



Residential growth pays its way, and more

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One very popular, but incorrect, theory about residential growth is that more is spent by local government on new homes than the income they generate and that new houses don't "pay their own way." This theory is so prevalent, many county and municipal leaders use it as the gold standard for hammering out public policy and deciding where, when, or how to raise taxes.

But in most communities, the bold truth is that new homes generate significantly more income for the community, through property taxes and residual retail and corporate taxes, than the community spends to accommodate growth.

Study after study has shown that residential development brings wealth to communities and county coffers. When people buy new homes, they also buy furniture and appliances and home accessories and garden supplies. This attracts new retail business to those communities and creates new jobs and new income to counties through retail taxes and additional property taxes.

The problem, unfortunately, is that new "growth revenue" isn't always spent wisely.

Here's a sad, hard fact. During fiscal years 1996 through 2001, new income from growth in Durham County amounted to \$70 million. Some of that money could have been spent on new school facilities, or to buy land for future schools. But that did not happen -- except for \$500,000 spent on trailers. Meanwhile, the new money we can directly attribute to growth from 1996 to 2001 paid for a host of other county services, including increases in Medicaid, raises for county employees, benefits cost increases and more. During this same period, the tax rate in Durham did not go up. In fact, it went down.

Residential growth doesn't only pay for itself -- it pays for everything! Why the general public is not more aware of this fact remains a confounding mystery.

But it can be verified. All you have to do is look closely at the numbers. Below are raw numbers from Durham for the 12-month period spanning from April 2002 to March 2003. The bottom line is startling.

During that time, there were 1,646 closings on new homes, averaging \$185,509 each. Using the county's adopted property tax rate of \$.763 per hundred dollars in valuation on a home, the property tax revenue alone on these homes calculates to \$2,329,804 per year.

Using the numbers generated by a consultant recently hired by Durham County to look at impact fees, those homes would generate 571.67 new public school students and the cost of paying the debt service on bonds to build schools for those students would total \$1,062,252 per year -- leaving \$1,267,551 per year left over.

Clearly -- these homeowners are paying for the new schools needed by their children -- if only county leaders would use that money for that purpose. The \$1.2 million positive cash flow equals the county's per-student operating expenses if these students attend local public schools -- if they all immediately started going to public schools. They don't.

Durham's Woodcroft community, for example, could be expected to send 569 students each year to public schools based on accepted formulas for deriving student population numbers. But the number of children from Woodcroft attending Durham public schools last year was 421 -- 25 percent fewer than projected.

Getting back to the \$2,329,804 that these new homes will generate in new property taxes each year from now on -- real property tax is not the only fiscal impact.

Durham's new homes are bringing in new cars. Taxes on those cars generate new county tax revenues -- conservatively more than \$300,000 per year.

Construction of the new homes sold from April of 2002 to March of 2003 involved the purchase of more than \$140 million in building materials -- and a substantial portion of that generated sales tax revenues for the county.

Durham's new homeowners are also spending substantial sums in local stores. A conservative model would estimate \$42 million in new, taxable spending. The resulting tax revenue is more than \$600,000 per year. The subsequent new demand led to new stores. Just look at Durham's new Southpoint Mall.

New stores mean new jobs and additional income circulating throughout the economy and additional income to the county through retail tax revenue.

Finally -- and this is also quantifiable -- new homeowners do not put a direct burden on social services or law enforcement. Increased employment leads to lower crime and lower welfare rolls. Simply put, new home owners aren't a drain. They give more than they get.

The challenge to county leaders is to use that money wisely and appropriately, and not think of it as a limitless credit card to spend on everything else.

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