



Impact Fee Fact Sheet

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This document explains the purpose of impact fees and why there is a need to adjust those fees to address the impact created by new development in Destin.

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What is an impact fee?¹

An impact fee is a dollar amount charged against new development to pay for the impact on the infrastructure (roads, parks, etc.) created that new development.

Is an impact fee a tax?

No. It is a “user fee” to offset the proportionate cost of the infrastructure required to serve that new development.

What are impact fees used for in Destin?

There are four categories of impact fees in Destin: Transportation, Parks, Police, and Library. There is a separate fund established for each type of fee collected. Those funds can be used only for the specified type of facility for which the fee was paid. For each category of impact, the City has a list of projects that the collected fees will fund.

How much of the impact of new development is being paid by current impact fees?

The City’s current total fee for a single-family dwelling unit is only about one-tenth of the average total fee charged by Florida jurisdictions. Clearly, the City’s current fees cover only a small fraction of the actual costs to serve new development.

What is the consequence of undercharging justifiable impact fees to new development?

One of three things will occur. If the needed facilities are built without impact fees, other sources of revenue must be used to pay for it. In most instances, that source would be property taxes, the City’s largest source of revenue. That results in the general taxpayer paying for the impact of new development. This has historically been viewed as an inequity, and a major reason why impact fees were established. The second thing that might occur, and this is most likely, is that the needed infrastructure to add capacity required by new development will not be

¹ Section 163.31801 Florida Statutes (Impact fees) states, in part: “The Legislature finds that impact fees are an important source of revenue for a local government to use in funding the infrastructure necessitated by new growth. The Legislature further finds that impact fees are an outgrowth of the home rule power of a local government to provide certain services within its jurisdiction.”

built or will be significantly postponed. Over time, this reduces the level of service of that facility. It becomes even more costly to catch up in the future. The third thing that may occur if the level of service shows a marked reduction is either the need to reduce the level of service in the City's Comprehensive Plan, or be cited by the Department of Community Affairs for failure to implement the Comprehensive Plan as adopted, with the penalty being the withholding of grant or other state revenues.

Why are proposed impact fees so much higher than existing impact fees?

For a number of years the City's impact fees have covered only a fraction of the actual impact of new development while the cost of those impacts have continued to increase. The margin of difference between the current fees and the actual impact of new development kept growing, resulting in the large gap that exists today.

What effect will increased impact fees for new development have on their competitiveness with existing development that paid lower fees?

None or very little. Existing development was subject to lower impact fees when the impacts they created cost less to mitigate. New development should be subject to higher impact fees because the impacts they create cost more to mitigate. Failure to increase impact fees for new development will exacerbate the inequities that grow over time.

What is the consequence of not increasing existing impact fees?

Either a greater burden falls on the general taxpayer, or the level of service of the infrastructure for which adequate fees are not available will degrade along with the attendant consequences.

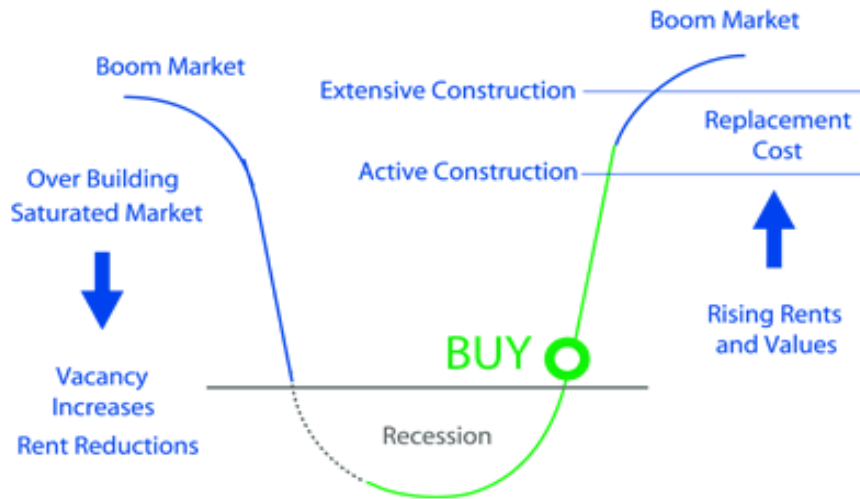
How much of a lag time is there between adopting new impact fees and collecting those fees?

Impact fees are collected at the time of completion (certificate of occupancy) of a new development. The new fees would not be charged for projects already in the development "pipeline." Since it typically takes a minimum of four to eight months to approve significant sized development, and another year or two to construct, a period of one to three years will transpire before new fees are collected.

There has been concern about the current real estate market and the impact of impact fees on the market. How long is the typical real estate cycle nationally? In Destin?

Nationally, the cycle has averaged around 18 years from top to top or bottom to bottom. However, many parts of the nation have not been significantly impacted by the current real estate adjustment, e.g. Texas, North Carolina, Georgia, Utah and other areas. Cycles are regional phenomena.

Real Estate Cycle



While we have no way of knowing for certain how long a real estate “adjustment” will take in the local market, early indicators of the recovery phase include the appearance of “bottom fishers” and price adjustment.² We are experiencing both of these events in Destin.

We have been in a real estate market correction in Destin for about two years. How long will it be until significant development activity resumes?

Destin’s market is unique due to the combination of scarcity of land and high demand for coastal resort communities for retirement, tourism, and investment. So we can expect a quicker recovery than the “average.” Given that we have been in a correction cycle for about two years, early signs of recovery are already noted and a moderate upward trend is anticipated within the next year.

How much of a “drag” on the development economy are impact fees?

In Destin, demand and price increases have occurred independently of impact fees. Our impact fees have not changed in over four years, and were minimal even then. Yet during this same period, housing prices have both dramatically increased and have dramatically fallen. The impact of impact fees on the market is de minimus compared to the primary factors of scarcity, supply, and demand.³

What affect do impact fees have?

Impact fees add value by improving the infrastructure and quality of life. Quality communities have quality infrastructure. That quality increases the market value of real estate in those communities.^{4 5}

² “Real Estate Cycle methodology - Special Report”, Global Strategic Real Estate Group of PricewaterhouseCoopers, 1999, page 23.

³ “The Economic Impact of Impact Fees”, James C. Nicholas, PhD, July 9, 2007, page 14.

⁴ “The Economic Impact of Impact Fees”, James C. Nicholas, PhD, July 9, 2007, page 14.

What options are there to the immediate adoption of the full, justified impact fees the consultants believe are legally defensible?

The options are:

1. Adopt the full, justified amount immediately (exempting the current development applications.)
2. Adopt the full, justified amount to take affect at a time certain in the future, e.g. 6 months, 12 months.
3. Adopt a “phased-in” approach, e.g. 25% immediately, 50% in 6 months, 100% in 12 months.

The City has the ability to adopt none or any combination of these options. However, the consequences of reducing or deferring consideration of the justified fees will aggravate the existing shortfall and add to the burden of future taxpayers and developers.

For further information, please contact the
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⁵ For a detailed discussion of the impact of impact fees on prices, growth, and employment and wages, see pages 13 through 22 of “The Economic Impact of Impact Fees”.