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Building Tax Backfires For County

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ASHLAND CITY, Tenn. -- Cheatham County, it seems, wants home builders to come back home.

Cheatham, once one of Tennessee's fastest-growing counties, last year tried to finance new schools by jacking up its "development tax" on home builders tenfold to $7,500 a home.

The result: Housing starts and development-tax collections in the rural community outside Nashville spiraled downward. County officials had to exhaust surplus funds to make up a nearly $1 million shortfall in development taxes for the fiscal year ended June 30.

Now, Cheatham County appears to be reversing course. Next month, County Executive Bill Orange plans to propose cutting the levy on home builders in half in order to spur construction again. In the meantime, though, county commissioners may be forced into a politically unpopular move: raising property taxes on existing residents in order to bolster Cheatham's lagging finances.

Mr. Orange, the elected chief executive who originally embraced the development-tax increase along with a majority of Cheatham's 15 county commissioners, acknowledges that the county's system of paying for growth went awry. "We put all our eggs in one basket," he says. "Now, the hen's quit laying."

Many counties in the region have imposed a variety of taxes to pay for growth. But few levies have backfired quite so severely.

Cheatham's development tax -- the highest in Tennessee -- is the byproduct of a building boom that had local officials scrambling to keep up with new residents who flocked to the county for relatively cheap real estate and easy commutes to downtown Nashville, located some 25 miles away. The U.S. Census Bureau estimates that Cheatham's population exceeds 36,000 -- a jump of roughly 33% during the past decade.

By 1996, more than 400 new homes were being built each year. The county built two new high schools and assumed $24 million in construction-related debt.

Mounting financial obligations were "frightful" to rural commissioners who weren't accustomed to such rapid growth, says Mr. Orange, who took office in September 1998.

That fall, county officials began fretting over how they were going to pay for it all. Small towns within Cheatham proposed a joint impact fee, which, like the county's existing development tax, would be imposed on builders prior to construction.

Cheatham initially agreed, and commissioners approved funds to hire a research firm to study the matter. Soon after, though, Cheatham backed out. Mr. Orange argued the fee would be too difficult to administer with so many governments involved. Municipal leaders believed the county didn't want to share control of any funds.

Whatever the reason, in March 1999 the Cheatham commission instead voted to more than triple the county's two-year-old development tax, taking it to $2,750 from a relatively modest $750.

The county wouldn't have to share these funds. And the extra money would help cover school costs, although county officials hadn't studied exactly how much was needed.

Home builders didn't gripe too loudly. Dan Reigle, owner of Midway Supply in Ashland City, says that's because they knew that Cheatham was a bedroom community with a small sales-tax base, and that it needed additional revenue to support growing services.

Just five months later in August, though, builders howled when the commissioners again jacked up the tax, this time to $7,500 per home. Cheering them on were longtime residents unhappy with the county's rapid growth.

By the end of the year, it had become clear that the repeated increases were ill conceived. "It destroyed the housing market there," says Edsel Charles, owner of MarketGraphics, a Brentwood, Tenn.-based research firm that tracks housing starts.

Builders, believing they wouldn't be able to pass on such fees to home buyers, abandoned plans for new subdivisions. Cheatham County, which had expected to take in $1.4 million in development-tax revenue in that fiscal year, collected only $487,000, representing only around 90 homes.

Effects of the slowdown rippled throughout the county. Votter Cafe in Kingston Springs, which catered to construction workers, left town in part because the lunch rush suddenly was a bust. "If you take money out of enough people's hands, everybody goes broke," says Mr. Reigle, who estimates that sales at his building-supply operation are off by 50%. "It's an economic disaster."

Some critics think that Cheatham officials' intent never was to manage growth but to appeal to rural constituencies by shutting out elements of big-city life such as crime and traffic. Others believe Cheatham officials simply did a poor job of planning for the future, particularly when it came to managing the county's school-construction debt.

"What Cheatham tried to do was pay for growth over the last 10 years [by charging] people moving in now," says Tony Campbell, mayor of Kingston Springs, located at the southern end of Cheatham. "It's poor policy."

Mr. Orange maintains the development tax never was intended to stop growth but to finance it. He believes rising interest rates are at least partly to blame for the construction slowdown.

But while he says development-tax revenue was intended to fund future growth, he acknowledges that some of it went to pay down existing debt.

In any event, Cheatham's strategy to cope with growth now is "broken," Mr. Orange concedes. He hopes his plan to cut the development tax in half to $3,750 -- a measure he expects to present to the commission in early September -- will jump-start home building in the county. Mr. Orange and others have tried previously to reduce the development levy, but were unable to muster enough support on the county commission.

He believes he can push the measure over the top now by forcing subdivision developers to do something in return: add features such as curbs and underground utilities. He hopes that higher-quality development will result in higher-priced homes, and in the long run generate higher property-tax revenues to offset the lower building tax.

Still, county finance officials aren't counting on explosive growth to be restored. Including Mr. Orange's proposed cut, they've budgeted only $375,000 in development-tax collections, representing 100 homes, in the current fiscal year. To come up with enough revenue to cover an anticipated deficit of around $2 million in the county's roughly $53 million budget, commissioners are going to have to take additional steps.

Among other things, they're mulling raising property taxes almost 10%. On a $100,000 home, the new tax bill would total $810, up from $738.

Mr. Orange doesn't relish having to raise taxes, but at this point he sees no alternative. The home-building industry, meanwhile, is hoping for relief from the development tax. To help make the case, business leaders are preaching the benefits of growth.

"Now," says Mr. Reigle, "they need us to build."