

IMPACT FEES

MYTH vs FACT

A Response to the Homebuilders Associations of Central Arizona's (HBACA) 'Arizona Housing Recovery Plan' Presentation

MYTH

The Housing Recovery Plan will have
“no negative impact on the General Fund.”

-HBACA 'Arizona Housing Recovery Plan' Presentation page 13

Arizona Housing Recovery Plan

- **No Negative Impact on General Fund**
- **Reduce Impact Fees and Regulatory Costs**
- **Impact Fee Reform:**
 - New growth pays for its burden but not more than its fair share
 - Ensure costs align with economic reality
- **Establish a five year moratorium on any discriminatory increases in municipal residential construction TPT rates.**

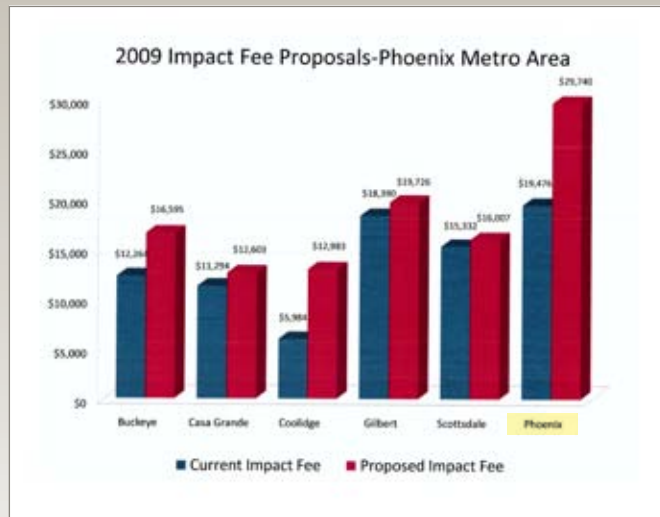
Infrastructure capacity is one of the greatest drivers of economic development. Impact fees fund infrastructure such as roads, water, sewer, public safety and other important services. Reducing or eliminating a city's ability to build these facilities reduces the likelihood that homes will be sold, retail centers will attract business and that businesses will choose to locate in Arizona. This will greatly impact cities and towns and will also impact the State's budget and economy.

FACT

MYTH

Phoenix's impact fee proposal increases fees 52% in 2009.

-HBACA 'Arizona Housing Recovery Plan' Presentation page 9



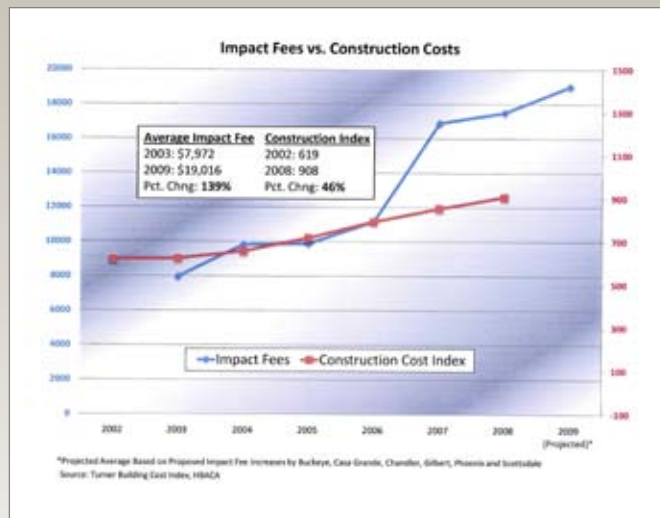
The City of Phoenix lowered the average impact fee by 4.8% in its 2009 impact fee update. Estrella North is the only area to see an increase, which was \$348. In addition, the City phased in its Roadway Facilities fee over two years in order to help developers prepare for the increase. By 2011, the average impact fee for the city will increase 8.7%, which is on target compared to inflation estimates for 2011. After the phase-in is complete, the greatest increase in fees will be \$2,490, or 14%, in the Deer Valley and North Gateway areas.

FACT

MYTH

Impact fees have outpaced construction costs by 93%.

-HBACA 'Arizona Housing Recovery Plan' Presentation page 7



Impact fees cannot accurately be compared to a construction index that does not include costs for land and water resources, the two largest cost components of infrastructure development. In addition, the Turner Building Cost Index that is cited tracks "commercial building construction costs" (www.turnerconstruction.com), which is vastly different than the infrastructure that cities build (water mains, booster stations, reservoirs).

