



Impact Fees

PRIMER

INTRODUCTION TO IMPACT FEES

Impact fees are one-time charges imposed by local government on developers to pay a balanced share of the infrastructure costs to the community. Costs often covered include roads, utilities and public facilities such as schools, parks, police and fire stations. The goal is to have each new development pay the pro-rata share of the costs of off-site capital facilities needed to serve the new development—to help growth pay for itself and reduce the financial burden on the community. The fees may be set aside for construction or expansion of facilities required by development. The fees cannot be used to recover costs for existing infrastructure shortages nor fund operations or maintenance of capital assets.

AUTHORITY

Impact fees are controlled by state laws or local ordinances. The use of impact fees in the U.S. has grown with widespread use in the Sun Belt and other parts of the country. Twenty-nine states have passed laws governing their use. Impact fees may only be spent on purposes allowed under state law. Usually, there is a time limit for when funds must be spent.

FEE METHODOLOGY

Various methodologies are used to determine impact fees. The fee calculation considers growth forecasts, level of service, capital costs and cost to build a unit of capacity. New development has a gradual impact on existing water and sewage capacity, school facilities and roads. Separate impact fees may be imposed based on impact to the area. Impact fees are typically distinguished by land-use type, with residential fees varying between single-family and multifamily units and sometimes by square footage. Nonresidential developments can be subject to impact fees, such as water, sewer and transportation, but typically not schools. Nonresidential impact fees are usually based on square footage and the amount of impact (e.g., a transportation impact fee would be higher on a high-volume restaurant versus a similarly sized office space) or equivalent dwelling unit and meter size for utilities.

A separate agreement should be considered to make sure the developer and municipality agree to the terms of the credits or reimbursements (e.g., when the developer is eligible and how much will be granted).

USE OF IMPACT FEES IN ECONOMIC DEVELOPMENT AND CAPITAL PLANNING

Impact fees can aid economic development and growth. By having a source of funding for the capital requirements related to growth, it lessens the impact on taxpayers and resources and helps pave the way for community acceptance. For growing municipalities, impact fees are not a one-off project funding source but can be a major part of the capital funding plan. Impact fees can also be a source of funding for reimbursements or credits to developers where, through negotiations, a developer provides infrastructure that would otherwise be funded by public resources. In recent years, nontraditional purposes of impact fees have begun to emerge, including mitigation fees to offset the negative social effects of development and to fund programs to address them, such as affordable housing and the environment. In general, public finance officers should work with legal staff to make sure impact fees comply with state laws.



QUESTIONS FINANCE OFFICERS SHOULD ASK ABOUT IMPACT FEES

As with most development issues, the decision to impose impact fees can be controversial. Following are some issues and questions finance officers should ask. How they apply and answers will vary by local context.

- » Are all offsite capital costs attributed to development in a certain area accurately calculated?
- » Has the finance office provided enough input and support in creating and revising the impact fee policy, including how costs and fees are calculated and how much of the costs should/can be borne by the developer versus the community at large?
- » Are the assumptions underlying the impact fee calculations up to date, including growth projections and market conditions?
- » Development and resulting impact fees can be unstable and have a major effect on budget resources. Are budgeted impact fee revenues modestly forecasted?
- » Are state laws that impose impact fees, their allowable uses, limits and time frames understood and followed? Do we need legal counsel?
- » Are there negative impacts to current or proposed fee levels, such as shifting developments to other jurisdictions?
- » Are projects funded by grants, property taxes, special assessments or other sources excluded from the impact fee studies so as not to “double dip?”
- » If impact fee credits or reimbursements are granted to developers, is there a credit or reimbursement policy?
- » Finance officers should be involved in the impact fee process early on and through all phases of an impact fee study, including:
 - Internal and public decisions to impose or increase fees.
 - Defining policy cost categories, property types to include and locations.
 - Impact fee studies, determination of capital costs and rate calculations.
 - Coordination with capital budget and master plan.
 - Negotiating with developers (e.g., credits for developer infrastructure contributions).
 - Performing full cost/benefit of new developments (e.g., life cycle maintenance, operating/service costs).
 - Interfacing with legal counsel.

OUTSIDE RESOURCES

- » Duncan Associate’s: <http://www.impactfees.com/>
- » Palm Beach County, Florida: <http://discover.pbcgov.org/pzb/administration/Pages/Impact-Fees.aspx>
- » City of Orlando, Florida. Economic Development: <http://www.cityoforlando.net/economic/impact-fees/>
- » National Association of Home Builders: *Impact Fee Handbook*, published in 2008, updated in 2016

About GFOA

The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA’s mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.