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Local governments can see way through housing bust

Year after year, residential development drove the economy in Palm Coast and Flagler County. In the last 12 months, the bottom dropped out of that engine.

No soft landing here. Just a plain crash, judging from school impact fees collected (the one-time fees levied on new homes to offset the impact of development). In the year ending in June 2006, the Flagler County School Board took in just under $10 million in impact fees. In the fiscal year that ended five weeks ago, it took in $1.3 million.

The crash is especially acute in Flagler. In Volusia County, school impact fees rose to a record $14.7 million in 2007, compared with $10.4 million the year before. That's not to say that Volusia's real estate market is doing better than it did, say, in 2005. That year, Volusia's school impact fees brought in $13.7 million. But the typical fee was set at $1,106 per unit at the time. It was more than five times that amount this year ($5,884), and still brought in only slightly more than what was collected in 2005.

The numbers are more stark in Flagler because everything growth-related has been disproportionate there this decade. Growth looked dizzying during the first half of the decade, ranking the county's growth rate first in the nation for several years running, because Flagler's base population numbers were so low. The crash now looks so steep because so much of that growth had been generated by one sector: residential housing.

That's still leaving the School Board and the Palm Coast City Council wondering what to do next with their impact fees. Both agencies are studying the possibility of raising their fees. Both are being appropriately cautious about it, for good reason. It may be disproportionate and it may be unwise, but the local economy does rely on real estate development. The real estate industry is in the pits, and judging from the lending market-driven gyrations of the stock market, the worst may be ahead. Now may not be the best time to saddle the real estate industry with still-heavier taxes in the form of increased impact fees.

Both Palm Coast and the Flagler school district have some financial breathing room. Thanks to its fiscal prudence, Palm Coast's reserves, at more than $5 million, are at a healthy 16 to 17 percent of its general revenue fund. The state's property tax reform forced the city to cut back expenses and projected revenue next year will be $5 million less than this year's $37 million. But the city plans to ease the hit by reducing capital projects, not services. (Current projects partly paid for through impact fees – for three new parks, for example, roads and two new fire stations – will be completed.) So while Palm Coast's 19,000 remaining unbuilt lots would add lucratively to the city's impact-fee revenues, raising those fees now may not stimulate home buyers' interest.

For the School Board, fewer people moving in means less impact on existing schools, less overcrowding, relieved pressure from having to build new schools. Enrollment grew 9 percent in the last school year, exactly half the growth rate of the year before. And even though school impact fees have dwindled, the School Board isn't without a relatively healthy capital fund: A portion of local property taxes devoted to that fund brought in $26 million last year and will bring in $33 million in the coming year, ensuring that school repairs will get done and planned construction will carry on.

The housing crash should spur local policy makers to seriously explore diversifying their economy from residential development. (Over the last six months in Palm Coast, 80 percent of all new construction permits are for commercial and retail developments.) Meanwhile, prudent management and scaling back certain capital projects, rather than increasing impact fees on absent development, appears to be the best way to steer through the economy's gloom.
