Duane Weise: An equitable alternative to impact fees

By DUANE WEISE
March 10, 2005

Additional impact fees are under consideration by Indian River County commissioners to support the expansion of eight county services requiring more tax revenue. These additional fees will have a negative impact on all Indian River taxpayers.

Here's an alternative: Add an income tax-deductible surcharge on the property tax of new residential and commercial construction for a predetermined period. This would ameliorate the cost effects on the infrastructure of new growth in a community.

The National Association of Home Builders suggests a technique for financing net new infrastructure that a new development will require through a capacity unit assessment. With this program, the municipality finances the prorated share of the infrastructure associated with each new housing unit and commercial unit and imposes an annual surcharge on the property tax of the new owner to service the associated debt. The new unit owner would discharge his debt over time through the annual property tax surcharge.

This could be looked upon as charging a usage fee to new residents and/or commercial establishments using tax-deductible dollars. It would remove the builder mark-up, the tax assessor's over-valuation of the property and the fees associated with field and administrative personnel implementing the impact fee. Finally, county growth would not be seriously impacted as homes would remain more affordable and existing owners would again have county growth to reduce the impact of annual budget increases.

Was a capacity unit assessment considered by our commissioners in lieu of an impact fee? If not, why not?

Will our commissioners and staff give a hearing to this alternative to supporting new

infrastructure costs?

We challenge the commission to an open-minded review. It is not too late to improve!

Impact fees are ostensibly imposed to recoup the additional public-sector costs that a new residence or commercial establishment imposes on a community. Impact fees have become increasingly common and are reported to be as high as $60,000 per new house by the home-builders association.

Few understand the effects of an impact fee. For instance, a $10,000 impact fee on a new residence has a total out-of-pocket financial impact of more than $35,000 during a normal 30-year financing period.

How can a $10,000 impact fee cost a homeowner $35,000?

First, consider that the builder may impose a 25 percent formula surcharge for overhead and profit by increasing the selling price to the homebuyer by $12,500. The subsequent home value assessment for tax purposes will also increase $12,500.

Then, the tax assessor, in appraising property value over the normal term loan of 30 years, may create an additional property tax of $6,500 due to the impact-fee value increase.

Property owners may include the increased home cost in their 30-year term mortgage loan. At a 6.5 percent interest rate, the additional accumulated interest cost on $12,500 will be $16,000 to the owner.

"Impact fees" are appropriately named when the reality of a $10,000 fee is equated to a realistic $35,000 cost to the homebuyer.

Tax assessors employ the real-estate principle of "substitution of value," whereby increasing property values in one neighborhood are considered and factored into making value assessment in adjacent neighborhoods. Thus, an impact fee that raises prices in one neighborhood eventually affects all county properties as increased assessment values jump across the county.

No one is immune from the effects of an impact tax wherever it is imposed. Many officials and individuals support the impact fees under the belief that they are only paid by newcomers and reduce the infrastructure tax needs by slowing county growth.

Actually, both concepts are wrong. Slowing county growth raises property tax for all residential and commercial properties as the annual growth in county operating budgets is then paid by a declining rate of growth in taxable properties.

Do we really wish to slow county growth? Employing good zoning, planning and architectural controls are the way to achieve quality county growth while sharing infrastructure costs equitably among all residents.

The capacity unit assessment offers an alternative to an impact fee.

Weise is president of the Indian River County Taxpayers Association.
