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News

Project: Impact Fees
*The basics: Ideally, fee helps fund growth

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Government officials in Cecil County have been struggling in recent years with increased pressure from residents to get a grip on growth.

Growth has been put on the front burner this year as the county braces for an estimated 2,000 new families moving in by 2010 as a result of the pending closure of New Jersey's Fort Monmouth, which is predicted to send many of its jobs to Aberdeen Proving Ground.

This anticipated growth, coupled with the county's lack of water and sewer service along its designated growth corridor (between Route 40 and Interstate 95) and increasing school and transportation needs, magnifies the urgency to find more revenue.

"The county is facing substantial funding requirements if we are to direct growth into the corridor, so it's totally understandable the commissioners would look at sources like an impact fee," said Vernon Thompson, director of economic development.

"If there is no mechanism to spread the cost of funding infrastructure to new residents, then it is crystal clear existing residents pay the entire bill," he said.

Even as officials search for answers, it's obvious that solutions will not come easily.

For the last year, a group of county and town officials has been trying to agree on a plan to require new residential building permits be tied to the capacity of public services in the area where the development is to be built.

In other words, building permits could not be issued until officials determine that the roads, schools, parks and other public services are sufficient to meet the demands of the anticipated growth.

These agreements, often called adequate public facility ordinances, also need a funding source to pay for the improvements.

"APFOs usually rely on local government or the developer as their funding source," said Michele Dinkel, a research associate with Maryland Association of Counties.

One of the earliest ways jurisdictions collected money from developers to pay for services was called "negotiated exactions." They were simply agreements between developers and jurisdictions decided on a case-by-case scenario.

Another option would be to increase connection fees, but that would only defray the cost of water and sewer improvements.

In the 1960s, California and other Western states started imposing what they called “impact fees” or “capital recovery fees” to require builders to help pay the cost of installing capital projects like water and wastewater facilities to serve their projects.

“In the 1970s when state and federal grants to local governments for capital projects began to dry up, the popularity of impact fees spread across the country,” said James B. Duncan, president of Duncan Associates, a Texas-based growth-management consulting firm.

“About 60 percent of all cities with more than 25,000 residents and almost 40 percent of all metropolitan counties use some form of impact fees,” said Duncan.

How do they work?

Duncan defines an impact fee as a one-time charge on new development to pay for the construction or expansion of improvements that are needed by and will benefit the new development.

In Maryland, 16 of 23 counties impose either an impact fee, or an excise tax, which is another way for local governments to collect revenue from builders for public facilities required by new development.

Frederick County has both.

Officials there began using the impact fee for schools in 1993. In 2001, officials increased the fee to help pay for libraries.

Frederick charges $10,868 for school construction and $727 for library construction for each new single-family home, including those inside its 12 towns.

The three-tier system establishes different amounts for each category of new dwellings.

Townhouses and duplexes are charged $8,894 for schools and $679 for libraries, while multi-family units are charged $1,735 for schools and $457 for libraries.

In search for more revenue to help pay for transportation projects, Frederick County officials enacted an excise tax in 2001. It is imposed on a sliding scale of 10 cents per square foot on homes from 700 to 1,400 square feet and 25 cents per square foot for larger homes.

Browning says the county exempts farm and government buildings from the tax, and waives the school impact fee for age-restricted communities.

Non-residential buildings pay a flat 75 cents per square foot.

“Each town collects the fees for the county,” Browning said.

A total of $15 million was generated in fiscal year 2006 from these one-time fees and taxes.

Browning says Frederick County has an adequate public facilities ordinance to measure when a service has reached its capacity.

“We’ve set our schools at 100 percent as the trigger,” said Frederick County Manager Doug Browning.

Since the state doesn’t fund school construction projects until enrollment hits 120 percent, Frederick County has found itself forward-funding several school construction projects.

“Sometimes developers offer to pay for the extra seats needed in a school because of a project they want to build," Browning said.

"We just had a developer of a 690-lot subdivision offer to build a 300-seat addition to a high school at his cost, which is estimated around $12 million," he said.

How are they implemented?

Local governments in Maryland must get permission from the General Assembly before imposing a development impact fee or excise tax.

One exception applies to home rule counties, which have already received authority from the General Assembly to impose such charges.

Excise taxes can be a flat fee or a fee based on square-footage of the building. They can be capped or not and can be limited to residential, commercial or both kinds of development.

One of the main ways an excise tax differs from an impact fee is that the revenue generated does not have to be spent in the geographic area being taxed.

In 2000, the General Assembly granted Cecil County permission to impose a $3,500 excise tax on new homes, if voters approved.

The proposal was placed on the ballot as a referendum question to Cecil voters in the November election.

"It failed pretty miserably," said County Administrator Al Wein, 20,314 to 7,584, according to election board director Evelyn Potter.

"Really, there's been no ambitious effort since, to move forward with either an excise tax or an impact fee," Wein said last week.

That is, until the ongoing discussion about adopting a uniform adequate public facilities ordinance has taken center stage.

"APFO has kind of revived the search for new revenue," he said.