Research Evidence on Impact Fees & Growth Patterns

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What do impact fees *__DO__*?

- Implement the capital improvement plan of a capital improvement element of a comprehensive plan.
- Indirectly mitigate the financial impact of new development on public facilities.
- Extend/provide public facilities to new development.

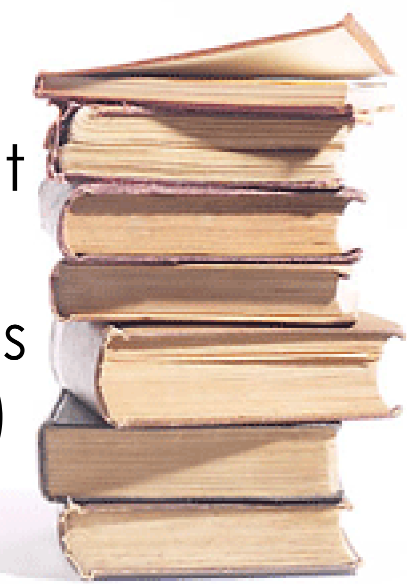
What ***<u>DON'T</u>*** they do?

- Control the rate and timing of development.
- Prevent urban sprawl (***or do they?***).
- Finance all public facilities impacted by growth.
- Substitute for other exactions.
- Streamline the permitting process (but may shorten it).
- Win friends and influence enemies.

Raise the Price of Housing

"Impact fees will just be passed forward to the home buyer."

- Forward capitalization
- Elasticities ("price sensitivity")
  - Normal sensitivity → Housing prices set at market rates so that impact fees cannot raise prices
  - Unique sensitivity →Housing prices reflect unique (noncompetitive) market conditions and can be passed forward.



Raise the Price of Housing

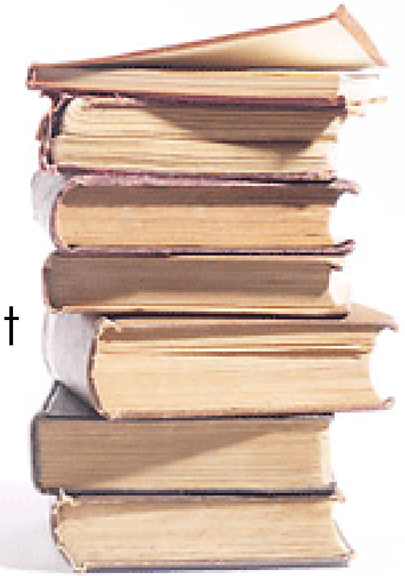
Prior Academic Evidence

- Each $1 raises prices by $2 - $20
- Some studies show no effect
- Ihlanfeldt & Shaughnessy find
  - Misspecification
  - Inadequate controls
  - Poorly constructed data sets

Raise the Price of Housing

Emerging Academic Evidence

- Mathur: King County, WA
  - Impact fees raise higher value homes by ~60¢ per $1
    - Speculates "benefit" effect
  - No effect on affordable housing
    - Speculates impact fees scaled to house size and also waived for target affordable housing.



Raise the Price of Housing

Emerging Academic Evidence

- Ihlanfeldt & Shaughnessy: Dade County FL
  - Impact fees capitalized fully into land prices (backward capitalization) consistent with land economic theory.
  - Backwardly capitalized fees fully recovered in finished lot prices
  - 60¢ increase for each $1 as capitalized property tax savings

Raise the Price of Housing

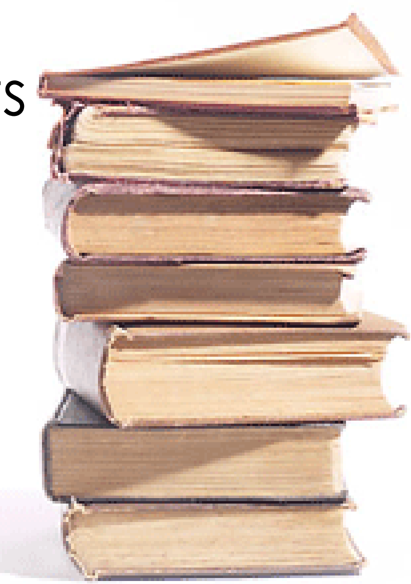
Perspectives

- Impact fees could raise price of land (but not housing) if they lead to efficiency in approvals.
- Impact fees may raise price of housing if they create/sustain unique benefits giving a locality a competitive advantage
- Impact fees may leverage additional investment that would be capitalized as higher values

