

# The Economic Impact of Impact Fees

Prepared for the City of Destin

By

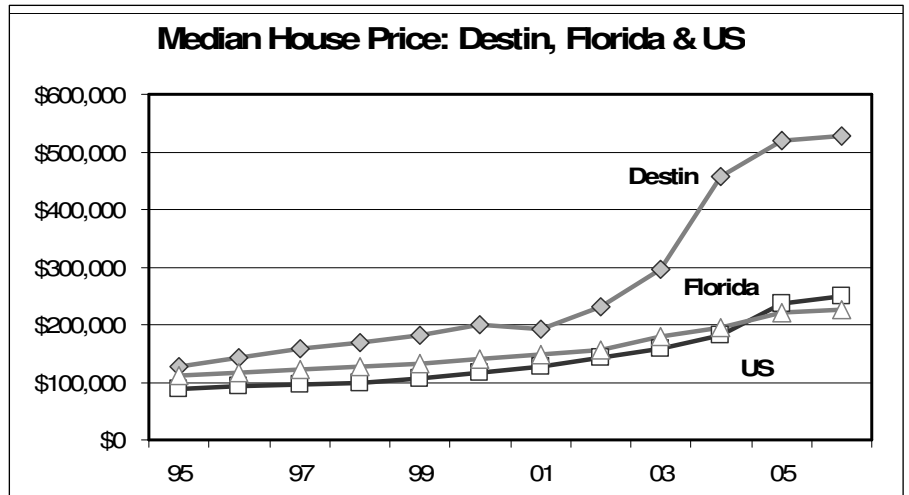
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# 1. Background

The City of Destin is considering increasing its existing development impact fees and adding a workforce housing mitigating program. All of these actions will increase the cost of construction in Destin. It is natural to ask, What will be the potential economic consequences of these actions? This paper will try to provide insight into this important question.

There are two thrusts of the concern with respect to impact fees. The first is with respect to potential effects on residential prices, especially as they might relate to workforce housing, and the second is with respect to the competitiveness of Destin as locations for businesses. Destin’s residential prices are high and have been undergoing rapid increases. So Destin begins with expensive housing.



## Impact Fees

Impact fees are one-time payments assessed on new development, commonly at the time of issuing a building permit, that recoup a portion of the costs to the local government of providing infrastructure to that development. The best estimate is that some 200 local governments in Florida, cities and counties, impose some impact fees. For those imposing impact fees, the frequency of fee usage is:

IMPACT FEE TYPE	USE
Road & Transportation	96.9%
Fire	81.3%
Water	81.3%
Sewer	81.3%
Parks	71.9%
Schools	71.9%
Law Enforcement & Jails	53.1%
Library	43.8%
Public Bldg	34.4%
EMS	34.4%
Solid Waste	12.5%
Other	3.1%

The average amounts of impact fees charged as of May 2007 are:

**Florida Average Impact Fees by Type  
Single Family Home 2007**

Transportation	\$3,535
Water	\$1,486
Sewer	\$1,971
Parks	\$960
Libraries	\$236
Fire	\$329
Police	\$298
Gen Government	\$537
Schools	\$4,603
Totals	\$13,955

SOURCE: Duncan Associates, 2007.

Impact fees arose as an issue in Florida in the 1960's. This was a period of rapid growth and high inflation. During the 1950's the long term trend of 300,000 persons per year coming into Florida began, a rate that continues today. While population grew so also did the costs of providing services. Significant inflation began in the 1960's and escalated to double digits in the 70's and 80's. Coping with rapid growth and inflation set off a taxpayer's revolt, first in California and eventually nationwide. Non-taxation means of finance were demanded by the public in an effort to stem escalating tax burdens. User charges, and their cousin impact fees, were responses to this demand.

Proponents of impact fees point out that impact fees implement "growth paying for growth." Opponents argue that impact fees raise the cost of construction and thus place a burden on buyers of new homes and the occupants of new businesses. While this debate has been going on for over 30 years, every opportunity to replace impact fees with some form of elastic and/or progressive source of revenue has been declined. While Floridians argue about the pros and cons of impact fees, they do not move toward replacing them with a more desirable source of revenue. In fact, most actions by the state enhance the desirability of impact fees to local governments by making them preferable to taxation alternatives. The present action by the Legislature with respect to property taxation is a case in point.

Impact fees evolved in Florida through the courts, ultimately being recognized as being within city and county home rule authority. The body of law that came out of this evolution clearly established that

- Impact Fees are permissible;
- Impact fees cannot exceed a pro rata share of the cost of expanding facilities required to serve new development;

- Impact fees cannot be imposed or structured to benefit or provide a “wind-fall” to existing residents;
- Impact fees must satisfy a dual rational nexus test between the need for facility improvements and new development; and
- Local governments are required to show that developments paying impact fees will receive benefit from the expenditure of those fees.

Impact fees began in Florida as minor supplements to local government capital improvement funds. The amounts today are much greater than those of initial efforts so the evolution of impact fees has been both in the usage and scope of impact fees and also in the amount of those fees.

Impact fees are an available option to all cities and counties in Florida. However, no jurisdiction is required to enact impact fees. Florida law does require that local governments plan for and fund capital improvement programs that meet the needs of communities as they grow.<sup>1</sup> The decision with respect to the means of paying for capital improvements is left to each community. Some choose to pay for the costs totally by taxation while others elect to use a mix of taxes and fees, including impact fees.

The total number of Florida jurisdictions requiring impact fees is not known. One of the problems in counting usage is the various names that impact fees have. They are called connection changes, tap-in fees, systems charges and, of course, impact fees. The number 200 is an estimate based the reporting of impact fee and impact fee like revenues by cities and counties.<sup>2</sup> The best estimate of impact fee receipts in Florida is \$1 to \$1.5 billion annually, but this could be a significant understatement.<sup>3</sup> The 2003 Census of Governments reports that local government capital outlay in Florida amounted to \$5.2 billion, suggesting that impact fees fund as much as 30% of all local capital outlay. This also shows that 70% of capital funding is from sources other than impact fees. Nevertheless, impact fees have arisen to a point that they are a substantial component of local government capital improvement funding.

### **Impact Fees in Destin**

Destin presently has impact fees for transportation, parks, libraries and police. It might be helpful to start this discussion with the amounts of impact fees. The convention has developed to compare impact fees for single family homes. The comparison of Destin’s existing impact fees to Florida averages shows:

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<sup>1</sup> Section 163.3177, Florida Statutes.

<sup>2</sup> See Florida Impact Fee Review Task Force, “Final Report & Recommendations,” February 1, 2006, pages 2 – 4.

<sup>3</sup> Task Force, *supra.*, page 3.

**Destin and Florida Average Impact Fees  
Single Family Home**

<b>Fee Type</b>	<b>Destin</b>	<b>Florida Average</b>	<b>% of Average</b>
Transportation	\$472	\$3,535	13.4%
Parks	\$160	\$960	16.7%
Library	\$108	\$236	45.8%
Police	\$21	\$289	7.3%
	\$761 <sup>4</sup>	\$5,020	15.2%

Destin’s existing impact fees are substantially below that typical in Florida. However, if the City of Destin were to enact the impact fee increases and if the construction of a single family home was subject to workforce housing mitigation, the amounts would rise to above Florida averages:

**Proposed Destin and Florida Average Impact Fees  
Single Family Home**

<b>Fee Type</b>	<b>Destin</b>	<b>Florida Average</b>	<b>% of Average</b>
Transportation	\$7,430	\$3,535	210.2%
Parks	\$2,197	\$960	228.9%
Library	\$389	\$236	164.8%
Police	\$37	\$289	12.8%
Workforce Housing *	\$420	\$0	
<b>TOTAL</b>	<b>\$10,473</b>	<b>\$5,020</b>	<b>208.6%</b>

\* 2,000 FT<sup>2</sup> home.

