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Cities dump fees to bolster building in recession

By **JOHN MILLER** Associated Press Writer

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MERIDIAN, Idaho—Developer Frank Varriale hoped his plans to build shops, apartments and a hotel in this sprawling Boise suburb would have become reality by now. Instead, about the only things standing on his land are knee-high wheat and corn.

But the city has taken steps to help revitalize those projects by eliminating what are commonly known as "impact fees"—charged by municipalities nationwide to pay for the additional services that come with increased development, such as schools, sewer lines and roads.

Meridian is among a growing list of hard-hit communities across the country that are lowering or suspending impact fees. Measures have been debated in Washington state, Texas, New Mexico, New Hampshire, California and elsewhere. Florida made it easier for residential developers to challenge fees; Arizona lawmakers froze them for two years.

Cities are increasingly realizing that they need to eliminate as many deterrants to development as possible during the economic slump, and the impact fee are among them.

"They want business to come here," Varriale said.

Average 2008 fees were \$1,520 in Texas; California's average was \$19,536, up 38 percent from 2004 excluding sewer and water fees, according to a 185-city survey by Duncan Associates, an Austin, Texas-based planning consultancy.

The trend to suspend or lower fees has prompted debate over whether spurring a construction resurgence is more important than forcing new businesses

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or residents to pay upfront for services, or if these communities are laying the groundwork for haphazard development and higher taxes for current residents.

In Arizona, the Home Builders Association of Central Arizona argued for a three-year moratorium on impact fees after the state's construction industry shed 100,000 jobs. The League of Arizona Cities and Towns argued that the proposal would leave towns unable to cover road, sewer and water systems bonds.

State lawmakers last week reached a compromise, instead freezing fees for two years.

Cities such as Queen Creek, a Phoenix suburb whose population has risen from 4,000 to 24,000 since 2000, could have been forced to tap deeper into its \$19 million budget to make \$4.7 million in annual bond payments had the measure passed, said Marnie Schubert, a city spokeswoman.

Though growth has slowed, there are still 176 new homes or commercial buildings going in this year; each one pays about \$16,000 in impact fees.

"We basically had to build a community from scratch," Schubert said. "Impact fees have been essential."

Not surprisingly, anti-impact-fee sentiment has been intense in states such as California and Florida where the housing market has tanked.

In Yuba City, Calif., for instance, City Council members halved impact fees to about \$7,000 for up to 48 residential building permits, with half of those going to one developer of a subdivision where weeds grow around empty, unfinished homes.

"That \$7,000 could well be the difference between making it a profitable project and losing money with every house we sell," said Derek Long, vice president of operations at Interwest Homes, which got the breaks in Yuba City after taking over the project from a bank.

In Florida, many local governments have suspended impact fees—sometimes to standing ovations from developers and real-estate agents at commission meetings. Meantime, lawmakers just passed laws to make it easier for developers to fight fees before a judge.

Some counter, however, that undermining impact fees could mean resources for roads, schools and other services will be stretched thin.

Existing taxpayers may eventually have to pony up increased taxes to cover newcomers' share, said Charles Pattison, president of 1,000 Friends of Florida, a Tallahassee-based advocacy group that promotes responsible development policies.

"You're also going to suspend your quality of life," Pattison said. "In Florida, that's become one of the bigger issues: Does growth pay for itself?"

Still, Mick Pattinson, a San Diego builder and chair of the California Building Industry Association's impact fee task force, argues fees have become a crutch local governments lean on to cover services that benefit everybody, not just new home or business owners.

"It's a myth they've created to sell their message: If these developers are going to make all these big profits by building houses, then somehow we've got to get something out of it," Pattinson said. "The fact of the matter is, builders are broke and have been for some time.

"House prices have fallen by more than 50 percent in California. Surely fees have to be reduced at least an equivalent amount."

Back in Meridian, the city suspended fire and police impact fees on commercial projects. For a 50,000-square-foot building, somebody breaking ground before Sept. 30 on Varriale's land would save \$15,500.

Varriale, who has already built about 1,000 residential homes on land surrounding his proposed commercial site, isn't expecting any miracles from the council's move. But he said every little bit helps.

"It's just that upfront cost," he said. "The lower you can keep that, the sooner you can turn a profit."

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