Issue Analysis: Are Impact Fees a Viable Resource for School Districts Experiencing Growth?

Ronda J. Bangert

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The Issue

This issue analysis will focus on the growing student enrollment for M.R. Elementary, a Pre-K through 8th grade elementary district. M.R. Elementary is experiencing this growth due to four new subdivisions that will be built over the next ten years. The subdivisions are located on the northwest side of the small city of Lichfield and will create 400 new dwellings. This type of fast growth is expected to create a financial strain from the additional students moving into those homes. The district will not receive General State Aid (GSA) and local tax revenue from growth in Equalized Assessed Valuation (EAV) upon their enrollment for approximately two years per student, which will create an educational fund hardship.

The problem lies in the fact that the district is anticipating significant student enrollment growth of approximately 225 students, due to four subdivisions coming into the area. The district will need to compensate for the lagging GSA and local tax revenue in order to provide the educational services – including the cost of additional staff – to all students that enroll, as well as add additional classrooms to house the increased student enrollment. Since every new student puts strain on the existing personnel and infrastructure needs of the district, an intermediate funding mechanism distinct from the standard property tax exactions is often necessary. This paper will research the applicable nature of impact fees as the district's solution.

Demographics

M.R. Elementary is located in the town of Lichfield with a population of approximately 9,500 people. The district comprised of 939 students in three buildings that are scattered throughout the district. Adams School, built in 1928, is the attendance center for 313 Pre-K through 2nd grade students. In 1958, Lincoln School was constructed and is currently utilized for the 308, 3rd-5th grade students. Reagan Junior High, built in 1939, is the attendance center for 318, 6th-8th grade students and the district administration office. The district has been studying the building facilities and enrollment in order to determine their needs for the next ten years.

Currently, the district has 57 new students for the 2005-2006 school year and has projected their enrollment will increase approximately 6.5 percent annually for the next eight years. District #142 employs 4 administrators, 80 certified faculty and 44 non-certified staff, for a total of 124 employees. The district will add certified and non-certified staff as enrollment numbers increase.

What are Impact Fees?

As the saying goes, "Growth should pay for itself", (Hood, 2004). Impact fees, first showing up in the late 1970's, are a funding mechanism distinct from standard property tax exactions, and are intended to distribute the cost of additional infrastructure and other civic improvements more directly to the eventual beneficiaries (Visions, 2002). There must also be a demonstration that the fee payer will "benefit" in some way from the fee and the calculation of the fee must be based on a proportionate “fair share” formula (F.A.Q., 2006). Rather than a local tax collected through the levy and extension process, impact fees are enacted through an ordinance of the local municipality. As a component of the development approval process, the municipality collects the impact fees from the developer on behalf of the affected taxing bodies, including local school districts, and then distributes the fees to the taxing bodies based on a predetermined fee schedule. The fees are typically considered to be a “growth” tool as many times the fees expedite development approvals, increasing the amount of developable land and reducing citizen opposition to new growth. Impact fees are calculated by demand-to-capacity ratios for different capital facilities and then estimating the number and cost of facilities that will be necessary for meeting a prescribed level of service for a growing community (F.A.Q., 2006).

The range for impact fees generally spans from $1,200-$4,000 per unit or lot (F.A.Q., 2006). These fees are assessed based on the load of burden to the municipality or in other specially designated ways. The impact fees may be used for basic services, such as water, wastewater, roads or schools. In order to determine need and amount for an impact fee, an independent fee study can be used to determine if there are unique conditions or considerations with the project. The study can give the parties involved a look at the need for the typical use of an impact fee or the study may indicate some other type of fee schedule such as a voluntary builder contribution, which is a direct agreement between the developer and the school district (F.A.Q., 2006).

Planning for the student growth is difficult. Many times the developer of the subdivision is digging before any of the stakeholders have any knowledge of the development. But when there is notification or observance of a trend, districts and communities can plan before the spurt comes. There are tools available to evaluated impact fees and determine whether or not they are a viable tool for the projected strain. The study can examine facilities, exemptions, benefit areas, and a percent of cost recovery to name a few (North, 2005).

So are impact fees the most economic way to subsidized rapid growth for school districts? You will find property owners and prospective buyers on opposite ends of this continuum. Since every new development puts a strain on the infrastructure, who should pay for the additional strain? There are, of course, two schools of thought. Many existing homeowners feel impact fees are a fair way to help defray the cost of growth because the buyers are the ones creating the strain on the existing community. Schools would also like a sensible solution to offset lagging funds for the immediate student enrollment. Homebuyers consider the impact fees to be an unfair burden to the working family and an additional tax. These buyers and developers have filed suit in many states in order to combat the fee with little success from the state courts or U.S. Supreme Court (North, 2003). One way to compromise on the fee issue is to seek fees that recognize size differences in residential units or the reduction in fees for areas that demonstrate slower growth (F.A.Q., 2006). The municipality will usually require approval of the school district’s budget for the disbursement of the impact fees. The local government is looking to monitor how the school is spending the dollars on areas like architect fees or school site property.