These numbers can be expressed in terms of burden – as a percentage of the average price. Destin’s existing impact fees amount to 0.14% of the resale price of an existing single family home. This may be contrasted with 2.02% for the state as a whole. If Destin were to enact all proposals, the amount would rise to \$10,473 for the single family home and 2% of the average resale price.

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<sup>4</sup> There are many other impact fees that are charged by Florida cities and counties. The fees shown here are only those categories charged by the City of Destin so that there is comparability of the data.

**Destin and Florida Impact Fees as Percent of Housing Prices**

	<b>Destin</b>	<b>Florida</b>
<b>Existing</b>		
SF Impact Fees	\$761	\$5,020
SF Resale Price	\$526,803	\$248,400
% of Price	0.14%	2.02%
<b>Proposed</b>		
SF Impact Fees	\$10,473	\$5,020
SF Resale Price	\$526,803	\$248,400
% of Price	1.99%	2.02%
SOURCE: Florida Board of Realtors and City of Destin, "Attainable Workforce Housing Study," May 2007.		

Since much of the concern about impact fees is with respect to more modestly priced dwellings, it might be helpful to have a Destin comparison for a modest unit:

**Proposed Destin Fees for a Modest Home  
Flat Rate Option**

<b>Proposed</b>	
SF Impact Fees *	\$10,248
SF Resale Price	\$248,400
% of Price	4.13%

\* 1,000 FT<sup>2</sup> home.

Here the amount declines to \$10,248, because workforce mitigation is on a per square foot basis, but the percentage rises to 4.13% of median price. If Destin were to implement a variable rate option, the amount of impact fees would go down with unit size and also as a percent of price.

**Proposed Destin Fees for a Modest Home  
Variable Rate Option**

<b>Proposed</b>	
SF Impact Fees *	\$9,123
SF Resale Price	\$248,400
% of Price	3.67%

\* 1,000 FT<sup>2</sup> home.

Impact fees and workforce housing mitigation will also be imposed on non-residential, development. The existing non-residential impact fees, like those for residential, are substantially below state norms.

**Destin and Florida Average Impact Fees  
Non-Residential per 1,000 FT<sup>2</sup>**

Fee Type	Destin	Florida Average	% of Average
Industrial	\$596	\$2,377	25.1%
Retail	\$2,142	\$6,993	30.6%
Office	\$822	\$4,060	20.2%
Hotel Room	\$790	na	

The proposed non-residential fees are above state norms.

**Proposed Destin and Florida Average Impact Fees  
Non-Residential per 1,000 FT<sup>2</sup>**

Fee Type	Destin	Florida Average	% of Average
Industrial	\$4,877	\$2,377	205.2%
Retail	\$40,224	\$6,993	575.2%
Office	\$19,141	\$4,060	471.5%
Hotel Room	\$16,953	na	

The proposed workforce housing mitigation program will be applied to new non-residential developments. The proposed increased impact fees plus the proposed workforce housing mitigation amounts are:

**Proposed Destin and Florida Average Impact Fees Plus Mitigation  
Non-Residential per 1,000 FT<sup>2</sup>**

Fee Type	Destin	Florida Average	% of Average
<b>Industrial</b>			
Impact Fees	\$4,877	\$2,377	
Housing Mitigation	\$0	\$0	
Total	\$4,877	\$2,377	205.2%
<b>Retail</b>			
Impact Fees	\$9,464	\$6,993	
Housing Mitigation	\$30,760	\$0	
Total	\$40,224	\$6,993	575.2%
<b>Office</b>			
Impact Fees	\$7,721	\$4,060	
Housing Mitigation	\$11,420	\$0	
Total	\$19,141	\$4,060	471.5%
<b>Hotel</b>			
Impact Fees	\$6,593	na	
Housing Mitigation	\$14,247	\$0	
Total	\$20,840	na	

When attainable workforce housing mitigation is added to proposed increased impact fees the resulting amounts are substantially above typical impact fees in Flor-

ida. Because impact fee data are not kept for tourist accommodations, it is not possible to compare Destin's fees with Florida norms for such uses.

One of the items being considered is a workforce housing mitigation fee. This is a new subject for Florida, but one long in use in California. Four Florida communities have now completed workforce housing studies, although none has adopted. The following table summarizes the results from the four studies.

**Proposed Workforce Housing Mitigation Costs**

Jurisdiction	2,000 FT <sup>2</sup> Residence	Non-Residential per 1,000 FT <sup>2</sup>			
		Retail	Office	Industrial	Tourist
Destin	\$420	\$30,760	\$11,420	\$0	\$14,247
Lee County	\$1,110	\$28,180	\$10,859	\$18,132	\$36,633
Collier County	\$1,639	\$48,860	\$36,730	\$35,600	\$43,460
Islamorada	\$3,373	\$53,817	\$25,101	\$24,906	\$74,468

Like Destin's, all of the above costs are at 100%. In each of the jurisdictions the workforce housing cost is a function of local housing costs and prevailing wages by industry, both of which vary among these locations. These comparative data are included in order to provide some context to the data for Destin.

## 2. The Economics of Construction and Impact Fees

A development impact fee is a cost of construction, fundamentally no different than any other cost. As such, it is factored into costs of production together with land, labor, materials and interest. When the cost of anything rises that rise will reverberate through the marketplace as the market reacts to the changed conditions. To consider the potential economic impact of impact fees, it would be helpful to start with a brief overview of the supply of and demand for new construction.

### a. Supply and Demand for New Construction

New construction, no matter if it is residential, commercial or hotel, is a good, sharing the same characteristics with most goods produced. There is demand for new construction and supply of new construction, with the interplay of the two setting prices. The demand for new construction responds to the Law of Demand – that the quantity taken is inversely related to the price asked – and to the Law of Supply – that the quantity supplied is directly related to the price offered. Figure 1 depicts the

