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Why should you care about impact fees?

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Published April 27, 2008

The day after a group advising the County Council on impact fees released its final report, Councilman Ed Reilly was at the Rotary Club in Crofton answering questions.

Why is this impact fee debate important to the average taxpayer?

And why is it taking so long?

"If the new development doesn't pay for itself, everyone else does," Mr. Reilly said last week, recalling some of his answers that day. "That's been the situation for many years. The taxpayers have been subsidizing the impact of new development."

But Mr. Reilly, like all his colleagues on the council, has nearly as many arguments for why the fees should be high as he has reasons not to raise them too much.

The debate over how much to charge developers to offset the impact that new homes and commercial buildings have on county resources has consumed county lawmakers' attention more than any other issue this year.

As the debate stretches into its fifth month, council leaders say most of the tough questions are still ahead and what's at stake is coming into sharper focus.

"While people may think this is a lofty thought, impact fees are integral to our quality of life," explained Council Chairman Cathy Vitale, R-Severna Park. "If my roads are bad and my schools are bad, then we're not keeping up with the expectations citizens had when they bought their homes. When impact fees aren't properly set, the taxpayers bear the brunt."

Conversely, when the fees are set too high they stifle property development, which experts say is the main way to grow the county's income without raising taxes.

Vexing details

The concept of raising the county's fees, which are among the lowest in the state, is simple and politicians generally agree impact fees need to be higher.

But the details are so vexing that this council, elected in 2006, formed its first formal workgroup to help sort through legislation. That committee presented its formal report on Monday, but all of the group's policy recommendations were based on split votes. One member disagreed so much he wrote a formal three-page dissent to the council and filed it alongside the committee's 10-page report.

Yet, the work of the nine-member committee settled what Councilman Josh Cohen, D-Annapolis, describes as the starting point to properly set the fees - how much does it cost to improve county schools, roads and public safety to accommodate new development?

"That part is key: to at least reach an agreement to what the numbers are, and now we can move on to the policy discussion," Mr. Cohen said.

Extended debate

The impact fee discussion began in January, when County Executive John R. Leopold asked the council to consider a bill revamping the impact fees for the first time since 2000. The increases were dramatic, in many cases more than doubling the fees and in some instances proposing a 12-fold jump.

The bill drew immediate scrutiny from the council, homebuilders and residents, who alternately questioned whether the fees were too high or whether they were high enough.

Mr. Leopold's suggestions were based on the work of nationally renowned impact fee expert Dr. James C. Nicholas, who eventually drafted 15 versions of his report before the council's Impact Fee Advisory Committee agreed that it was right.

"If we have a PhD from Florida, who was nationally renowned expert, and he has given us 15 variations, it tells me it is not a simple process," Mr. Reilly said. "The end result is different depending on the variables used in the formulas. ... As we change the variables, the bottom line changes."

Mr. Leopold withdrew his bill and volunteered to work on a new proposal with the council. But he maintains that he wants impact fees to be as high as possible and implemented as soon as possible.

"Taxpayers have been subsidizing development for far too long," he said.

The committee concluded that if all the county roads and schools were packed and public safety resources taxed to capacity, a new 2,500 square-foot home requires $16,432 worth of infrastructure improvements. The current impact fee rates charge developers $4,904 to build that same home.

Agreeing on the calculations was the committee's only unanimous vote.

The committee also decided that since the entire county was not at capacity, it would be fair to charge the developers only 80 percent of the cost. And to make sure the market could handle the jumps, they suggested phasing it in over five years.

"We made an arbitrary decision, but it's as good as any arbitrary decision you could make," committee Chairman Robert Neall told the council as he presented the committee's report.

Bob Gallagher, the committee member who filed the dissent, wrote that the committee's recommendations "would place most of the costs of development on current and future taxpayers rather than on the developers who benefit from the development."

Mr. Gallagher's dissent represents the next set of questions for policy makers: with the costs for new development clear, who should pay for them? And how much should they pay?

Policy discussions

Councilman Ron Dillon, R-Pasadena, said the importance of the debate is to ensure the county's resources keep up with the demands of development, and to make sure the end result is fair to taxpayers, developers and to the ultimate consumer.

"Everyone views this as the cost of development. It's not. It's really put onto the end consumer," Mr. Dillon said.

If the council follows the committee's recommendations, for example, the median cost of home in Anne Arundel County would rise 1.6 percent from $311,250 to $316,205.

Mr. Reilly, who owns a homeowner's insurance agency, says that increase is enough to put home ownership out of reach for some people.

"It marginalizes people who might be on the bubble, especially our workforce people - a single fireman, a single teacher," Mr. Reilly said.

Additionally, Mr. Reilly echoed the sentiment of many in the homebuilding and development industry who caution that substantial impact fee increases instituted too quickly would dampen a significant portion of the county's economy.

"The building industry drives a significant number of ancillary businesses in the county," Mr. Reilly said. "It affects real estate, it affects construction, surveyors, bankers, insurance agencies. ... The ripple effect of a high impact fee is that it depresses the entire real estate industry."

Robert Hannon, head of the Anne Arundel Economic Development Corp., said improperly applied fees could stifle new development.

The construction industry in Anne Arundel employs 18,000 people and generates $825 million in payroll annually.

About 40 percent of all county funding comes from property taxes, and developing land is the main mechanism to increases the dollars flowing into county coffers. Of the approximately $450 million in tax dollars collected last year, more than 80 percent came from homeowner's property tax bills.

The council also has to decide whether to increase the fees levied on commercial development, a topic that has received much less scrutiny from the Impact Fee Advisory Committee and politicians so far.

"If you assume that there was no benefit (from commercial development) to the community, this would be easy," said Councilman Jamie Benoit, D-Crownsville. "You would say here is your impact. Pay it."

Mr. Benoit, a real estate attorney, said that commercial development generates jobs, future tax revenue, pumps money into economy and raises the value of land around it. Those contributions can't be measured simply, but are enough to think twice before raising the fees to the maximum.

For now, the debate will be put on hold while the council tackles the budget this week. Ms. Vitale said the council will introduce a plan based on the committee's recommendation in June.

- No Jumps-

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