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County builders protest impact fee hikes



DAILY HERALD

Grace Leong

Several builders in Utah Valley are protesting what they call an unfair increase in impact fees assessed in recent months by cities including Mapleton and Lehi in light of slowing home sales along the Wasatch Front.

They argue that the increased impact fees -- or fees assessed to builders for each home they build to cover the rising infrastructure needs of a growing population and which are passed on directly to the homebuyer through higher home prices -- would only hurt affordability and further chill the cooling housing market.

The Utah Valley Home Builders Association, in a study released Wednesday, hopes to convince city officials that they should hold off raising impact fees further because that could force builders to move to cheaper areas and cost local municipalities millions of dollars in potential local income, tax revenues and job growth.

"We're trying to combat the cities' notion that the cost of providing public services to housing exceeds the tax benefits, which is one reason why cities feel the need to raise impact fees to builders," said Elliot Eisenberg, a senior economist with the National Association of Home Builders. "We want local government officials to be aware that when they fiddle with impact fees, that has a direct bearing on home prices."

City officials in Lehi and Mapleton could not be immediately reached for comment.

The study, presented by Eisenberg, found that the estimated impact of building 3,974 new single-family homes and 819 multifamily homes in Utah County in 2007 is \$627.6 million in local income, \$111.2 million in taxes and other revenue, and 14,945 local jobs. The estimated annually recurring impact is an additional \$129.4 million in local income, \$24 million in taxes and other revenue, and 3,285 local jobs.

These economic impacts are calculated assuming an average price of \$235,233 for a new single-family home; \$15,051 in builders permit, impact fees and other fees paid to local governments; an average lot price of \$35,000; and an average property tax of \$1,277 per year.

In addition, the group believes impact fees at current levels are more than adequate to cover the costs of infrastructure build-outs. According to the study, Utah County typically collects around \$71 million in builder permit and impact fees in the first year, while incurring \$78.3 million in capital investment for new infrastructure.

"Our study examines how quickly can the government pay off that \$78.3 million. Based on our calculations, the government should be able to pay off the infrastructure investment in one year, and therefore, shouldn't raise impact fees further," Eisenberg said.

Underscoring the study are builders' concerns that raising impact fees at a time when home sales are soft could exacerbate the housing slump and backfire on the local government's attempts to shore up budget shortfalls.

"Cities nationwide and in Utah began raising impact fees in the past two or three years. But they are basing their expenditures via impact fees generated by a then hot housing market. In the last few months, that market has slumped and builders have severely pulled back on building permits because of the excess inventory. That, in turn, hit cities in their budgets and caused them to raise impact fees to the builders," said Jason Eldredge, executive vice president of sales with Newreach, a Salt Lake City-based real-estate research firm.

Starting May 27, Lehi city will collect \$16,521 in impact fees, up from \$9,902, from developers for each single-family home built. The new fee could increase new home prices by nearly \$6,000 and possibly knock out buyers who are shopping for something in the \$250,000 range, said William West, a co-owner of Knight West Construction Inc., a Pleasant Grove-based home builder. Mapleton also will raise impact fees starting July 1, from about \$10,500 to about \$16,000.

Curt Dowdle, executive officer with the Salt Lake Home Builders Association, described the increase in impact fees as "nothing less than extortion at the hands of public officials."

"Many of our local municipalities are now in increasingly precarious financial positions, as they have relied on the permit and fee revenues from residential construction that has been extracted from builders and their buyers over the years," Dowdle wrote in a Feb. 25 newsletter to the Salt Lake homebuilders.

"In their normal course of operations, the respective cities would have us believe that builder impact fees have essentially been fees to cover the actual costs of the impact of new residential construction," he wrote. "As an industry, I believe it is accurate to say that we knew the cities in which we build were extracting fees well in excess of the actual hard costs that our industry impacted the fiscal operation of the cities."→

House Bill 153, a new law passed this year by the state Legislature, could limit a city's ability to raise impact fees if they failed to give adequate notice to builders, Dowdle said. "That's because the builder needs time to price that into the cost of the house."

The bill also requires the city to allow the developer to receive a credit or proportionate reimbursement of an impact fee for land, improvements or construction that the developer is required to provide in excess of the requirements of the project, he said.

Economic Summit

The Utah Valley Home Builders Association will host its first ever Utah Valley Economic Summit today featuring speakers Jeff Thredgold, a local economist, and Elliot Eisenberg, senior economist for the National Home Builders Association. Location: UVSC's McKay Events Center, Mezzanine. Time: Lunch at noon followed by a question-and-answer session at 1:30 p.m. Cost: \$20 at the door. To register, call (801) 225-8893.

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