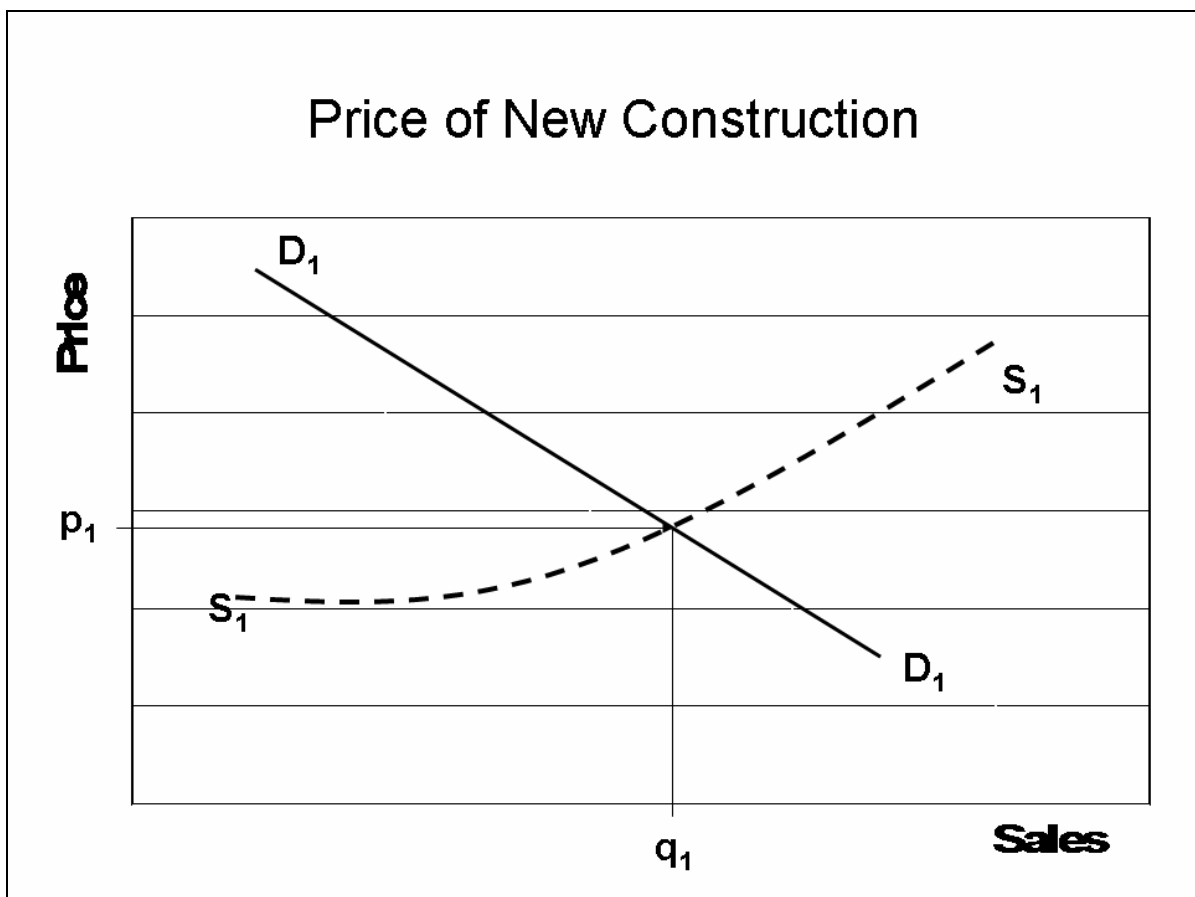


Figure 1

classic presentation of supply and demand. The demand function slopes downward, indicating that quantities taken will decline with price. The supply function slopes upward, indicating that quantities offered will increase with price. The slopes shown suggest that buyers are relatively sensitive to changes in prices and that sellers will tend to offer as many units as buyers are willing to buy at some floor price and will increase quantities as prices rise, but at a diminishing rate. The equilibrium price in Figure 1 is  $p_1$  and the equilibrium quantity is  $q_1$ . At those levels the quantity demanded will equal the quantity supplied and the market will be in equilibrium.

When costs of production rise, the supply function will shift upward. This is shown in figure 2. The result of the cost increase is a shift, an upward shift, from  $S_1$  to  $S_2$ . As costs rise, suppliers will be willing to offer fewer units at prevailing prices, which is shown as the shift to  $S_2$ . Suppliers will seek to restore the prior profit ratio while demanders will seek to substitute less costly alternatives for the product that has risen in cost. The result, the impact of the cost increase, will be determined by the nature of demand for new construction in that market area.

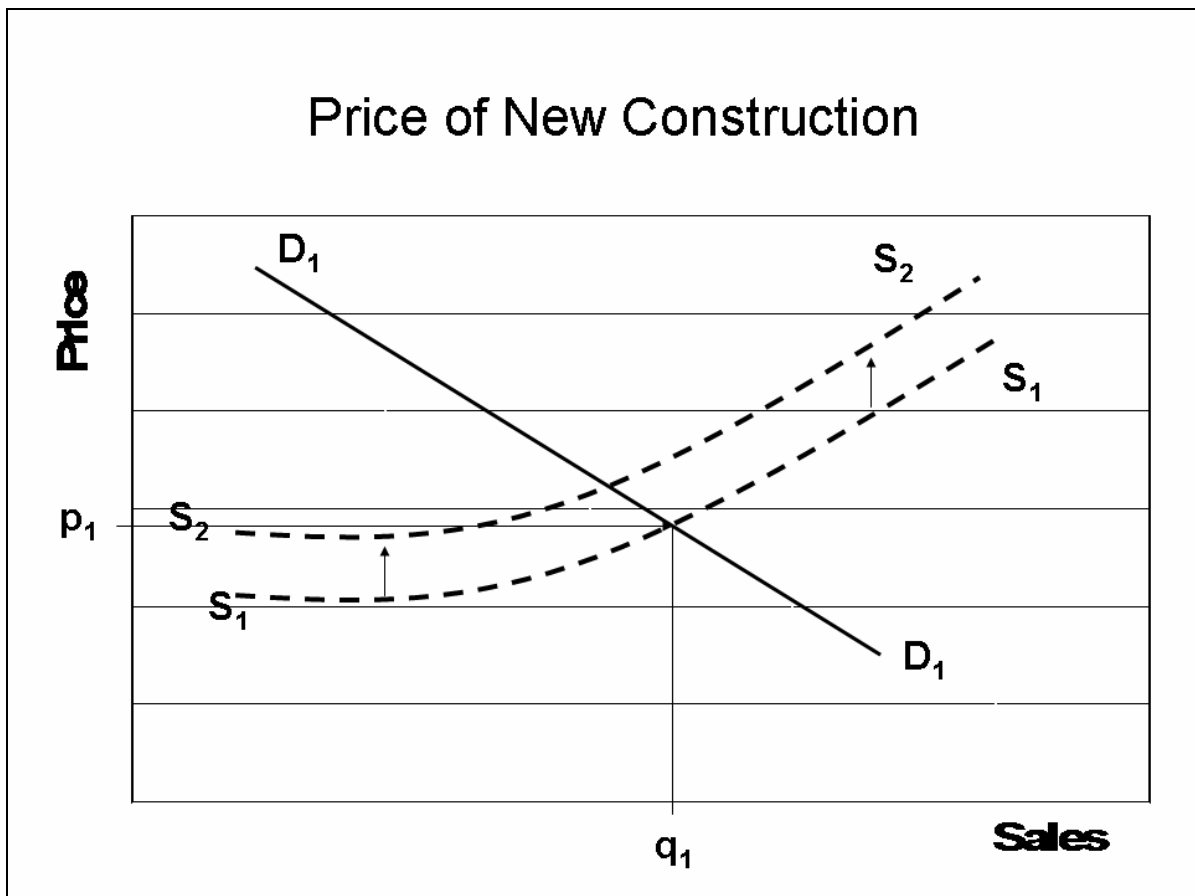


Figure 2

In the situation shown, the cost increase would be shared between suppliers and demanders, or between buyers and sellers. Figure 3 shows this result. In Figure 3 the new price is  $p_2$  and the new quantity is  $q_2$ . The new price is less than  $p_1$  plus the cost increase and the new quantity is greater than  $q_1$  less the cost increase. So prices will have risen to buyers, but by less than the cost increase and sales by sellers would decline, but by less than the cost increase would indicate. The result is that the burden is shared between buyers and sellers. This is the typical situation, which is why suppliers resist cost increases whenever they can.

