

# Can Impact Fees Be Fair and Equitable?



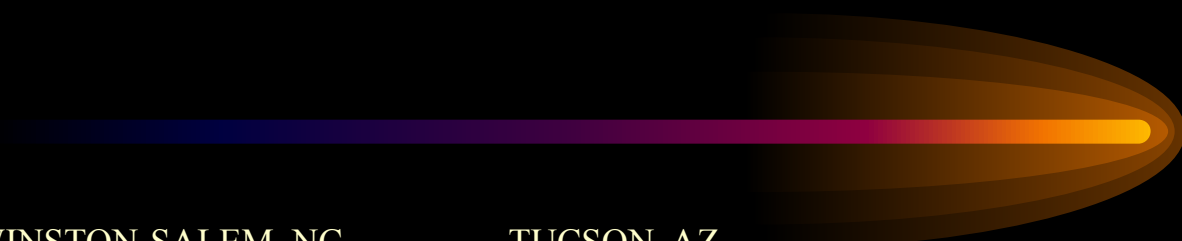
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# The Answer is Yes



IF.....  
ALL COSTS OF NEW DEVELOPMENT  
AND.....  
ALL NEW REVENUES  
ARE ACCOUNTED FOR


# Dotzour: Previous Studies



WINSTON-SALEM, NC  
COLORADO SPRINGS  
LAWRENCE, KS  
WICHITA, KS  
SAN ANTONIO

TUCSON, AZ  
LINCOLN, NE  
KANSAS CITY  
EL PASO  
TYLER, TX

# Dotzour: Published Research

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- Mark Dotzour. "The Fiscal Impact of New Residential Subdivisions: Tyler". Real Estate Center Technical Report #1204.
- Mark Dotzour. "The Fiscal Impact of New Residential Subdivisions: San Antonio". Real Estate Center Technical Report #1209.
- Mark Dotzour. "New Subdivisions Pay Their Way", Tierra Grande, January, 1998.
- Mark Dotzour. "Fiscal Impact Studies: Does Growth Pay for Itself?", Land Development, Volume 11, Number 1, Spring-Summer, 1998.

## The Big Picture



Do new subdivisions produce enough revenue to the city to offset the costs of providing them with municipal capital improvements?

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt

“The predominant view today is that new development rarely generates local tax payments sufficient to pay its own way.”

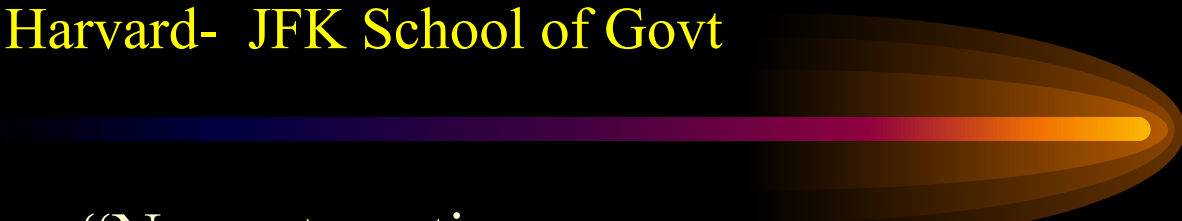
Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt

“According to the new conventional wisdom, growth rarely produces sufficient revenue to compensate ... for its associated public costs.”

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt



“No systematic canvasses are available of the results of fiscal impact studies; they are rarely published or widely distributed.”

Regulation for Revenue, 1993.



Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt



“Fiscal impact analysts confront several formidable methodological problems whose solutions are far from obvious and may depend on local circumstances.”

Regulation for Revenue, 1993.

The Validity  
of the “DuPage County Study”

“Its conclusion that commercial development is a major cause of tax increases is not supported by the statistical analysis, and is not correct.”

Dr. Edwin Mills

Gary Rosenberg Distinguished Professor of Real Estate

Kellogg Graduate School of Management

Northwestern University

The Validity  
of the “DuPage County Study”

“Thank you for sending me Professor Mills critique. He has covered all the points I would have made.”

“It would be fairly easy to rerun the DuPage analysis with a better equation specification. I’ll bet the results would be very different.”