Black and Veatch, an international engineering and construction consulting firm that specializes in water and energy infrastructure (www.bv.com) estimates that the costs associated with building water infrastructure necessary to serve new development increased from between 37% and 83% from 2003-2006 and continued to escalate between 2007 and 2008.

FACT

MYTH

Peoria is “spending \$13 Million over the next three years to build a vast citywide trail network that benefits the whole community but is paid for with impact fees.”

-HBACA 'Arizona Housing Recovery Plan' Presentation page 10

Why are Impact Fees So High?

- Peoria
 - Spending \$13 Million over the next three years to build a vast citywide trail network that benefits the whole community, but is paid for with impact fees.
- Queen Creek
 - Adopted a \$1,888 per home impact fee in July to build a “World Class” equestrian facility at a total cost of \$16.4 Million. Existing residents are paying for less than 10% of the cost of the park.
- Goodyear
 - Adopted a fee in November that included \$22 Million for a 100 acre community park and an aquatic center. The city acknowledges that existing residents will use the new facilities, but plans on having new growth pay for over half while the population increase will be at 36%.

This statement leads you to believe that impact fees will fund the entire \$13M project. However, in recognition that the network will benefit the entire community and not just new development, \$9.3M of the cost (71%) will be funded by other city revenue sources. Less than 30% of the network will be paid for by impact fees.

FACT

MYTH

“The Infrastructure Stimulus Plan passed by the Federal Government goes to ‘shovel ready’ projects, or infrastructure paid for through impact fees.”

-HBACA 'Arizona Housing Recovery Plan' Presentation page 16

Negative Impacts?

- There is no “growth” and little need for new infrastructure.
- Infrastructure Stimulus Plan passed by the Federal Government goes to “shovel ready” projects, or infrastructure paid for through impact fees.
- Cities have healthy balances in fee accounts.

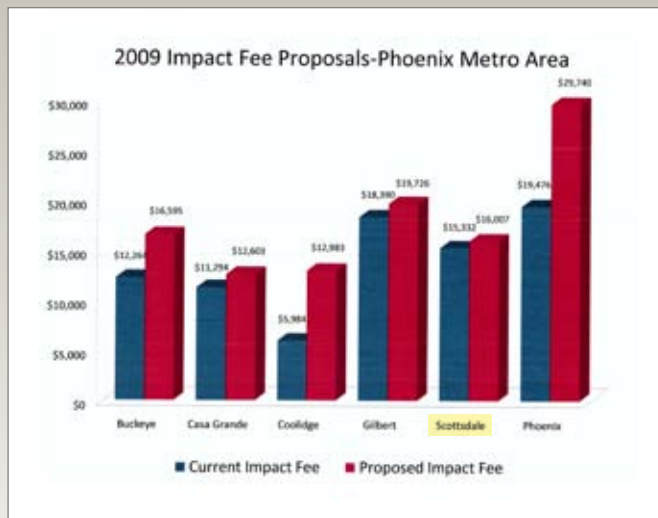
The majority of the stimulus monies that cities and towns receive are indeed dedicated to infrastructure. However, it is an erroneous assumption that “shovel ready projects” and “infrastructure paid for through impact fees” are synonymous. Cities and towns have existing infrastructure needs and also fund infrastructure for new development. In reality, the monies that may be realized by Arizona cities and towns for infrastructure will be a small fraction of the amount needed to address our infrastructure shortfall.

FACT

MYTH

Scottsdale's impact fee proposal increases fees 4.4% in 2009.

-HBACA 'Arizona Housing Recovery Plan' Presentation page 9



Scottsdale completed a comprehensive impact fee study in late 2008, which resulted in a 1.7% increase. The study also eliminated impact fee zones (different areas of the city paid different fees), resulting in a fee reduction for some parts of the city.

FACT

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-HBACA 'Arizona Housing Recovery Plan' Presentation page 16

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While it is accurate that there is limited growth currently, Arizona has an enormous infrastructure deficit at the state, regional and local levels. In addition, during periods of ‘no growth’, no impact fees are paid. As growth occurs, the infrastructure impacts will need to be addressed.

FACT

MYTH

Queen Creek “adopted a \$1,888 per home impact fee in July to build a ‘World Class’ equestrian facility at a total cost of \$16.4 Million. Existing residents are paying for less than 10% of the cost of the park.”

