



High fees force more homebuilding out of town, SAHBA says

Nick Smith July 11, 2007

Oro Valley and Marana are leading the way when it comes to government fees for new homes, according to numbers released by the Southern Arizona Home Builders Association.

SAHBA announced the numbers in their July 2007 newsletter, claiming the high cost of building new homes in the two towns is contributing to sprawl by pushing developers beyond city limits.

“They’re so addicted to impact fees,” said Roger Yohem, SAHBA vice president. “They can’t live off the backs of the builders forever.”

Total government fees for new home construction for Marana and Oro Valley are \$32,953 and \$31,088, respectively. This is compared with a \$22,855 average among Pima County, Tucson and Sahuarita, according to the 2007 Impact Fee Study.

The study, conducted independent of SAHBA by Bright Future Business Consultants and Nathanson Consulting, compared building permits, impact fees, water fees and sales taxes among Pima County, Sahuarita, Tucson, Oro Valley and Marana for a new, \$258,407 median-priced, 1,941 square foot home.

SAHBA is concerned about the fees because it impacts affordable housing and sends the wrong message to public that the builders are the ones making houses expensive, Yohem said.

After construction, the fees are passed off to the new homeowner, making the mortgage much higher than the market value of the house.

The fees are necessary to deal with the cost of additional traffic and water new people to the area, said Oro Valley Mayor Paul Loomis.

“The new homes create added needs for water,” Loomis said.

Impact fees vs. property taxes

Oro Valley and Marana do not levy a property tax, which means Oro Valley gains funds “mainly through state shared revenues and local sales tax collections,” said Town Manager David Andrews. “That makes up about 80 percent of the general fund revenue budget.”

Even though the cost of an impact fee may be spread out over time through a mortgage, the key difference between an impact fee and a property tax is an impact fee is a one-time charge, while a property tax must be paid each year.

But impact fees and property taxes are both double-edged swords.

“That all depends on how you look at it, I suppose,” said Alex Jácome, SAHBA government liaison. “The problem with impact fees is they go on the mortgage to be paid over 30 years by the homebuyer. Property tax, I suppose, which is a particularly nasty word in Oro Valley, has got some benefits in that it’s spread over everybody, where the impact fees are levied on the folks who are building houses in town.”

This increase to the cost of building new houses is causing sprawl, Yochem said.

“That’s why you’re seeing companies like Pulte (Homes) up in Red Rock,” Yochem said. “They’ve publicly stated they can build houses up there \$20,000 to \$25,000 cheaper. But what forces them out there, it’s bad public policy, are the fees and regulations. It’s called leapfrog growth. As that community is developed, they will backfill to Marana.”

Officials from Pulte did not comment on the specific costs of building a house, but a search on the company’s Web site stated a four-bedroom, two-and-a-half bathroom, two-floor 2,839 square foot home in Oro Valley starts at \$365,990. A similar house in Red Rock with the same number of bedrooms, bathrooms and floors starts at \$221,800 for a 2,364 square foot home.

The outliers

The total building fees for Oro Valley and Marana contain two outliers that push them above the average for the rest of the area. For Oro Valley, it is the building permit and for Marana it is the road impact fee.

Oro Valley’s building permit is divided into a schedule of separate construction, fire, electrical, mechanical and plumbing fees. The fees account for both construction and inspection costs.

According to the study, Oro Valley’s building permit is \$6,205, while the average for the other four areas is \$2,247.

In September, Oro Valley will begin increasing water hookup fees, thereby making it even more expensive to build new homes in the area.

In 2006, the median price of a new home in Oro Valley was \$434,941 in the single family housing market, of which there were 235 new closings. The same year there were 921 closings for resale homes in Oro Valley, the median price being \$342,500, according to a study conducted by Bright Future Business Consultants.

The reason Marana's road impact fee is much higher than the average of the other areas of the study is because there are three different impact fees at work, with a fourth on the way, said Town Manager Mike Reuwsaat.

"You just can't throw them into a clump and say it's this amount," Reuwsaat said. "We have one area just for the interchange, which is the southwest area. We have the area out here in the farmlands, which is the northwestern part and we're finishing up the northeastern transportation plan impact fee, which we'll do primarily east of I-10."

The road impact fees are tied to infrastructure improvements in that area and developers get a discount if they foot the bill for the new roads.

"If the developer builds the infrastructure, and we encourage them to, upfront like the parks and the roads, we discount the cost of that infrastructure against the impact fee so the impact fee is lower," Reuwsaat said.

The 2007 Impact Fee Study lists Marana's total road impact fees as \$6,238 while the average for the surrounding areas is \$3,767.

"From a transportation standpoint, it's better to tie the impact fee to the specific growth in a specific benefit area," Reuwsaat said.

SAHBA's plan

SAHBA is not sitting down on the issue, next year they will work with the National Association of Home Builders to implement its Infrastructure Solutions Program to the area.

"We've published several publications that look at infrastructure finance alternatives state and local jurisdictions have used to finance infrastructure, said Blake Smith, NAHB spokesperson.

The months long project has the NAHB sending a team of economists, affordable housing specialists and government affairs experts to Pima County to put together an affordable housing program for the area, Yochem said.

"We've got this controversy out there and we're trying to do something about it," Yochem said.

The program has been implemented in other areas of the country such as central Louisiana to help in post-Hurricane Katrina infrastructure.

"We want to work with SAHBA to help them work with local governments, community leaders and others to help them find creative and effective ways to finance infrastructure," Smith said.

Some of the approaches listed in the plan include design-build strategies, small-scale water systems and public-private partnerships.

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