IMPACT FEE BASICS

Definition: A local government tax on new development to fund new or expanded public infrastructure that is "off-site" (not on, or immediately adjacent to, the development project.)

- **First, know that new development already pays for all "on-site" and adjacent public infrastructure,** such as sidewalks, streets, water & sewer lines, stormwater ponds, street lights, traffic lights and turn lanes. Many developments also provide recreation facilities that relieve burdens on public facilities.

- **Impact "Fees" are really "taxes".**
    - "Fees" cover *administrative* costs; capital improvements are covered by taxes.
    - Impact Fees tax only one small segment of the community: consumers of new construction.
    - They are not bondable: the cyclical nature of construction makes them an unreliable revenue source.
    - They are an expensive tax: mortgage rates are typically higher than municipal bond rates.

- Contrary to popular myth, **"newcomers" do not pay the fee.** A Guilford County study suggests that **existing** county residents and businesses purchase 68% of new homes, 65% of new apartments, and 84% of new office space. So, for instance, even a long-time county resident who is downsizing into a new retirement villa would pay the Impact Fee.

- Also contrary to popular myth, **developers do not "pay" the Impact Fee, the consumer does.** The developer may write the check first, but like any other business, all production costs are added to the final sale price of the product.

- **A $1,000 Impact Fee adds about $1,300 to the sales price of a home,** and higher prices increase costs based on a percentage of the sale price, such as down payment requirements and closing costs (e.g. sales commissions, points, insurance, property taxes, and mortgage amounts); and total interest paid over the life of a mortgage.

- **Impact Fees are a significant deterrent to affordable and workforce housing.**
    - Because they cannot legally be scaled based on house size or price, they are a regressive tax.
    - Legally, **they cannot be used to encourage or discourage certain types of development by charging them on only some development styles (such as high-end homes) but not others (such as affordable housing).** If a government wants to exempt any particular group from paying the fee, it must pay the fees from the General Fund into the Impact Fee Fund.
    - And because Impact Fees are hidden in the higher sale price, existing-home prices eventually increase to mirror higher new-home prices as the market seeks to equalize prices.
    - **For every $1000 added to a home price, about 250 Guilford County families are priced out of buying.**

- **Impact Fees can hurt economic development efforts and can actually exacerbate "sprawl"**, as rising real estate prices send consumers to the next jurisdiction for lower prices where no impact fees are charged.

- **Impact Fees will never lower the need for property taxes** because they never amount to enough to pay for all new capital facilities, and they can't be bonded. But they *can* confuse voters and hurt enthusiasm for bond referenda.

- **Governments must fund the construction, operation, and maintenance of existing and planned facilities to the same level-of-service that new development is being asked to fund through Impact Fees.**
    - Impact Fees cannot be used to address existing deficiencies, and they cannot be used to rehabilitate, retrofit, replace, operate, or maintain existing capital facilities.
    - They must be spent on infrastructure that will benefit the development that paid them.
    - They must be held in special funds, and either spent in a timely manner or refunded.
    - Complicated cost and credit methodologies are required to ensure fee amounts are defensible.

- Local government Impact Fees/taxes **require statutory authority** from the North Carolina State Legislature.

Questions? Call us at 336-855-1453