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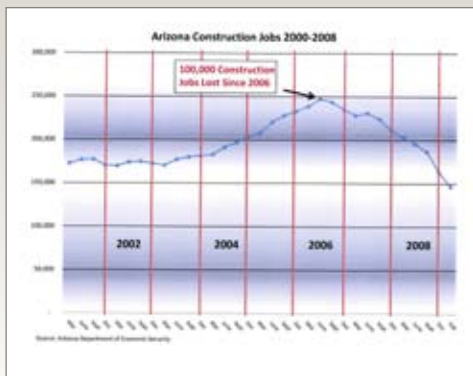
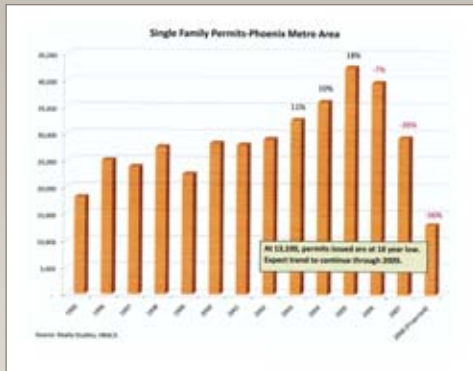
Queen Creek’s Horseshoe Equestrian Park is included in their capital improvement plan as a total cost of \$10.4M, not \$16.4M (that number includes the total estimated debt service for the project, which is not included in the development fee calculations). As stated in Queen Creek’s approved development fee study, the cost per home is \$554, not \$1,888. As required by Arizona law, the fees are calculated based on the benefit received by new development. Existing residents will pay 22% (rather than 10%) of the cost and the remaining 78% will be paid by new development. Considering that this facility is designed to serve the community through build-out, these numbers accurately reflect that Queen Creek is at about 22% of its estimated build-out population, and 78% of eventual residents have yet to move to Queen Creek.

FACT

MYTH

Reductions in housing permits negatively impact Arizona's economy.

-HBACA 'Arizona Housing Recovery Plan' Presentation pages 2 & 4



HBACA's graphs beautifully depict the "bubble" created by the housing market and its unsupported inflationary impact on Arizona's economy. Housing permits, construction jobs and new home prices remained fairly constant from 2000-2003 (and long before that, if the graphs are extended beyond 2000). This bubble was clearly unsustainable and has devastated the state's economy, as well as state and local government budgets, and the livelihood of many citizens. Building additional houses does not improve the economy; it only exacerbates the current excess supply problem.

FACT

MYTH

Goodyear "Adopted a fee in November that included \$22 Million for a 100 acre community park and an aquatic center. The city acknowledges that existing residents will use the new facilities, but plans on having new growth pay for over half while the population increase will be at 36%."

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The City of Goodyear's impact fee study projects that the population increase will be 52%, not 36%, over the next 5 years. As such, new growth is slated to pay its fair share, or just over half the cost of the new facilities.

FACT

MYTH

“The ‘impact fee tax’ on a new home has doubled in 5 years.”

-HBACA 'Arizona Housing Recovery Plan' Presentation page 12

Conclusions

- Permits are at their lowest levels in 18 years (13,000)
- Median home values are back to 2004 prices (approx \$200,000)
- Impact fees since Dec. 2003 are up 139%, far outpacing prices and construction costs
- The “impact fee tax” on a new home has doubled in 5 years (4.58% to 9.32%)
- Impact fees are going up again in 2009!
- Regulatory costs are jeopardizing both the short term and long term viability of the housing industry

Impact fees are not a tax, they are a fee. Taxes are paid by all constituents to fund the operations of government. Fees are charged to specific constituents to produce a specific benefit. Impact fees are paid by each developer (and ultimately the homebuyer, in most cases) to help cover the infrastructure costs created by that development. This fee must be demonstrably linked to the cost of the benefit provided- in this case, the infrastructure.

Many cities’ impact fees were artificially low until the housing bubble created such an infrastructure demand that local residents refused to further subsidize developers. As a result, cities began assessing fees that more accurately reflected developments’ burden on a community. This, along with rising land and construction costs, resulted in impact fee increases in many cities and towns.

