

**ROCKY MOUNTAIN LAND USE INSTITUTE
THE WILDERNESS CITY:
NATURE, CULTURE, ECONOMY IN THE NEXT WEST**



**Private Payment for Public Goods:
Implementing Private Revenues in the West**

IMPACT FEES

The Real Estate Industry's Perspective

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Overview

- **States with Impact Fee Acts**
- **Definitions, State Acts & Standards**
- **Impact Fees vs. Special Assessments**
- **Framing the Question**
- **Industry Perspective**
- **Value Creation**
- **Economics**
- **Current Trends**
- **Conclusions**

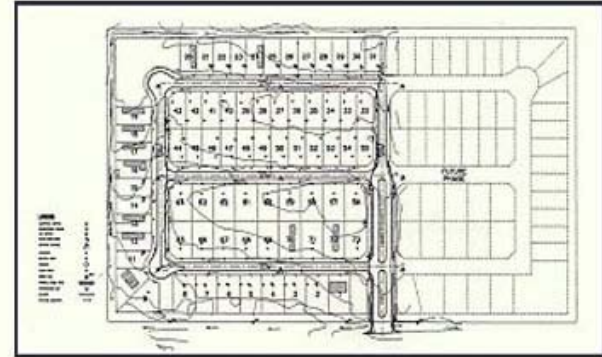


Homebuyer's Perspective



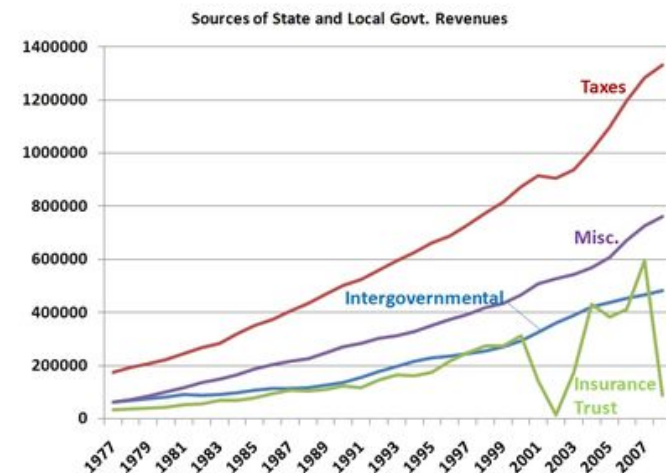
Definitions

- Impact Fees
- Special Assessment
- Infrastructure



Definition: Impact Fee

- A charge on *new development* to help fund and pay for the construction of the **needed expansion of offsite capital improvements caused by the new development.**
- An impact fee is implemented by a local government.



Source: Census Bureau, Haver Analytics

Impact Fee Act Standards

State	Guiding Terms	No Higher Level of Service	Construction Credits	Revenue Credits
Arizona	Reasonable relationship		explicit	explicit
California	Reasonable relationship	explicit	explicit*	explicit*
Colorado	directly related	explicit	explicit	
Idaho	proportionate share; reasonably relates	explicit	explicit	explicit
Montana	proportionate share; reasonably relates	explicit	explicit	explicit
Nevada	necessitated by and attributable to		explicit	
New Mexico	proportionate share; necessitated by and attributable to		explicit	
Oregon	Equitable share		explicit	explicit
Texas	necessitated by and attributable to	explicit	explicit	explicit
Utah	proportionate share; roughly proportionate; reasonably related		explicit	explicit
Washington	proportionate share; reasonably related	explicit	explicit	explicit

*** Developer credits explicit for road and park in-kind contributions; revenue credits explicit for special district taxes used to finance schools**

Definition: Special Assessment

- A unique charge that government can assess against real estate parcels for public projects.
- This charge is levied in a specific geographic area known as a Special Assessment District (S.A.D.)
- A special assessment may only be levied against parcels of real estate which have been identified ***as having received a direct and unique "benefit" from the public project.***
- Water, sewer, roads, paving / typical improvements

Impact Fee vs Special Assessment

	Impact Fee	Special Assessment
Paid by	Home builder (new home buyers)	Property owners within a service area, including existing homeowners and new home buyers.
Area	<i>New development</i>	Larger <i>geographic area</i>
Standards	A reasonable relationship to the burden imposed to provide additional necessary public services to the development.	Real estate which have been identified as having received a <i>direct and unique</i> "benefit" from the public project.
Typical Uses	Water, sewer, roads, police, fire	Wastewater treatment plant. parks, libraries.



