Development Impact Fees

Theory

- Development impact fees are based on the theory that new development should pay for the increase in infrastructure needed for a City/Town to maintain its current level of service. Current residents should not pay for all the services they would not need if new growth were to not occur.

Simple Example

- A city of 10,000 people has one police station and one fire station. They are sized to service the current population.
- The City expects to double in size in the next 10 years due to economic events in the area
- To maintain the City’s current service level, one addition police station and one additional fire station will be needed to service the new 10,000 people.
- New homes are charged a development impact fee to pay for the new police and fire stations.

History

- City adopted Development Fees in March 2006
- Developers asked for a 25% reduction for Police, Fire and Infrastructure fees, with the reduction being made up by a 0.7% extra Construction Transaction Tax levy (2.45% construction, 1.75% retail)
- Council approved a moratorium on fees for the period of 7/1/2017 thru 6/30/2020. Current fees, with the 25% offset, go back into effect on 7/1/2020
- Original fees:

Classification	100% Fees	w/ offset
Parks	$ 1,804	$ 1,804
Library	$ 553	$ 553
Police	$ 615	$ 461
Fire	$ 529	$ 396
Infrastructure	$ 1,853	$ 1,390
Total Single Family	$ 5,354	$ 4,604

Environmental changes since adoption

- City tax rate increased from 1.75% to 1.95%, so offset differential has decreased from 0.7% to 0.5%
- Average new house price has increased from $225,000 to $325,000
- Tax code has changed, so repairs and remodels are no longer subject to Construction Transaction Privilege Tax. Now materials are taxable under the retail classification and labor is not taxable
- The exact estimated differential tax amount must be offset against the fee at a per house level, aggregate estimates no longer allowed.

Recommendations

- Remove 25% offset and reduce Construction Privilege Taxes to 1.95%
- Proposed new fee schedule, with comparison to original fees, original fees adjusted by construction cost index and current fees.

Classification	2006	2006 in 2019 dollars	Current (100%)	Proposed
Parks	$ 1,804	$ 2,434	$ 624	$ 3,353
Library	$ 553	$ 746	$ -	$ -
Police	$ 615	$ 830	$ 479	$ 529
Fire	$ 529	$ 714	$ 351	$ 745
Infrastructure	$ 1,853	$ 2,500	$ 2,641	$ 746
Total Single Family	$ 5,354	$ 7,223	$ 4,095	$ 5,373

Fees to pay for

- The fees were calculated to cover the following items over the next 10 years:
    - Parks – Repay $3,100,000 of the fund deficit
    - Police – Repay the $917,421 fund deficit
    - Fire – Repay the $1,334,188 fund deficit
    - Infrastructure – Construct ½ lane mile of arterial or collector streets
- Negative fund balances are due to construction of development fee projects listed in the 2006 study. Current construction is buying-into the capacity of the facilities since actual housing construction was below development fee estimates. The funds would not have deficits if actual construction was close to the study’s estimates.