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A shock to the system: 218% impact fee hike

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ORLANDO — In a move expected to meet resistance from home builders, Orange County school officials are seeking to more than triple impact fees to raise additional money for new school construction.

Orange County Public Schools hope to persuade county officials to hike impact fees from \$2,828 for a single-family home to \$9,000 — a 218 percent increase.

Fees for multifamily projects, such as apartments, would swell by 183 percent to \$5,400.

“That’s vast,” says Dr. David F. Scott, a finance professor at the University of Central Florida.

Specifically, the impact fee increase would tag

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on another \$54 a month for a home buyer with a 6 percent, 30-year mortgage, and an additional \$76 a month for a 15-year mortgage.



David Scott

of a shock for the marketplace.”

“From that basis, it doesn’t look huge, but it’s a big increase overnight, which wouldn’t make anyone happy,” says Scott. “It’s too much

Schools for homes

Orange County last raised impact fees in 1998.

But fee hikes have become an increasingly popular option among fast-growing counties. Osceola County recently raised fees for single family homes to \$9,708 — the highest such fees in the state. Other nearby counties eyeing an impact fee hike include Lake, Polk and Volusia.

Locally, “the recommendation is based on need,” says Dennis Foltz, senior director for planning and coordination for the Orange County school district.

“We have a lot of growth in Orange County, so we need a lot of new schools.”

In fact, the school district gains 5,000 students a year — the equivalent of three new elementary schools and one middle school a year, and one new high school every other year.

In addition to growth creating demand for more schools, last year’s class-size amendment also has mandated a need for more classrooms, and thus, even more schools, says Foltz.

Construction costs to build a new school are high: about \$13 million for an elementary school, \$20 million for a middle school and \$40-\$50 million for a high school.

“It’s quite expensive, and there are other costs associated with that,” says Foltz. “You need more buses to haul the kids, and there are financing costs.

“And the principal ways for paying for it are property tax and impact fees.”

That’s because impact fees can only be used to build new schools, not to renovate older schools.

That has left the costs of renovation and expansion to be paid for with proceeds from the county’s new half-penny sales tax, which was passed in 2002.

Foltz says it’s natural that home builders and Realtors would be concerned about any increase in impact fees, which would raise the cost of houses and possibly slow sales.

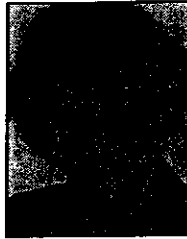
“But good quality schools are related to their ability to market homes,” he says.

The \$4,300 question

On that point, Beth McGee, executive director of the Home Builders Association of Metro Orlando, agrees. “No one feels more passionate about providing good schools than home builders, because good schools help attract businesses here and create jobs” and thus, bring in people who buy houses, she says.

However, says McGee, “the methodology they’re using is very unusual.”

The trade group executive points out



Beth McGee

that the school district's own consultant last year recommended increasing the impact fee to only \$4,300 for a single-family home. "What has changed so dramatically to cause it to go from \$4,300 to

\$9,000?" she asks.

UCF's Scott expresses another concern.

The Federal Reserve is widely expected to begin raising interest rates again, possibly as soon as August. When current rock-bottom interest rates start rising, Scott says, "there will be a mild panic" among potential home buyers, in residential real estate and related industries such as lenders.

Combine that with a threefold hike in impact fees, says Scott, "and you could have an unwelcome negative effect on the housing industry.

"You might not want to slow down Florida growth that much in the face of rising interest rates."

Scott predicts the fee hike would have a domino effect, raising the cost of homes beyond reach of some households. That, in turn, would slow housing starts, a key component of retail construction and sales.

In fact, says Larry Nicholson, division president of Ryland Homes, for every \$1,000 the impact fees are raised, "you take 1,500 people



Larry Nicholson

A SHOCK TO THE SYSTEM

Current Central Florida School Impact Fees:

Osceola	\$9,708
Lake	\$3,489
Orange	\$2,678
Polk	\$1,607
Seminole	\$1,384
Volusia	\$1,139

Proposed:

Osceola	\$2,708
Orange	\$2,000
Volusia	\$4,079
Polk	\$3,801
Seminole	\$1,384
Lake	Undetermined

out of the market. I think we're all a little disappointed."

Responds Foltz, "You don't have a lot of choice sometimes.

"You have to provide the infrastructure for growth, and schools are part of that infrastructure."

The next step will be to present the numbers to the Orange County School Board, and then seek approval from the Orange County Commission.

Foltz says the higher fees could be approved as early as July.