Dr. Jose A. Gomez-Ibanez, Professor of Urban Planning and Public Policy  
John F. Kennedy School of Government  
Harvard University

The Validity of the 1997  
“Carrying Capacity Network Study”

Eg. Showed cost of population growth in Austin to be \$8,900 per person.

Totally ignored all offsetting revenues.

Assumed all cities in the US are like Portland, Oregon.

Assumed all cities in the US have same subdivision regulations and tax structures.

# Who Cares About This?


## - Political Allies

- Taxpayers in the community
- City managers and elected council
- Homebuilders, developers, Realtors
- Affordable housing proponents
- Business leaders (“jobs & housing”)
- Economic development officials

## Research Goal #1

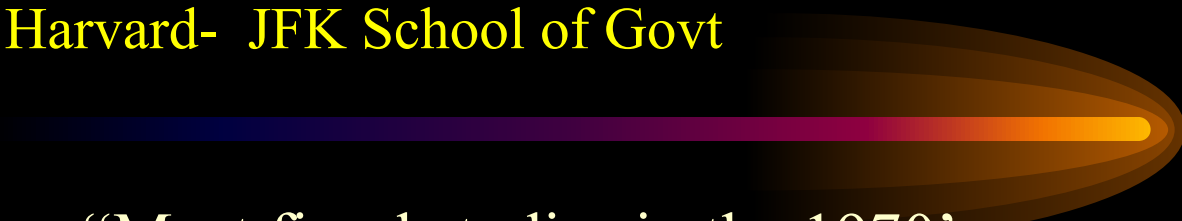


Identify all revenues that homeowners in new subdivisions pay for capital improvements made by the city government.



Annual Revenue to the General Fund  
from houses in new subdivisions

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt



“Most fiscal studies in the 1970’s showed that all development, except low income housing paid its own way.....because it focused only on operating costs and ignored capital costs of new expansion.”

Regulation for Revenue, 1993.




## Research Goal #2



Estimate the cost of capital improvements (per household) that a city must provide to new subdivisions.


How does the city pay for their  
portion of the capital improvements?

- Issuing bonds
  - P&I paid from the Debt Service Fund
  - Revenue comes from property taxes
- “Pay as You Go”



For Example: A home in Area A  
(Average value of \$75,000)