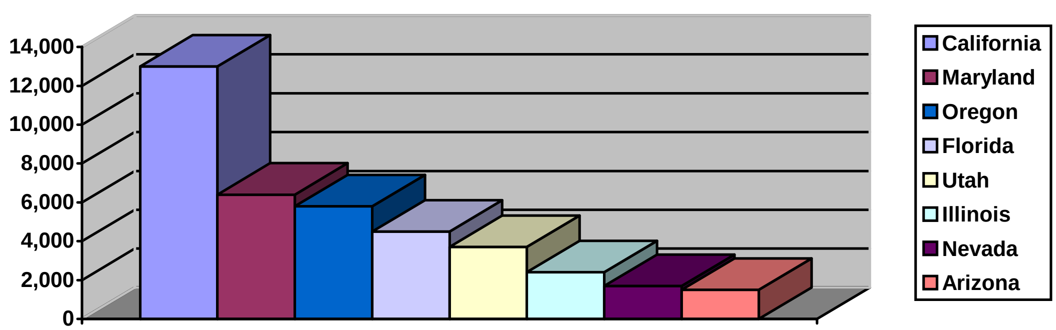
National Research on Impact Fees

Many states are experiencing tremendous “re-growth” in the metropolitan areas and on the outskirts of the big city in the form of subdivisions. Impact fees have a variety of alternative names including: expansion fees, development charges or facility fees to name a few, have become quite popular in some states.

California’s impact fees are growing at the fastest and highest rate of the fifty states (Mullen, 2005). In one area of Florida, impact fees are climbing at alarming rates. Osceola County has enacted the highest school impact fees in the state, imposing a charge of $9,708 per new single-family home.

In Florida’s impact fees are also increasing. Recently, Osceola County enacted the highest impact fees in the state, along with the honor of having the fast growth rate to match. The imposing fees are now over 9,700 per new single-family home Fishkind, 2004). Although suit has not been filed in Osceola, suit has been brought against Lee County, Florida for imposing impact fees of approximately $3,000 per home. The court ruled in favor of Lee County because there is a logical connection between the construction of new homes and the increase in the number of children who must have schools to attend (Fishkind, 2004).

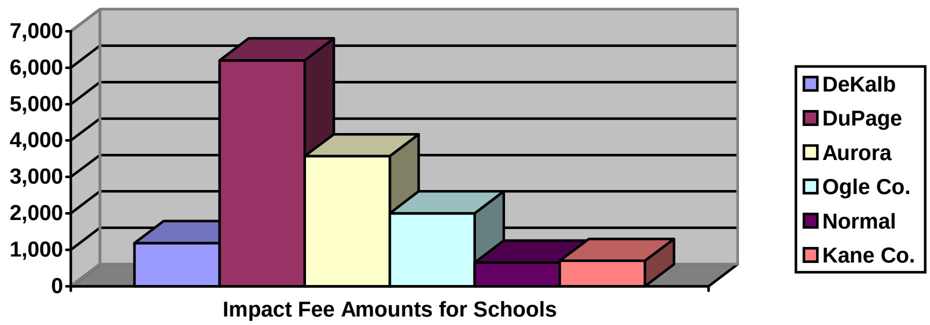
The graph below demonstrates a sample of the 2005 national averages for impact fees per state. This information was gathered through the 2005 National Impact Survey; an annual updated survey. When California is calculated in the national survey the average impact fee is $3,025 per single-family unit. When looking at a more accurate calculation for the rest of the 49 states the national average for an impact fee for a school is $2,867 for a single-family home. Illinois’ average is $2,379 (Mullen, 2005).



Local Research on Impact Fees

In Illinois, impact fees are becoming more common as rapid-growth subdivisions show up on the doorstep of a community without any forewarning or planning. The average fee amount for Illinois can be somewhat deceiving since the state is so diverse between fast-growing properties north of I-80 verses the rest of downstate communities. The average impact fee in Illinois is $2,288 per single-family unit.

The graph below shows a sample of the school impact fees for DeKalb, DuPage County, Aurora, Ogle County, Normal and Kane County. Aurora is more than three times that of the other three areas. This is partially due to its close proximity to Chicago and the rapid growth in the area. While places like DeKalb and Normal have rapid growth areas they have not instituted the level of impact fees that Aurora has elected to implement.



Local Action

M.R. Elementary has entered into formal conversations with the developers, legal counsel, the local high school district, and city leaders in an effort to discuss the implications the 400 homes will have on the district. This discussion has included the issue of impact fees as a potential solution to the funding lag that exists between the arrival of the new students, and the state and local tax revenue necessary to educate those students. The discussions are currently focused on the amount needed in impact fees to offset these costs as the district enters this high growth stage. A decision on impact fees as a viable resource for the district and community is likely in the next two to three months.

Another viable option for the district will be to consider placing a building referendum on the ballot. Currently, their Educational Fund is sustaining their educational programs sufficiently, but the lack of classrooms has been the point of most concern since they are already utilizing two portable classrooms. Lichfield was deeded approximately 20 acres to build a new school site for the district ten years ago in order to build a new building. The taxpayers have already voted down two building referendums. If the concept of impact fees does not flow through the city government with approval, the district will begin laying the groundwork to place a third referendum on the ballot again. With the new focus of four new subdivisions coming in across the street, the district is more hopeful that families will be willing to raise the tax rate to secure a school building in the neighborhood.

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