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Rising builder impact fees bring home costs up



Wade Byars, The Desert Sun

Crews work on new home construction in Palm Desert east of Monterey and south of Frank Sinatra on Wednesday.

WHAT ARE IMPACT FEES?

- These are expenses usually paid by homebuilders to cities and counties to account for expected impact of future new residents on service needs.
- Costs vary by city, but in the Coachella Valley they usually cover items like school district fees, water and sewer, transportation improvements and habitat protection. (In the valley, the latter is referred to as the "fringe-toed lizard fee.")
- Depending on location and market conditions, builders either absorb impact fee increases or pass those on to home buyers in the price of a house.
- Impact fees constitute the largest portion of overall fees paid by builders.

Source: Rose Institute of State and Local Government at Claremont McKenna College

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The Desert Sun

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Like other things associated with constructing new homes in California, fees that builders pay to fast-growing Coachella Valley cities were up considerably in 2005 over their 2003 levels, according to a recent study commissioned by the valley's main building industry group.

And while builders often absorb some of those costs rather than passing them on to home buyers, experts acknowledge that fees - among numerous other factors - put continued pressure on already-dwindling home affordability, as reported at thedesert.com.

From 2003 to 2005, building fee increases among valley cities ranged from 4 percent in Desert Hot Springs to 28 percent in La Quinta, according to the study by the Rose Institute of State and Local Government at Claremont McKenna College.

The bulk of those costs consist of impact fees, which cities collect to offset the expenses of providing items like water and sewer systems, schools, parks and police protection to thousands of future new residents.

"You have to cover the costs of services to those new homes that are going to be coming in," said Martin Alvarez, a senior management analyst for the city of Palm Desert.

"It's a balancing act," said Fred Bell, the new executive director of the California Building Industry Association's Desert Chapter, which commissioned the Rose study and works with local cities to hammer out equitable fees.

"The builders are willing and ready to pay their fair share of the cost of the growth, but they also have to be able to build at prices that the market can support," Bell added.

According to the most recent data from the California Association of Realtors, only 10 percent of valley households could afford the median-priced home in December, down from 13 percent a year earlier.

Figures from research firm DataQuick Information Systems indicate that the valley's median home sales price in February was \$418,500, up 19.6 percent from a year ago. For new-construction homes, the median price was \$446,500 - a 20.3 percent jump from a year earlier.

The latest Rose Institute study indicates that per-home fee increases that builders pay to cities for their projects were most pronounced in the east valley cities that are experiencing the greatest amounts of recent population growth.

For instance, impact fees in 2005 were up 30 percent from 2003 in La Quinta and up 17 percent in Indio. Central valley cities, currently bracing for more housing growth, are also seeing those fees rise - with Palm Desert posting a 26 percent increase and Rancho Mirage a 19 percent rise, according to Rose Institute data.

In the valley, total per-home fees paid to cities - including processing costs - range from \$17,056.63 in Cathedral City to \$23,416.29 in Indian Wells, the Rose study indicates.

For their part, city officials note that they also base their processing and impact fee schedules on properly researched studies done by accredited consultants.

"We work very closely with the builders to make sure those fees are set correctly and account for the actual growth that we're going to be seeing," said Tom Hartung, director of building and safety for the city of La Quinta.

Experts note that rising impact fees are just one element of what is bringing up home costs in the valley and state. In California especially, builders are also facing rising costs for land, labor and materials, compounded by soaring fuel prices that hike costs to operate construction equipment.

That combination of factors is shutting out many potential buyers.

According to a 2005 study commissioned by the Washington, D.C.-Based National Association of Home Builders, 6,205 households in the Riverside-San Bernardino County metro area were priced out of the new-home market by just a \$5,000 increase in home prices.

Another 10,424 households were priced out of the market when long-term mortgage interest rates rose from an average 5.75 percent to 6 percent.

In a valley market where new-home sales are not where they were two years ago - and DataQuick notes that valley sales counts in February were down 16.8 percent from a year ago - builders are limited in their ability to pass costs on to buyers.

"It depends on where the market is," said Mickie Riley, president of Cathedral City-based builder Rilington Communities.

"You can't just say, 'they raised the impact fee \$1,800 so we're going to raise the home price \$1,800,' " Riley said. "In some markets, we're probably going to try to absorb the cost and not pass it on."

Impact fees have generally been rising throughout California, as cities look to counter the costs of rapid growth.

Experts note that impact fees in the valley are at about the same level as those seen in western Riverside County and the high desert communities of San Bernardino County.

Jeff Simonetti, a vice president with the Building Industry Association chapter that includes the San Bernardino area, pointed to these per-home impact fees:

Fontana: \$13,680

San Bernardino: \$21,212

Victorville: \$9,595

Hesperia: \$9,549

Apple Valley: \$10,946

Those are on par, for instance, with Cathedral City's \$13,532, Desert Hot Springs' \$13,607, and Palm Springs' \$15,222.

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