Charlotte Exclusives

The Impact Hammer

Respecting the power of impact fees on development

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Everyone loves a new gadget, particularly one that is supposed to make life simpler and easier. Local government officials seem to regard impact fees on new development as a wondrous new tool which will solve cash crunches, build new schools, whiten teeth and freshen breath. Act now while supplies last.

But even as Cabarrus County rushes to quadruple its housing impact fees, the limitations of this new gadget are lost. Can we get an instruction manual?

Impact fees do make some conceptual sense. There is an appealing symmetry to the idea of using new home construction to fund new school construction. Impact fees, thought of this way, function as a kind of user fee.

So far so good. But there is also a punitive, almost sin tax aura surrounding impact fees as well. This is evident from comments made by Cabarrus County Commissioner Coy Privette

"If you're going to come to Cabarrus County and create a problem, you're going to pay for it," Privette told *The Charlotte Observer*.

This view strays into the territory of the anti-growth, no-growth forces by casting growth as a problem to be solved. Growth certainly confronts local government with ever-changing issues for attention, but such is the nature of a dynamic, market-based society. People and money can flow across America with remarkable ease and we are all richer for it. The challenge is for government to become as nimble as the private sector in response to changes in population and economic trends.

There can also can be no mistaking the anti-growth effects of impact fees, but they occur at the margin and not all at once. Fees make housing more expensive. However, simply looking at year-to-year growth rates before and after impact fees and declaring "no impact" on growth post-fees misses what is truly goes on with impact fees.

Homebuyers can adjust to a $4,000 increase in the price of a new home by deleting the granite countertops or maybe the upgraded appliances. They are not going to abandon the housing market altogether in a particular fee-charging jurisdiction, although homebuyers are not going to happy about the fees they pay either.

Moreover, homebuyers will only decamp to another jurisdiction if, in fact, there are equivalent homes available. That means neighborhoods roughly the same distance from jobs and shopping and with roughly equal schools. This suggests that the first effects of Cabarrus' higher impact fees might show up as higher growth in Stanly County as developers test the market there.

But perhaps the most important feature of impact fees is that they securitize local taxes by spreading them out over the length of a 30-year mortgage. The fees that now seem like easy money to local officials are, upon closer inspection, highly dependent on historically low mortgage interest rates which help to desensitize home buyers to their cost.

Should interest rates ever return to their historic norms, jurisdictions dependent on impact fees might just wonder where all the money went.

The Charlotte region is truly fortunate that unlike other housing markets, notably in California and South Florida, residential real estate enjoys modest growth and not wild speculation. A recent *Fortune* magazine piece detailed scary increases median home prices in some markets since 2000: 76 percent in San Diego, 58 percent in Miami, and a fevered rush to buy almost without regard to cost. This cannot last.

But even the modest upward trend in Charlotte-area home price helps puncture another argument often made by fans of impact fees. Collecting impact fees is often cast as an alternative to an increase local property tax rates. In the short term that is true. But in the long term impact fees help increase the property taxes local residents pay.

If a $5,000 impact fee increases the price of a $100,000 home to $105,000, sooner or later that increase in value is going to be reflected in property valuations of all homes in the area. So new home buyers get both the initial whammy of the full impact fee *and* the promise of higher property taxes in the future, while existing homeowners who think their elected officials are letting them off the hook by socking it to the newcomers will soon pay more in taxes too. In short, there is no free lunch. (Serving suggestion, contents may settle during shipment.)

Stripped away from all the jargon impact fees are simply a tax on new construction, one that can be applied to homes, businesses, universities -- you name it. As such, they may or may not have sensible role in funding government services. For like any other tool, impact fees have the power to create and to destroy.

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