FACT

MYTH

"In 2007 Chandler adopted a \$6,500 per unit parks impact fee to build 342 acres of parkland at a cost of \$140 Million, or \$410,000 an acre. Even though these parks will be used by the whole community and will increase the acres of parkland per person by 32%, new residents will be paying for 82% of the new parks."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 11

Why are Impact Fees So High?

- **Chandler**
 - In 2007 Chandler adopted a \$6500 per unit parks impact fee to build 342 acres of parkland at a cost of \$140 Million, or \$410,000 an acre. Even though these parks will be used by the whole community and will increase the acres of parkland per person by 32%, new residents will be paying for 82% of the new parks.
 - Some of the Projects in the \$140 Million plan include:
 - \$30 Million for the Mesquite Groves Park, a 30 acre park complete with a state of the art aquatic center.
 - \$7 Million for Oasis Park, a 33 acre wetland park designed to be used as an environmental education center.
- **Buckeye**
 - Has been charging an impact fee since 2005 to build a \$40 million town lake. They expect by 2013 to have secured only 46% of the necessary revenues, and their CIP does not indicate from where or when they will receive the remaining necessary funds. In other words, a person who paid a "town lake" fee in 2005 will likely not receive the service for at least 10 years.

In 2007, the City of Chandler adopted two parks fee categories (Community Parks and Neighborhood Parks) that totaled \$6,500 per unit to build 280 acres (rather than 342 acres) at a cost of \$87M (rather than \$140M), with land acquisition making up the largest portion of the cost. In addition, HBACA fails to note that the city revisited these fees in 2008 and reduced them by 29% to \$4,708 per unit.

FACT

MYTH

A drop in median home values to 2004 levels indicates a problem.

-HBACA 'Arizona Housing Recovery Plan' Presentation page 5



A well recognized measure of housing value is the price to rent ratio- a comparison of the cost of ownership to the cost of renting. This ratio's 15 year national average was 16.9 while as of June 2007 the national ratio was 22.8. This would suggest that housing prices need to fall 25.9% to reestablish the historical balance of housing prices and rents. In the Phoenix area, this bubble was even more exaggerated. The 15 year ratio average for Phoenix is 14, while as of June 2007 the ratio was a soaring 21.5. A 34.6% drop in housing prices is needed to return the Phoenix market to a sustainable level.

FACT

MYTH

Regulatory costs jeopardize the housing industry's short and long term viability.

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- Impact fees are going up again in 2009!
- Regulatory costs are jeopardizing both the short term and long term viability of the housing industry

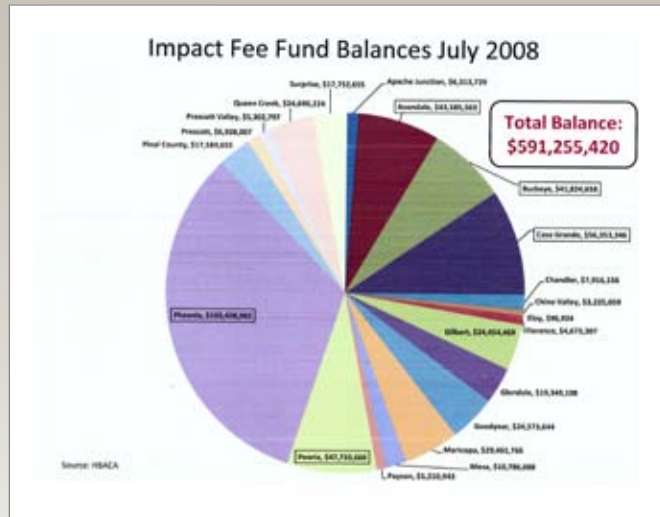
The decrease in housing permits that we see today has little to do with 'regulatory costs' and everything to do with the credit crunch and the economic slowdown-supply and demand. It is very interesting to compare the bubble in the housing industry and the increase in impact fees over the same period of time. This claim suggests that as 'regulatory costs' increase, housing permits would decrease- however, the opposite is true. As cities and towns raised impact fees to keep up with infrastructure demands created by new development, housing permits increased by 40% over 3 years. Impact fees helped this growth occur by providing a mechanism for infrastructure to be built quickly and for the cost to be shared amongst many developers. These fees also provide a way for the city to credit back developers that accelerate infrastructure projects. Without them, such credits will cease to be paid.

FACT

MYTH

“Cities have healthy balances in fee accounts.”

-HBACA 'Arizona Housing Recovery Plan' Presentation page 15



*Examples:
select to view details*

FACT