Impact Fee: Framing the Question

What are the costs actually *created* by new growth?

VS.

What costs does the city *decide to incur* and charge new growth for?

- Does the service provide a benefit to the community as a whole? If it does, it is a ***community service obligation***, not a ***new growth*** obligation

Real Estate Industry Perspective

- Impact fees should *maintain* services, not *expand* services.
- Builders are willing to pay legitimate impact fees.
- Municipalities will attempt to assess Impact Fees for *area-wide services* instead of *specific impacts*.
- For area-wide services, special assessment districts or service areas are an equitable method to distribute such costs.

Value Creation: Property Taxes

- **When a developer builds a house**, the *municipality gains* a revenue stream.
- New house = property taxes collected by the municipality for the life of the property
- An annuity created by the developer.

Present Value of 40 year annual annuity		
Discount Rate	\$1,000	\$2,000
3.0%	\$23,115	\$46,230
4.0%	\$19,793	\$39,586
5.0%	\$17,159	\$34,318
6.0%	\$15,046	\$30,093
7.0%	\$13,332	\$26,663

Economics of Impact Fees

- Unfair to burden homebuyers with impact fee costs that are then paid through mortgage.
- Potential buyers are “crowded out” by impact fees.
- \$1000 impact fee adds \$220 in “hidden costs” of financing, brokerage commission & developer profit.
- **TOTAL FEE COST IS \$1,220**

Description	Price	Mortgage Rate	Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households that can afford house
Without Fee	\$243,300	6.25%	\$1,412.97	\$300.68	\$ 73,441.86	34,609,498
Including Fee	\$244,520	6.25%	\$1,420.05	\$302.19	\$ 73,810.13	34,344,271
Difference	\$1,220		\$7.09	\$1.51	\$ 368.27	265,227

Households Priced Out of the Market by a \$1,000 Impact Fee that Increases the Median New Home Price by \$1,220

Source: National Association of Home Builders

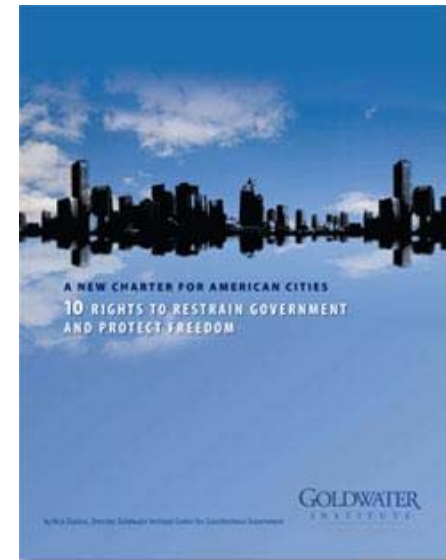
Impact Fee Trends

- Arizona
- Texas



Arizona: Impact Fee Changes

- May 2011, Arizona state law changed
- Added a definition of services: Fire, police, water, sewer, streets, parks and libraries.
- Added in a 10 year refund provision for unbuilt projects, 15 years for water and sewer servicing (TX, CA have 5 year refund periods)
- Previously, cities were charging impact fees for build-outs planned in 30 yrs.



Arizona: Impact Fee Changes (cont'd)

- The statutes “haven't been updated in the 20 years since they were adopted, and we grow differently, we build differently and cities plan differently”

Spencer Kamps, chief lobbyist for the Home Builders Association of Central Arizona.