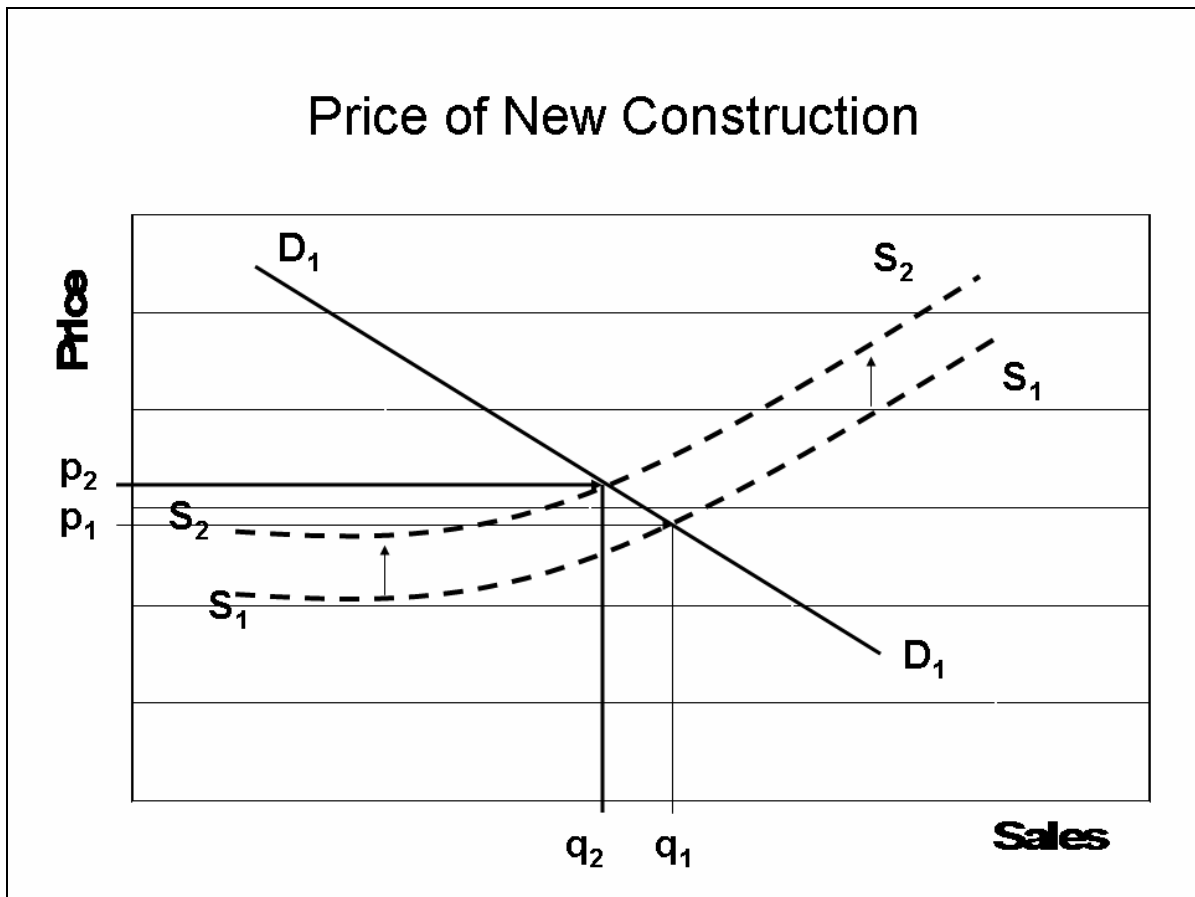


Figure 3

If buyers were insensitive to changes in prices, any cost increase would be passed on to buyers in direct proportion to that price insensitive. Figure 4 depicts such a situation. Here the cost increase is passed totally to buyers because they do not reduce the quantity that they are willing to buy as prices asked rise. While not shown, the opposite can also occur if buyers seek to substitute some lower cost location for the prime as prices asked increase.

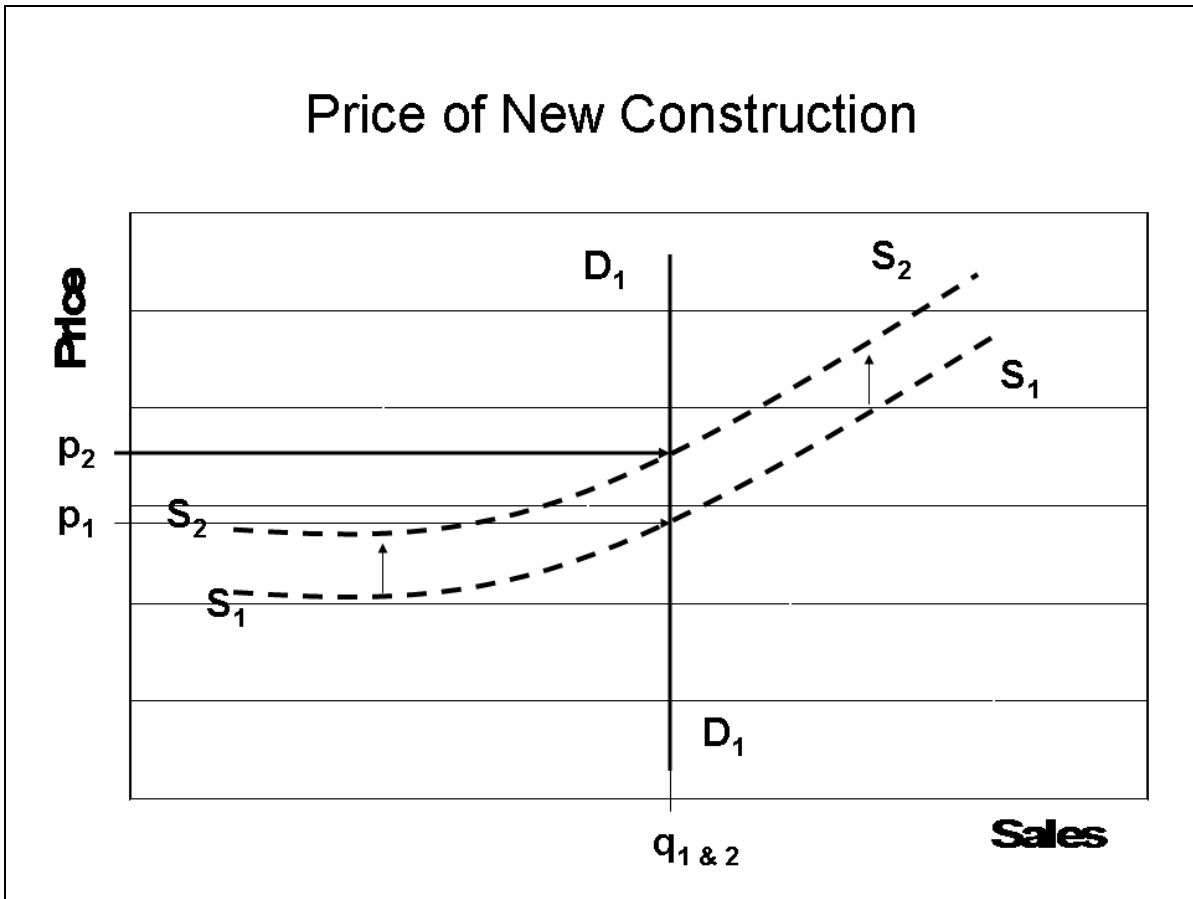
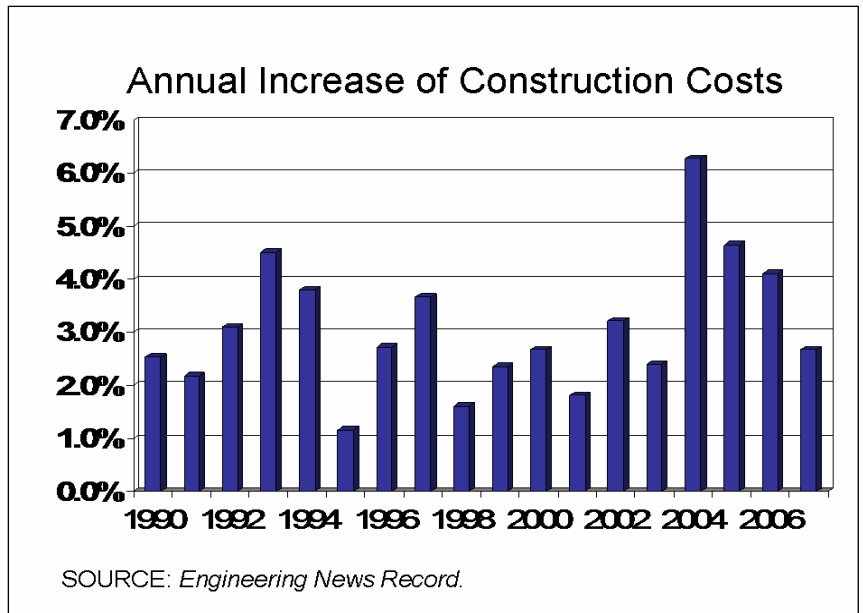


