What’s Happened to Impact Fees During the Recession

- Deferral
- Reduction
- Pause Collection
- Program Repealed
Are Impact Fees Dead?

Mark Twain

The report of my illness grew out of his illness, the report of my death was an exaggeration.
Significant income is still accrued through impact fee assessment, but with continued slow development and resistance traditional assessment should be reexamined.
In Fact, They’re Coming Back

ECONOMIC DEVELOPMENT

Impact fees pursued as building rebounds

Developers say costs will stifle recovery, but governments see need.

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Small signs of life in metro Atlanta’s real estate and construction industries have local governments asking whether they should charge developers more to build homes, commercial properties and offices.

Development impact fees, which are levied on developers to help pay for parks, roads, police facilities and fire stations, could increase by thousands of dollars in Atlanta under legislation set to be considered by the City Council.

If Atlanta raises its impact fees, building costs for a single-family home like this one in northwest Atlanta’s Dupont Commons, would increase. Cherokee County’s went up last week, while Cobb and Gwinnett don’t charge them at all. Brandy Nance/BRANDYNAONE.COM

<table>
<thead>
<tr>
<th>Category</th>
<th>Current fee</th>
<th>Proposed fee</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family home</td>
<td>$1,544</td>
<td>$3,633</td>
<td>135%</td>
</tr>
<tr>
<td>Multifamily unit*</td>
<td>$857</td>
<td>$2,293</td>
<td>168%</td>
</tr>
<tr>
<td>Commercial development**</td>
<td>$2,273</td>
<td>$4,039</td>
<td>78%</td>
</tr>
</tbody>
</table>

*Fee based on dwelling in a multifamily unit
**Fee based on 1,000 square feet of commercial space

IMPACT FEES PROPOSAL

Atlanta has scheduled a public hearing for Aug. 28 to consider increasing development impact fees, which have remained the same for nearly two decades. The fees help pay for roads, parks and public safety. The proposed increases are based on a 2010 study by Duncan Associates, an outside consultant. They would be phased in over five years.
What Has the Recession Taught Us?

1. Recessions are inevitable
2. During Recessions, there can be little to no growth
3. Time and length of recessions may vary
4. Although recession recovery is usually measured by employment rate, current recovery is hindered by housing over stock
5. Overbuilding > Lower Home Values > Decreased Government Income from property tax > Lay Offs for Government Employees
Evaluate Growth Perception with a Grain of Salt (Or Two)

- Growth Management Programs are based on assumptions about future growth
- Capital Improvement Programming is likewise based on future growth assumptions
- Unfortunately, during recessions, there can be little or no growth at all.
Potential builders would have to show that their project will not result in “overbuilding”
Avoid Premature Infrastructure Bonding

- When governments and developers fail to anticipate recessions, local governments can be left holding unneeded infrastructure and bonds designed to be repaid with growth stimulated revenue that does not exist anymore.

- Bonding of projected impact fee revenues must take into account possible downturns in the economy even in the more conservative estimates delay infrastructure improvement.
Stimulus funds buffered effects of decreased revenue from property value, but many are expiring.

Housing over stock and lower assessed values overall with increased foreclosures resulted in significantly lower revenue streams for municipal governments.

With fewer developments, impact fees can’t make up gaps.
Other Sources of Revenue

- Service Charges/Tariffs
- Fines
- Equitable Share
- Federal Grants
- Private/Public partnerships
- TADs
- Municipal Investments
In 2011: “In Dekalb County, Georgia, a 20% decline in taxable property values since 2008 caused S&P in March to downgrade the county’s credit rating five levels to BBB on fear that it could be facing a default”

Dekalb had 3rd highest foreclosures in the state, but felt more acutely because 65% of parcels are residential

Home values decreased an average of 13%

In July 2011, Dekalb passed a 26% property-tax increase and slashed services
Marketability

- Public sector is forced to pay cost of “excessive exuberance” when projects without substantial marketability are developed
- During the heyday of development, projects were approved regardless of structural design, unit price, or aesthetic
- To prevent this result, applicants for building permits should be required to submit not only impact studies, but market studies as well
Residential Market in Atlanta

Housing values for metro Atlanta and comparable markets

Source: Case Shiller Price Indices
Impact Fees Can Evolve

Overbuilding is an economic mistake that impacts far more than builders who are unable to sell homes or banks that financed projects.

Golden v. Rampao established that development permission can be linked to availability of infrastructure.

This opens the possibility of impact fees being expanded to further address “soft” impacts of new development.

Interference with property right concerns/free market can be addressed by looking to the protection created for the value of homes and businesses of surrounding properties.
Questions?