

But Anne Arundel County planning director Joseph W. Rutter said he doesn't buy the study's conclusions -- at least not for Anne Arundel County.

"The key is that he's [Basu] doing everything on average. I disagree on his conclusions," said Rutter, who was Howard County's planning director before moving to his current job.

"It's very hard to tell what assumptions were made," Rutter said, pointing out that Basu assumes new homebuyers are paying 5 percent down, when Rutter thinks that many buyers are using equity from their old homes to keep payments lower. That calculation could affect estimated incomes, which in turn affects how much income tax the county can expect.

"He's attributing this job growth to the housing," Rutter said. But he pointed out that Anne Arundel has 111,000 residents who commute outside the county to work each day, so there may not be a correlation. Rutter said the study also fails to account for Anne Arundel's strict real estate tax cap, which sharply limits revenue growth.

Basu was unfazed, however, saying that if anything, the study underestimated the fiscal impact new homes make.

Larger down payments, for example "suggest that not only do people have income, but they have wealth, too. The economic implications of that are enormous," he said.

Harford County's planning director J. Steven Kaii-Ziegler is also a skeptic.

"Virtually everyone in Maryland is or has considered impact fees, excise taxes, transfer tax etc. What that says historically is that residential development by itself wasn't paying its fair share," he said.

John Adophsen, 78, a 37 year resident of Fulton, said it doesn't matter to him whether new homes pay their way.

He came to rural Howard from urban Pittsburgh looking for some "elbow room," but now worries about traffic and other congestion from Maple Lawn, which is one mile from his home along Route 216 west of Route 29.

"You can't put money number one all the time. There are other factors. There's quality of life," he said.

Sun staff writer Ted Shelsby contributed to this article.

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