Figure 4

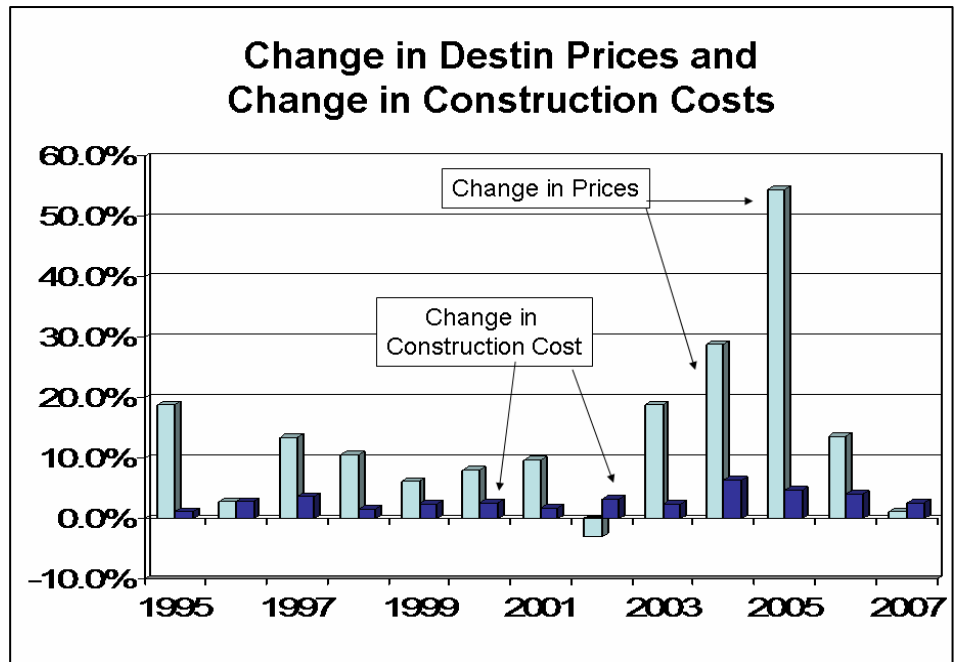
This discussion has been devoted to cost increases. Costs can decrease too. In those situations exactly the opposite will occur. However, for many years now construction costs have increased year after year with the only variation being the rate of cost increase. Figure 5 shows the annual rate of change in the Construction Cost Index since 1990. The highest rate of increase was 6.27% in 2004 and the lowest was 1.16% in 1995. It should be noted that the costs shown do not include items such as impact fees nor is the cost of land and land development. These are two very important costs in determining the total cost of production.



## b. Supply and Demand for New Construction in Destin

**Residential.** This has been a theoretical discussion of the economic impact of the changes in construction costs. The conclusion of this discussion is that in most situations, cost increases are shared between buyers and sellers. This is the most likely scenario for Destin. But it should be recalled that Destin's impact fees are presently 0.14% of the price of the average single family home and would amount to 2% if all proposed changes are enacted. Impact fees were adopted in May 1998 for parks, library and police. The first collections were in March 1999. Road impact fees were adopted in August 1999 with collections beginning in September. The period when Destin was adopting impact fees was one characterized by modest price increases and even falling prices during 2002. Destin's impact fees have not been increased since December 2002, thus having nothing to do with the recent price increases.

Figure 6 graphs construction cost increases together with the increases in the resale value of the median single family home in Destin. Over 1995 to 2007 the average rate of increase of construction costs was 3% per year while the average rate of increase in Destin prices was 14% per year. The only years where price increases exceeded cost in-

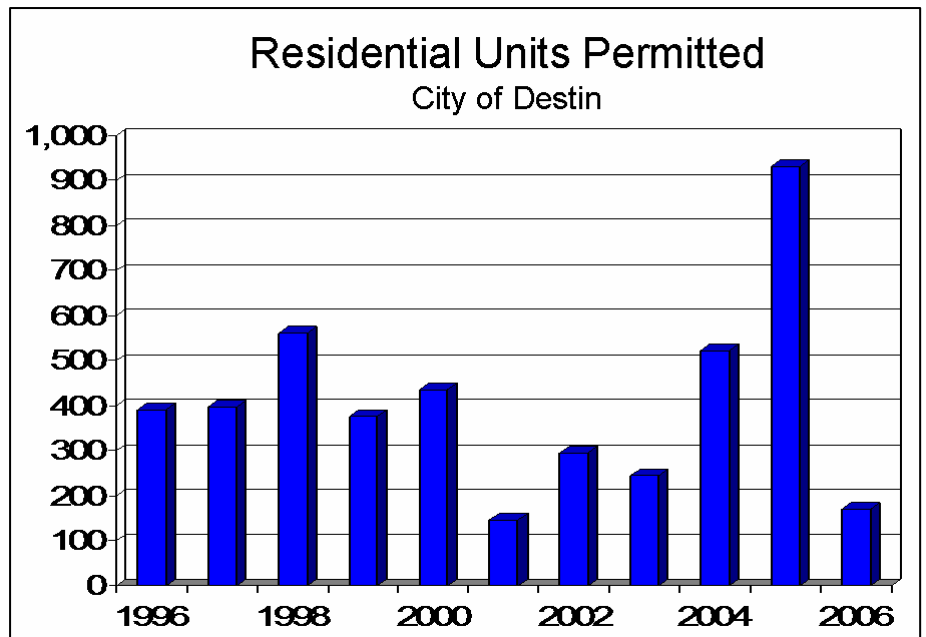


creases were 2002 and 2007 (to date). It is interesting that 2002 was the year of implementing impact fee increases. The marginal nature of the amounts of Destin's impact fees may mean that impact fees have had nothing to do with the pricing of Destin's housing to this point.

