League of Arizona Cities and Towns

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

FACT

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.

MYTH

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

-HBACA 'Arizona Housing Recovery Plan' Presentation page 9

FACT

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.

MYTH

Impact fees have outpaced construction costs by 93%.

-HBACA 'Arizona Housing Recovery Plan' Presentation page 7

FACT

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.

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

FACT

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.

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

FACT

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.

MYTH

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

-HBACA 'Arizona Housing Recovery Plan' Presentation page 9

FACT

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.

MYTH

"There is no 'growth' and little need for new infrastructure."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 16

FACT

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.

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."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 10

FACT

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.

MYTH

Reductions in housing permits negatively impact Arizona's economy.

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

FACT

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.

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%."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 10

FACT

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.

MYTH

"The 'impact fee tax' on a new home has doubled in 5 years."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 12

FACT

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.

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

FACT

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.

MYTH

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

-HBACA 'Arizona Housing Recovery Plan' Presentation page 5

FACT

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.

MYTH

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

-HBACA 'Arizona Housing Recovery Plan' Presentation page 12

FACT

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.

MYTH

"Cities have healthy balances in fee accounts."

-HBACA 'Arizona Housing Recovery Plan' Presentation page 15

FACT

Some cities and towns do carry balances in their impact fee fund accounts. However, a fund balance does not indicate 'surplus' monies- in most cases, these funds are dedicated to projects slated to get underway in the next fiscal year, are dedicated to later phases of current projects, or are dedicated to large regional projects that require significant funds to be completed. With many of these monies dedicated to projects underway, these fund balances will drop quickly and become negative in many cities. A negative fund balance indicates the amount of dollars from existing taxpayers that will fund infrastructure for new development.

Examples

City of Avondale

The City of Avondale's fund balance of $43,585,563 is from June 30, 2008. Like the other examples, it is a snap shot in time and does not explain that the City has been collecting development fees and depositing them into the fund for encumbered contractual costs. For example, Avondale is expanding its Waste Water Treatment facility. This year the City has spent down the Fund to approximately $13 million to date to pay for the improvements and the expansion of the facility. Avondale expects the balance will be approximately $8,585,563 by the end of June 09 ($35M less than the June '08 balance).

City of Casa Grande

The City of Casa Grande has $100M in capital projects underway (either design or actual construction) that will dramatically reduce their fund balance over the next year. These projects include doubling the size of the wastewater treatment plant, major sewer collector line construction, a new public safety (police) facility, an additional fire station and a new animal control facility.

City of Chandler

The City of Chandler's overall fund balance of $7,916,156 is from June 30, 2008. It is the sum of all eleven different fee categories which are maintained in separate funds, as required by state law. If averaged, this equals $719,000 per fund. On an actual cash basis, three of the eleven funds had a deficit rather than surplus.

Town of Fountain Hills

The Town of Fountain Hills (not included in the HBACA graph) has a $2.1M fund balance from December of 2008. As with the other examples, this is a cumulative total over many fund categories though these funds cannot be combined to fund a project. The Town's police fund balance is $187,543 and its fire fund balance is $36,724.

Town of Gilbert

The Town of Gilbert's listed fund balance of $24M is from 6/30/08. The balance is expected to be $11M by July 1, 2009 and is expected to be negative $19M by July 1, 2010. Their largest balance is for water resources and will be spent down over the next 3 years.

City of Goodyear

The City of Goodyear's fund balance of $24.5M consists of mostly of funds scheduled to be spent in FY 2009-'10 for projects such as the City Center, Library and Park. It estimates that impact fee fund balances for next year will be around $7.9M.

City of Peoria

The City of Peoria's listed balance ($47.7 million) is from 6/30/08. Of this balance, approximately $38 million is budgeted to be expended on eligible projects in this fiscal year, with approximately $21 million spent to date. This leaves $9.7M remaining across all fee categories going into FY 2009-'10.

City of Phoenix

As of February 28, 2009, the City of Phoenix's fund balance was $190.6 million. The City's fund balances paint a far different picture when broken down by type of service and area, as required by state law. The Estrella wastewater fund (one of 15 different water and wastewater accounts) has a $9M balance but $50M of needed infrastructure improvements. The city's five year capital improvement program totals $6.7 billion, with impact fees providing less than 3% of the total funding for estimated capital expenditures for fiscal years '08-'09 through '12-'13.

Town of Queen Creek

Again, the Town of Queen Creek's stated fund balance of $24.7M is from June 2008. Their current total impact fee fund balance is $8.6M. The Town expended $43,986,747 on infrastructure for new development, while the total development fees collected in FY08 were $9,661,054. The Town has debt financed several projects and pledged development fees to pay for a portion of those projects. Due to the slow down in growth, there are several areas where the Town is using General Fund revenues to subsidize the debt payments because development fee revenue is not enough to cover payments.

City of Scottsdale

The City of Scottsdale (not included in the HBACA graph) has negative fund balances for all of its fee categories (water, wastewater and water resources).

City of Tempe

The City of Tempe (not included in HBACA's chart) had a total fund balance of $8.4M as of June 30, 2008. Of the $7.3 million balance in water/sewer development fees as of June 2008, $5.6 million was authorized for specific projects through fiscal year 20008-09, leaving $1.7 million in water/sewer development fees funding available for projects. Council has given preliminary approval for the fiscal year 2009-10 CIP budget, which will obligate the remaining $1.7 million plus any development fees collected in the first 7-8 months of the current fiscal year. For the $1.1 million balance in residential development fees as of June 2008, Council has given preliminary approval to use these funds plus any fees collected in the first 7-8 months of the current fiscal year for park renovation projects included in the FY 09-10 CIP budget.