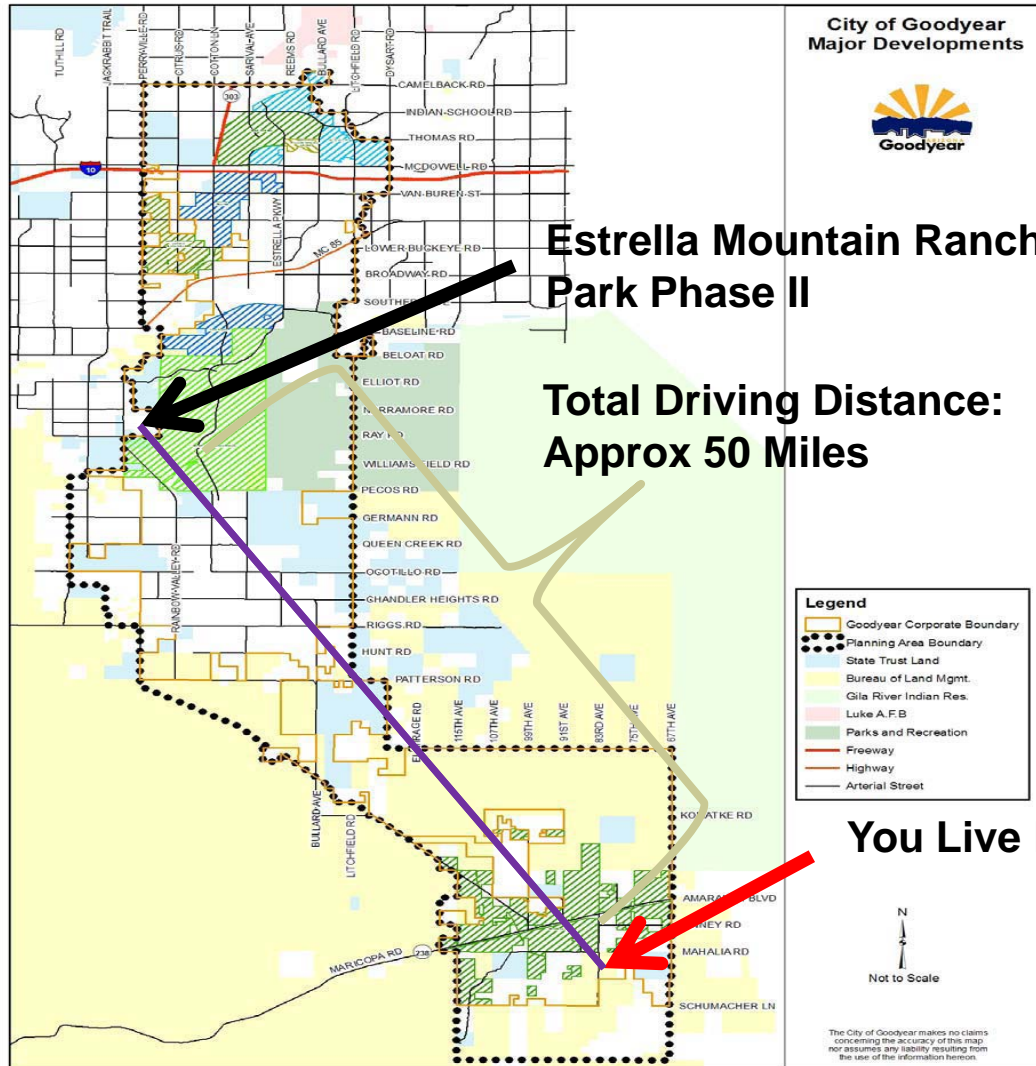


Texas Impact Fees

- *Developer/builder-friendly* compared to Arizona and California
- Average fee between \$3,000 and \$5,000 / unit
- *Cost-sharing agreement* structure:
 - Cities fund infrastructure
 - If the developer builds on the city's master plan, city reimburses developer.
- Only *project specific* improvements are the responsibility of the developer.



Impact Fee Statute / Problems



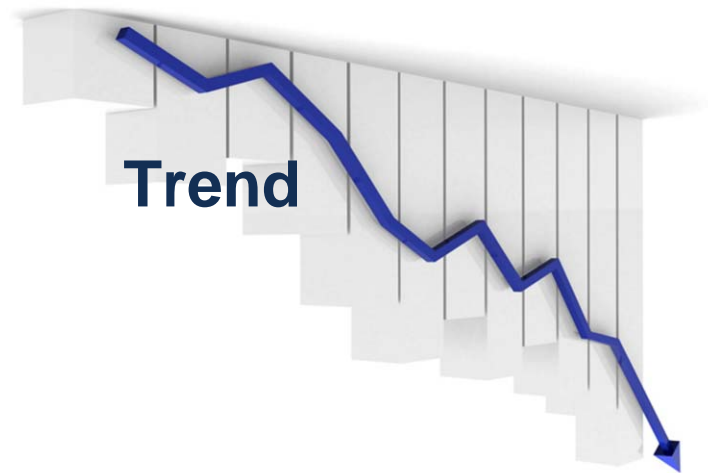
Trend in Impact Fees

- Fees are being cut or reduced to encourage development.
- State definitions and limits to impact fees are being set as a check on municipalities.



Conclusions

- Impact fees need to be targeted for defined services.
- Impact fees are a cost & thus a burden to buyer
- Should explore alternative methods of delivery?



Homeowner impact