Prices can rise due to shortages. During the past 10 years the average number of dwelling units permitted amounts to 406. The high was in 796 units in 2005 and the low was in 2001 with 147. It is interesting to note that the highest years for building permits occurred in the year after the largest increases in prices, clearly showing the responsiveness of Destin's building industry to the forces of supply and demand. Figure 7 shows the annual issuance of building permits by Destin. The low, 2001, was during a national economic recession. These data clearly show that the supply

of housing was increasing during the period, but they give no indication as to the growth of demand.

The data are clear that prices for Destin housing have been rapidly increasing. Data show that the supply of housing was being increased and impact fees were enacted. The magnitude of Destin's impact fees is insignificant when contrasted with residential prices. Looking at the available data in total, it would be concluded that demand for housing in Destin increased sharply and swamped the increases in supply and the effects of impact fees.



**Non-Residential.** It is unfortunate that historic sales and construction data are not available for non-residential construction as they are for residential. While the data for Destin are not available, the economics of non-residential construction is the same as for residential. As shown above, non-residential impact fees for Destin are quite low when contrasted with Florida averages.

**An Alternate View.** The above discussion viewed impact fees simply as a cost of construction. While there can be no doubt that they are a cost of construction, they also are a means of providing infrastructure. When costs are raised, as in the case of adopting an impact fee, it will be most difficult if not impossible to pass the cost forward to buyers unless the buyers perceive that the product is more valuable than before. For example, a builder raises construction costs to add a pool to a home. This cost increase would result in a higher price for the home because the value of the home is now greater. Much of the debate about impact fees ignores the fact that impact fees pay for infrastructure and, in the absence of impact fees, there would be less infrastructure. The alternate view is that impact fees should increase the quantity of infrastructure and that the increased quantity of infrastructure should be capitalized into the value of the land served by that infrastructure.

### 3. Destin's Proposed Impact Fees

The existing and proposed impact fees for Destin are shown below for both residential and non-residential development.

#### Existing and Proposed Single Family Home

Fee Type	Existing	Proposed	% Change
Transportation	\$472	\$7,430	1474.2%
Parks	\$160	\$2,197	1273.1%
Library	\$108	\$389	260.2%
Police	\$21	\$37	76.2%
Workforce Housing *		\$420	
Total	\$761	\$10,473	1276.3%

\* 2,000 FT<sup>2</sup> home.

#### Existing and Proposed Non-Residential Impact Fees

Fee Type	Existing	Proposed	% Change
Industrial	\$596	\$4,877	718.3%
Retail	\$2,142	\$40,224	1777.9%
Office	\$822	\$19,141	2228.6%
Hotel	\$790	\$20,840	2538.0%

It might be helpful to show the proposed changes without the housing mitigation fee. For retail, office and hotel uses the workforce housing mitigation fee is a very sizable component of the proposed increases. There is no proposed housing mitigation fee for industrial uses and the amount for residential uses is minimal.

#### Existing and Proposed Single Family Home without Housing Mitigation

Fee Type	Existing	Proposed	% Change
Transportation	\$472	\$7,430	1474.2%
Parks	\$160	\$2,197	1273.1%
Library	\$108	\$389	260.2%
Police	\$21	\$37	76.2%
Workforce Housing			
Total	\$761	\$10,053	1221.0%

**Existing and Proposed Non-Residential Impact Fees  
without Housing Mitigation**

<b>Fee Type</b>	<b>Existing</b>	<b>Proposed</b>	<b>% Change</b>
Industrial	\$596	\$4,877	718.3%
Retail	\$2,142	\$9,464	341.8%
Office	\$822	\$7,721	839.3%
Hotel	\$790	\$6,593	734.6%

Collectively the proposed increases are very substantial. The question posed herein is the economic impact of such increases on the City of Destin.

## 4. The Economic Impact of Impact Fees

### a. The Impact of Impact Fees on Prices

**The Literature.** Impact fees will result in price increases when buyers are willing to accept price increases. Otherwise an impact fee will be absorbed by the seller as either lower profits or slower sales. Buyers would be willing to accept higher prices if the product being offered, a location within Destin, has higher value to them than the value of available alternatives. The analysis set out above suggests that any cost increases will be divided between buyers and sellers until such time as the market adjusts. The division between buyers and sellers will depend on the nature of demand for Destin locations as contrasted with alternatives to Destin. Delaney and Smith studied the City of Dunedin and concluded that the existence of impact fees was a contributing factor to Dunedin's higher housing prices.<sup>5</sup> A component of their conclusion was that there were limited alternatives to Dunedin, thus buyers were willing to accept higher prices. Likewise, Baden, Coursey and Kannegiesser conclude that impact fees charged by Chicago suburbs are passed on to home buyers.<sup>6</sup> However, their study would suggest that the cost effects of other development regulations exceed the role of impact fees in any price effects. Dresch and Sheffrin conclude that impact fees and similar exactions are ultimately borne by buyers but at a ratio of 25% to buyers and 75% to sellers in less wealthy neighborhoods and by more than 100% in more wealthy neighborhoods.<sup>7</sup> Another conclusion reached by Dresch and Sheffrin is that the imposition of impact fees will increase the prices of existing homes, but by only a fraction of the amount of the fee.<sup>8</sup> Additionally, Mathur, Waddell and Blanco studied the Seattle, Washington, area and concluded that impact fees did raise the price of housing.<sup>9</sup>

By contract, Nelson, Frank and Nicholas found that impact fees did positively influence land prices but the influence was in the form of positively capitalizing the exist-

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<sup>5</sup> Delaney, Charles J., and Marc T. Smith. 1989. "Impact fees and the price of new housing: An empirical study." *AREUEA Journal* 17, 1: 41-54. And "Price Implications of Development Extractions on Existing Housing Stock." *Growth and Change*, 20: 1-20.

<sup>6</sup> Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser, "Effects of Impact Fees on the Suburban Chicago Housing Market." The Heartland Institute Published in: Policy Studies: November 1999

<sup>7</sup> Marla Dresch and Steven Sheffrin, "Who Pays for Development Fees and Exactions," San Francisco: Policy Institute of California, 1997.

<sup>8</sup> *Ibid.*

<sup>9</sup> Shishir Mathur, P. Waddell and H. Blanco, (2004) "The Effect of Impact Fees on the Price of New Single Family Housing." *Urban Studies*. 41:1303-12

tence of more infrastructure into the value of land rather than negatively capitalizing the requirement to pay the fee.<sup>10</sup> Skaburskis and Qadeer found similar results.<sup>11</sup>

Ihlanfeld and Shaughnessy vigorously dissent from the methodology used in prior studies.<sup>12</sup> Their analysis of residential sales in Dade County led them to conclude that the infrastructure being provided was being capitalized into the value of the home. While it is unclear the extent to which the capitalization occurred, there is strong evidence that it does occur.