Total property tax paid to city:           \$440



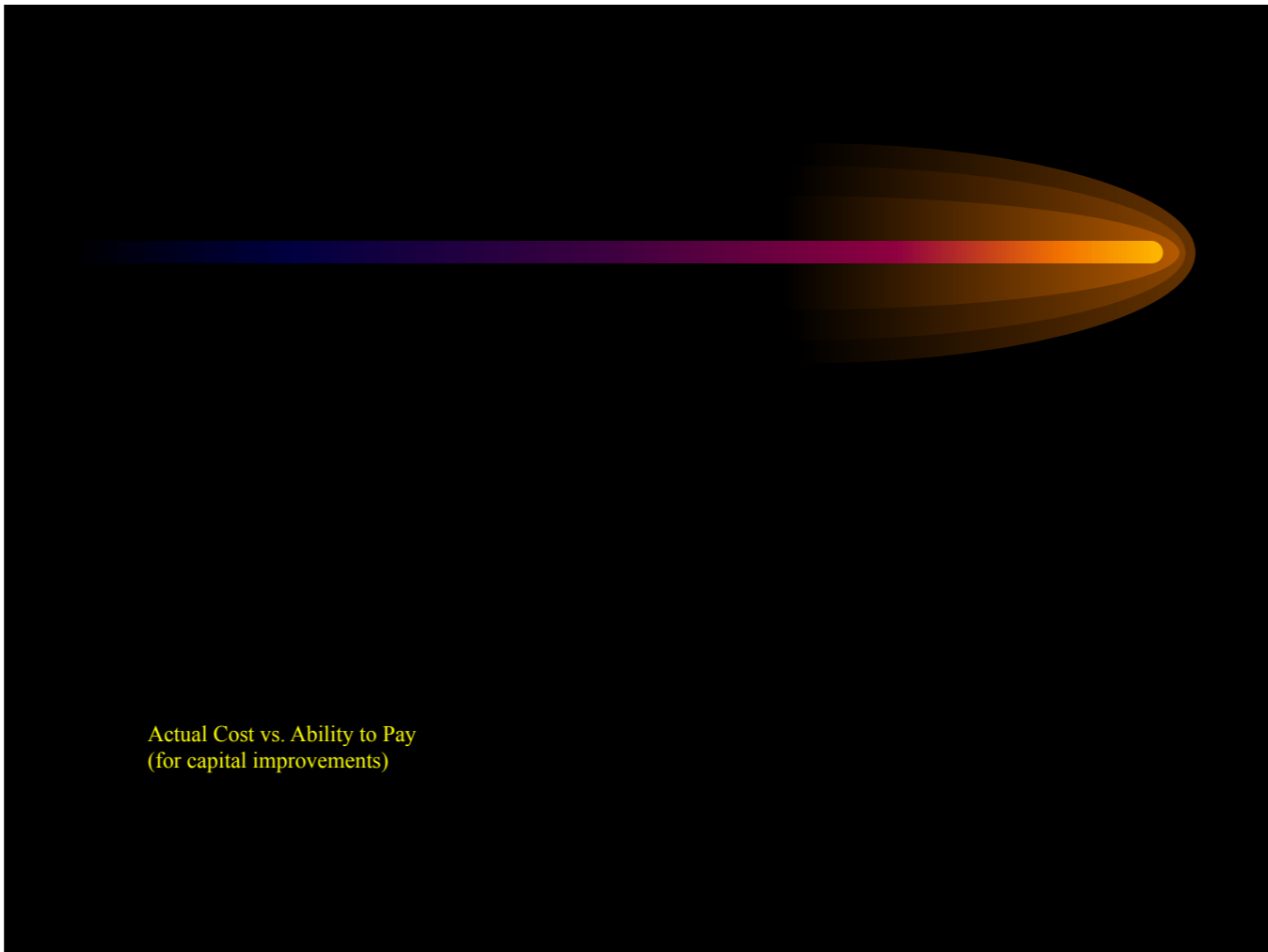
For Example: A home in Area A  
(Average value of \$75,000)

The portion paid

\* 20 year bond at 6% interest

## Capital improvements actually spent (per household in Area A)

• Police substation	\$ 30	
• Fire substation	\$ 182	
• Local access streets	\$ 0	
• Collector streets	\$ 0	
• Arterial street improvements	\$ 0	
• Stormwater drainage	\$ 0	
• Branch library	\$ 87	
• Neighborhood park	<u>\$ 99</u>	
• Total Improvements per household	\$ 398	
• <b>Total Debt Service Supported</b>		<b>\$1,974</b>



Actual Cost vs. Ability to Pay  
(for capital improvements)

## A National Education Program is Essential



### Who Pays for Capital Improvements: Sewer

- Design and engineering for the project
- Sewer lines and lift stations on site
- Connect subdivision to main outfall lines
- Wastewater treatment facilities (primary, secondary, tertiary)

## A National Education Program is Essential



### Who Pays for Capital Improvements: Water

- Major water supply sources
- Wells, pumps, transmission lines
- Elevated and surface storage
- Supply lines and meters on site



## A National Education Program is Essential



### Who Pays for Capital Improvements: Drainage

- Drainage within the subdivision
- Connection to existing channels
- Major improvements under roadways

## A National Education Program is Essential

### Who Pays for Capital Improvements: Branch Facilities

- Branch libraries
- Police substations
- Fire substations
- Neighborhood parks

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt

“...generalizations must be heavily qualified, because cost and revenue allocation involve difficult methodological problems and costs greatly depend on specific local circumstances.”

*Regulation for Revenue, 1993.*

## Stegman.....University of NC

“Residents of new areas that have paid...impact fees are less likely to vote for bond issues or other referenda to finance maintenance, expansion or / renovation of existing facilities that serve existing residents.

Urban Land (April, 1987)

## Huffman, Nelson, Smith and Stegman



“neither developers nor landowners will bear the major burden of paying impact fees, rather consumers....will pay the fees in the long run in the form of higher prices.