Reduce Affordable Housing Supply

"Impact fees will reduce the supply of affordable housing"

- Higher factor costs
  - As with higher lumber and labor costs, impact fees squeeze profits and shift builder markets



Reduce Affordable Housing Supply
Emerging Academic Evidence

- Ihlanfeldt & Shaughnessy: FL
  - Most detailed data on local impact fees collected statewide
  - Time-series assessment of MF + SF "affordable" housing production
  - Presence and even amounts of impact fees associated with higher production
- Reasons?
  - Reduce NIMBYism
  - Speculation: Lower fees for affordable housing

Reduce Affordable Housing Supply

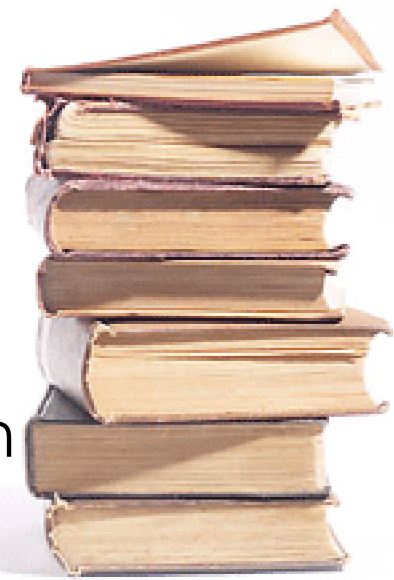
Perspectives

- "Growth pays its way" removes NIMBYists legs
- Scaling fees by size can offset potential adverse effects
- In Florida, affordable housing projects get fast-track review
- Impact fee waivers and deferrals may also increase supply

Shift Development

"Impact fees will cause development to shift into low-cost communities"

- Border effects
- Homogeneity among locations
  - No location advantages
- What's wrong with shifting?
  - Lower-cost communities may have excess capacity, lower facility costs.
  - Shifting development could be an efficient outcome
  - "If you're too cheap …"



Shift Development

Emerging Academic Evidence

- Skidmore & Peddle: DuPage IL
  - Presence of impact fees reduces SF housing production by 25-30%
  - Burge identifies misspecification and poorly constructed analysis
- Matthews
  - Permitting increases before fees take effect, then fall off, then return to pre-fee levels within year

Shift Development

Perspectives

- Some shifting is efficient
- Firms typically locate where they do because of factors more influential than impact fees.
- Many firms actually choose high-tax locations for quality of life.
- Solid shifting evidence weak or nonexistent.

Stifle Economic Development

"Impact fees will thwart economic development"

- The "tax" versus "capital formation" debate.
- If fees behave as a "tax" →
  - Investment funds diverted.
  - Job formation jeopardized.
- If fees help capital formation →
  - Fees pooled/leveraged to expand infrastructure when/where needed.
  - Job formation sustained, perhaps stimulated.

Impact Fees and Employment

- Burge & Ihlanfeldt
  - Florida database on fees, jobs and development 1990-2005.
  - School impact fees make an area attractive to firms and lead to new jobs (though firms don't pay those fees).
  - "Commercial fees" (e.g. roads, public safety) dampen new jobs by raising costs.
  - Utility fees (water/sewer) have no effect.

Overall Effect on Growth Patterns Unclear

Prior research provides only inferences.

What is needed is rigorous research on the effects of impact fees on changing development patterns.

Especially on reigning in ***urban sprawl***.