The literature has two primary thrusts. The first view is that impact fees are costs and poses the question of the extent to which higher costs are passed forward to home buyers. Those studies generally conclude that the fees are passed forward, with the portion of the fee being passed forward an item of debate. The second thrust is that impact fees result in more infrastructure and more infrastructure will positively affect the value of the land. A significant point here is that it is the existence of infrastructure that influences the value of the site and not the way that the infrastructure was paid for. So the same positive capitalization would occur if the new roads were paid for by general taxation as would result if they were paid for with impact fees. So the literature is clear that there will be higher housing prices with impact fees, but it is less than clear that housing prices would be less if impact fees were not used, unless investment in infrastructure was less because of the non-use of impact fees. In that case housing prices would be expected to be less.

The reader may have noted that all of the references to the price effects of impact fees were with respect to residential prices. There is no known study that looks into the effects of impact fees on non-residential prices.

## **b. The Impact of Impact Fees on Growth**

**The Literature.** The literature with respect to the economic impact of impact fees on growth is less robust than that dealing with prices. Skidmore and Peddle studied the effects of DuPage County's road impact fees on the number of new homes built. They conclude that DuPage's road impact fee resulted in a 30% reduction in the number of new homes built.<sup>13</sup> The great difficulty here is that such analyses need to

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<sup>10</sup> A. C. Nelson, J. Frank and J. Nicholas. "Positive Influence of Impact-Fees in Urban Planning and Development," *Journal of Urban Planning and Development*, Vol. 118, No. 2, 1993.

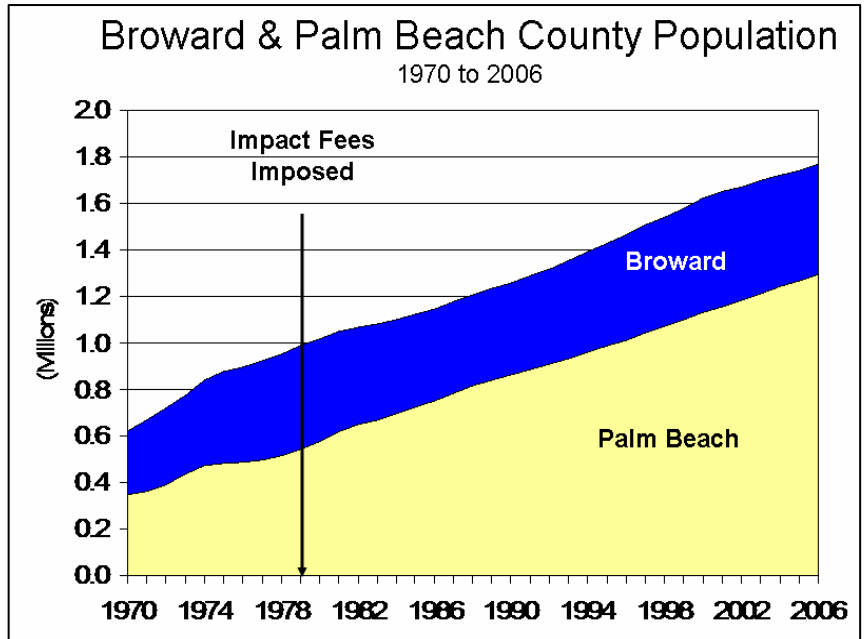
<sup>11</sup> Andrejs Skaburskis and M. Qadeer (1992). "An Empirical Estimation of the Price Effects of Development Impact Fees," *Urban Studies*, 29:653-667.

<sup>12</sup> Keith Ihlanfeld and T. Shaughnessy, "An Empirical Investigation of the Effects of Impact Fees in Housing and Land Prices," Lincoln Institute of Land Policy, 2002. Subsequently published in *Regional Science and Urban Economics*, 34:639-661, 2004.

<sup>13</sup> Mark Skidmore and M. Peddle (1998). "Do Development Impact Fees Reduce the Rate of Residential Development?" *Growth and Change* 29:383-400.

project the number of new homes that would be built without impact fees and then contrast that with the number that were actually built. The impact would be the difference. This is why many of this type of analysis tend to look at conditions before and after as the means of assessing impact.

The first Florida impact fees were passed by Broward County in 1977, which became effective in November 1978. Palm Beach County was only two months behind Broward. The following shows Broward and Palm Beach County from 1970 to 2006. Neither has lacked for growth, at least growth as measured in terms of population.



Employment and wage growth will be addressed in the following section.

**Florida Situation.** Broward County imposes its impact fees differently from other local governments and direct comparisons with Broward are not meaningful. However, Palm Beach County’s impact fees are typical and can be directly compared with those existing and proposed for Destin. It might be noted that Palm Beach

**Destin and Palm Beach County Impact Fees**

	<b>Destin Existing</b>	<b>Destin Proposed</b>	<b>Palm Beach</b>
Transportation	\$472	\$7,430	\$4,822
Parks	\$160	\$2,197	\$1,540
Library	\$108	\$389	\$161
Police	\$21	\$37	\$171
Workforce	\$0	\$420	\$0
Other	\$0	0	\$4,944
<b>TOTAL</b>	<b>\$761</b>	<b>\$10,473</b>	<b>\$11,638</b>

County’s impact fees shown were enacted in 2005 and are now being updated.

Palm Beach County’s non-residential fees can be contrasted with Destin’s. Recall

### Destin and Palm Beach County Non-Residential Impact Fees

Fee Type	Existing	Proposed		Palm Beach
		With Mitigation	Without Mitigation	
Industrial	\$596	\$4,877	\$4,877	\$1,263
Retail	\$2,142	\$40,224	\$9,464	\$6,767
Office	\$822	\$19,141	\$7,721	\$2,359
Hotel	\$790	\$20,840	\$6,593	\$3,007

that the Palm Beach fees were enacted in 2005 and currently are in revision. Additionally, Palm Beach County is conducting a workforce housing needs study that might result in a workforce housing mitigation program in the future.

No one can know what would have been Broward’s or Palm Beach’s growth had they not adopted impact fees. Skidmore and Peddle’s research would suggest that they would be higher. However, how much growth would have occurred without the infrastructure funded by impact fees also is not known. A simple statistic addresses this unknown. Since the 2000 census, the average rate of population growth for the state of Florida has been 2.43% per year.<sup>14</sup> Those areas of the state subject to impact fees averaged 2.88% growth while those without impact fees grew at 1.80%.

### c. The Impact of Impact Fees on Employment and Wages

**The Literature.** Nelson and Moody studied the effects of impact fees on employment in Florida.<sup>15</sup> They found a positive relationship between impact fees and job growth. That is, those areas of Florida with higher impact fees had greater, rather than less, growth in employment. This does not mean that the existence of impact fees increased job growth, but nor did it reduce it. Jeog and Feiock<sup>16</sup> looked at growth in Florida since the passage of the Growth Management Act of 1985.<sup>17</sup> They found that “growth management in a growing community may not drag private investment and local economic development, even though the development community sometimes opposes them.”<sup>18</sup>

<sup>14</sup> Office of Economic & Demographic Research, The Florida Legislature, website <http://edr.state.fl.us/population.htm>.

<sup>15</sup> Arthur Nelson and Mitch Moody (2003). “Paying for Prosperity: Impact Fees and Job Growth,” The Brookings Institute.