*Journal of Am. Planning Assn.* (Winter, 1988)

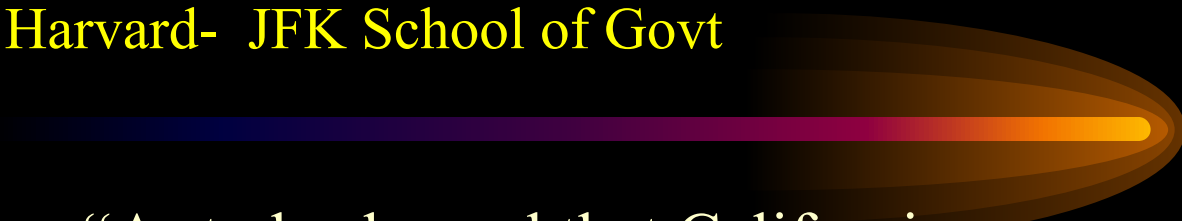
Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt



“Impact fees have generally been set very low to start, so as to minimize the likelihood of litigation by developers.”

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt



“A study showed that California impact fees increased by 511% from 1975-83. Another study showed fees in Florida tripled from 1985-91.”

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt

“...developers and owners of  
undeveloped land always will prefer  
exactions to growth moratoriums.”

Regulation for Revenue, 1993.



Altshuler and Gomez-Ibanez  
Harvard- JFK School of Govt

“Communities in the vanguard of  
exaction utilization tend to be among  
those least concerned attracting  
investment.”


Regulation for Revenue, 1993.

# Tax Increment Financing Popular



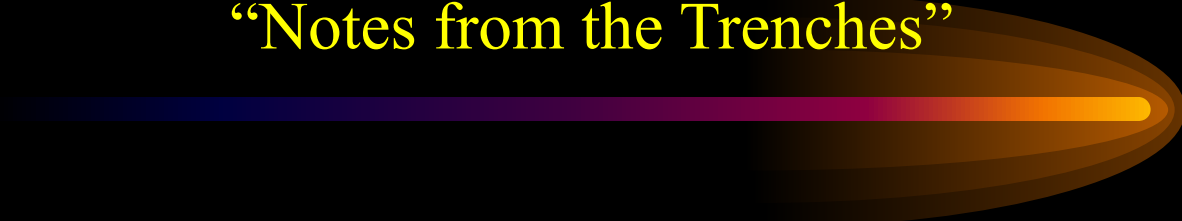
- Over 40 municipalities at ICSC this week aggressively seeking shopping center development in their communities
  - Washington DC
  - Baltimore
  - Oakland
- Many use TIF to finance improvements

## Some Concluding Observations: “Notes from the Trenches”




- Builders/developers need to broaden their political base to include Chambers of Commerce, minority interest groups

## Some Concluding Observations: “Notes from the Trenches”




- Elected officials need a full set of information about who pays for infrastructure in new subdivisions so they can educate local citizens.
  - What about some kind of cooperative arrangement to provide a class about this when newly elected officials attend training programs?

## Some Concluding Observations: “Notes from the Trenches”




- City sales tax revenue paid by homebuilders on materials is very significant and is completely ignored by most city fiscal analysts.
  - A credit should be allowed for sales tax collected within the city’s taxing jurisdiction

## Some Concluding Observations: “Notes from the Trenches”




- Infill development opportunities are often referred to by growth opponents.
  - Support and fund an inventory of infill sites
  - Have focus groups to see if they would like to see new homes built in these areas

## Some Concluding Observations: “Notes from the Trenches”



- Challenge every number in impact fee calculations
- Pay careful attention to all of the assumptions that are included in the analysis.
- Do they pass the “common sense” sniff test.

## Some Concluding Observations: “Notes from the Trenches”



- The “trip generation” methodology is so confusing that very few can explain it to the public.
  - Hire an academic or accounting/consulting firm to review the literature to determine the reliability of this method of estimation.



## Some Concluding Observations: “Notes from the Trenches”

- Hire a national accounting firm to do a full scale cost of government analysis to settle this matter once and for all.
- There is clearly a lack of transparency in the quality of the data used to make decisions that have a substantial impact on the quality of life and the financial solvency of American cities.