<sup>16</sup> M. Jeog and R. Feiock, (2006), “Impact Fees, Growth Management and Development,” *Urban Affairs Review*, 41:749-768.

<sup>17</sup> Section 163.3177, *Florida Statutes*, property known as the “Local Government Comprehensive Planning and Land Development Regulation Act.”

<sup>18</sup> Jeog and Feiock, *supra*, page 764.

**Florida Situation.** Between 2001 and 2006 a total of 1,068,042 new jobs were added to Florida's employment base.<sup>19</sup> Over 90% of those new jobs (961,921) were in areas subject to impact fees. The average employment growth in areas of Florida subject to impact fees was 19.14% versus 14.77% for areas without impact fees. It would be an overstatement to suggest that the existence of impact fees caused such growth in jobs. But it would be an equally errant statement to say that the existence of impact fees limited or reduced employment growth.

The next item of concern is wages. In 2006 the average annual wage in areas subject to impact fees was \$30,422 as contrasted with \$27,886 for areas not subject to impact fees.<sup>20</sup> Job growth and wage rates are greater in impact fee areas of Florida than in non-impact fee areas. This would suggest, at a minimum, that the existence of impact fees did not retard either.

The proposed Destin non-residential fees, when including workforce housing, are far beyond existing fees. Whether one can generalize from past experiences to Destin's proposals is not certain. Research by Fishkind and Associates suggests that non-residential impact fees of the level being considered by Destin would have a negative effect on the level of non-residential construction.<sup>21</sup> The Fishkind analysis suggests that impact fees exceeding a certain level will result in reductions in the pace of construction; these levels are:

- Retail \$14,000 per 1,000 feet of floor area
- Office \$5,500 per 1,000 feet of floor area
- Industrial \$2,600 per 1,000 feet of floor area
- Hotel \$2,700 per 1,000 feet of floor area.<sup>22</sup>

The Fishkind analysis was prepared for Pasco County but the author suggests that the conclusions should be generally applicable throughout Florida. Here, the conclusion is that it is not the existence of impact fees that is the issue but the level of those fees. The proposed Destin non-residential fees, including the workforce mitigation, may well be so high that non-residential construction would be negatively effected until the market has had an opportunity to adjust. It is not possible to project how long it might take for the market to adjust.

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<sup>19</sup> Florida Agency for Workforce Innovation, Labor Market Statistics, website, <http://www.labormarketinfo.com/library/qcew.htm>.

<sup>20</sup> These data are obtained from the Agency for Workforce Innovation, *surpa*.

<sup>21</sup> Fishkind and Associates, "Pasco County Transportation Impact Fees – Maximum Levels without Economic Harm," prepared for Pasco County, February 26, 2007.

<sup>22</sup> *Ibid.*

#### **d. Current Economic Situation**

At present there is an oversupply of housing and significant reductions in housing prices for some areas. Between April 2006 and 2007 statewide resale prices for single family homes declined 3.3%, from \$237,800 from \$245,900.<sup>23</sup> For the Fort Walton Beach area the median price declined 8.7%, from \$233,900 to \$213,600.<sup>24</sup> That last data available for Destin show prices steady rather than falling, but certainly not the rates of increase seen over the recent past. This raises a question of timing.

All indications are that residential real estate prices are either steady or declining. This would mean that there is little or no ability to pass increased impact fees forward to the buyer. To the extent that one believes that forward shifting is bad, then this would be a good time to impose or increase impact fees. However, the result could be lessened profits for builders and perhaps postponements of new construction. If postponements were to be for longer periods, this would eventually be seen in as losses in employment and wages.

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<sup>23</sup> Florida Association of Realtors, website <http://media.living.net/statistics/2007/>

<sup>24</sup> *Ibid.*

## **5. Options for Destin**

Impact fees are not a requirement. The City of Destin can elect to impose or not to impose impact fees. Additionally, the level of impact fees to be imposed is at the discretion of the City, although applying any reductions equally to all sectors is a generally accepted requirement. In the past many jurisdictions, including Destin, chose to impose impact fees as some percentage of the amount that could be imposed. This practice is becoming less common. What has become more common is for impact fees or impact fee increases to be phased in. The City has three basic options; reject impact fees in whole or in part, enact impact fees at some reduced percentage, and phase in the impact fee increases.

### **a. Reject Impact Fees or Impact Fee Increases**

Whether to have impact fees at all is up to the elected officials of the City. Impact fees are one way of (partially) funding infrastructure. The alternatives are reduced levels of service and taxes. Each of these alternatives is within the power to the City to implement.

### **b. Adopt Impact Fees at Reduced Rates**

Destin's existing impact fees were adopted at substantial reductions from what could have been required. The City is perfectly free to continue a policy of reduction, either at the existing rates of reduction or at some other rate. Reduced impact fees lessen impact fee receipts and this places more reliance on other alternatives.

### **c. Phase In Impact Fee Increases**

A phase-in is simply a temporary reduction of impact fees. Florida law required a 90-day delay between the passage of an impact fee ordinance and collection of impact fees.<sup>25</sup> Many elect to use longer phase-in periods. Sarasota County recently raised some impact fees and imposed new fees. After the 90 day delay, the fees would be phased in one-half now and one-half on one year.<sup>26</sup> The City of North Port did essentially the same thing. Hernando County phased-in its last increase over 5 years.

Phase-ins are reductions and will result in lessened revenue. This will increase reliance on alternatives.

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<sup>25</sup> Section 163.31801(3)(d), *Florida Statutes*.

<sup>26</sup> This is a simplification of the actual phase-in schedule.

## 6. Workforce Housing Mitigation Fees

The workforce housing mitigation fees being considered by Destin are minor for residential and industrial development but substantial for office, retail and tourist developments. The amount of the workforce cost to be borne by new development is inversely related to the earnings of persons employed in those activities. The individual and household earnings by land use for Destin are shown below. The objective of the workforce housing program, if enacted, is to require developers to assist employees of their developments with housing. There are several ways that such

**Earned Household Income by Land Use  
City Of Destin**

<b>Land Use</b>	<b>Individual</b>	<b>Household Earnings</b>
Government	\$46,068	\$58,734
Industrial	\$43,318	\$55,984
Institutional	\$41,631	\$54,297
Office	\$44,068	\$56,734
Retail	\$26,174	\$38,840
Tourist	\$20,381	\$33,047
Residence	\$39,271	\$51,937
No Location	\$32,180	\$44,846
All	\$35,730	\$48,396

assistance could be provided. Employee housing assistance in the forms of down payment grants or low interest loans are two options. Actually providing housing to employees, either rental or ownership, is also an option. Another option is a payment in lieu of providing housing. That is the option discussed herein.

Employer assisted housing was a common occurrence some years ago. It is coming back into usage. When prevailing wages do not provide sufficient income to afford housing, there will be a market reaction. Several of those reactions are:

- Labor shortages,
- Lessened economic development due to labor shortages,
- Increased length of home to work trips, and
- Increased crowding.

Encouraging or requiring assistance to employees with less than sufficient incomes is an attempt to address these problems. But it is an effort that may have its own set of consequences. Raising the cost of new non-residential construction will tend to diminish the economic desirability of Destin. However, to the extent that employers value the provision of housing to their employees, the diminution will be lessened and that negative of a higher cost will be offset with the benefit of increased attainable workforce housing.