POLICY BRIEF

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Impact Fees and the Supply of Affordable Housing in Florida

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Background

Few areas in the U.S. rival the extreme population growth seen in Florida over the past few decades. Since 1975, Florida has accommodated roughly 10 million new residents (more than doubling the population) with no signs of slowing. This trend has placed intense pressure on local governments to rapidly expand public infrastructure systems (for example roads, schools, and water/sewer lines) to serve their growing communities. Furthermore, there is widespread agreement that the costs of these infrastructure expansions are not fully recovered by the additional property tax generated by most residential development. As a result, rapidly growing communities are left with a large fiscal burden that is placed directly on the shoulders of existing residents in the form of higher property taxes. Unsurprisingly, local governments in Florida have reacted over this time period by developing a number of new policy tools that are intended to alleviate the fiscal burdens of rapid residential growth.

One approach has been to place various restrictions on economic development through the use of monopoly zoning powers (e.g., large-lot or open space zoning), building permit limits, urban service boundaries, and other devices. This approach is designed to slow growth, but does not directly address the fiscal burden associated with new residential development, still leaving property tax revenues as the primary method of funding infrastructure expansion projects. A second approach to managing this problem has been to force new development to "pay its' own way" through development impact fees that cover at least a portion of the cost of the public infrastructure necessitated by the new development. Impact fees are one-time payments, predetermined by a formula adopted by a local government, that are assessed on property developers during the construction permit approval process. Revenues from impact fee collections are earmarked for capital expenditures on the service for which they were collected (i.e., roads, schools, parks, libraries, etc.) and must be spent on projects that clearly serve the new development. The use of impact fees is the more recent of the two approaches, with impact fee programs mostly surfacing in Florida over the late 1980s and early 1990s.

Managing Growth and Housing Affordability

A growing concern has been that either approach to managing growth may disproportionately restrict the supply of smaller homes and rental housing within communities, significantly driving up the cost of living for lower income households and leaving relatively few affordable housing opportunities. If either approach to dealing with residential growth severely limits the construction of smaller, more affordable housing opportunities, there is the possibility that these policies will exacerbate problems of racial and income based segregation in Florida's metropolitan areas, in addition to forcing low-income families to devote a higher percentage of their income to housing costs.

A review of the literature addressing the effects of the first approach (i.e., using various policies that restrict economic development in some way) was recently published by DeVoe Moore Center Director Keith Ihlanfeldt. His investigation reveals that exclusionary land-use regulations increase both housing prices and the average size of new homes. Since both of the effects reduce the amount of affordable housing within communities, there is considerable evidence that the first approach to managing growth in Florida has had negative impacts on Florida's low-income households.

Turning to the second approach, there has also been concern that development impact fees will have negative effects on Florida's low-income households- but this possibility has been the source of considerable debate. This debate has been based more on speculation than on hard evidence. The development community has argued that impact fees are a tax on residential development that will reduce construction (especially within the starter home and rental housing markets), exacerbating problems of housing affordability and racial segregation. Under this view, impact fees have the same disproportionately adverse effects on low-income households as other traditional exclusionary barriers.

Advocates of impact fees however, claim that they have the opposite effect on residential growth. Why might impact fees actually increase the construction of residential properties? Many advocates argue impact fees are able to facilitate new growth by expediting the development approval process, increasing the amount of residentially developable lands, and reducing citizen opposition to new growth. The argument underlying this view is that by removing all or a portion of the fiscal burden associated with residential development, impact fees may actually reduce the presence and stringency of other regulatory barriers and allow for greater levels of residential construction. If this is true, then impact fees in Florida can be viewed as a socially desirable alternative to traditional land use restrictiveness approaches - as a strategy for addressing the public infrastructure issue.

The Effects of Impact Fees on Housing Markets

A series of two recently published research papers by Keith Ihlanfeldt and Gregory Burge speaks to this issue and provides evidence that impact fees are the more socially desirable alternative of the two approaches to growth management outlined above. Their research utilizes a unique database that contains county level impact fees in Florida over an 11 year (1993-2003) panel. Impact fees are broken down into two distinct categories: those that fund services otherwise covered by property taxes (i.e., roads, schools, parks, police, fire, libraries, etc., henceforth labeled non-water/sewer impact fees), and those that fund services for which capital expansion costs are otherwise recouped through higher user fees (water and sewer). They investigated the effect that both categories of fees have on several variables relating to housing affordability including selling prices for smaller homes (less than or equal to 1,500 square feet of interior living space), construction rates for smaller homes, and the construction of multi-family housing. Due to the richness of their data, they were able to control for factors other than impact fees that may have affected housing prices and construction rates.

Their research produced several interesting findings. First, non-water/sewer impact fees were found to have increased the amount of affordable housing built within suburban areas in Florida. Specifically, these types of fees were found to increase the construction of both multi-family housing and single family starter homes in Florida's inner ring suburban areas. Conversely, this category of fees was not found to significantly alter construction levels in central city or rural areas. Non-water/sewer impact fees were also found to have a similar positive effect on construction rates for medium and larger sized new single family homes- again though, only for suburban areas, with no effect on construction rates in central cities or rural areas. The implication is that, at least for suburban areas where exclusionary land-use regulations are the most restrictive, impact fees can effectively reduce opposition to residential growth coming from local governments and residents, paving the way for growth to occur in a manner that benefits both new and existing residents. On the other hand, impact fees for water and sewer services were not found to have the same positive effects on construction. Instead, they were found to have no significant effect on single family home construction and to reduce the construction of multi-family units.

Even if non-water/sewer impact fees result in higher levels of residential construction, leading to improved availability of rental housing and smaller homes, there has still been the very real concern that impact fees will raise the price of starter homes if builders simply pass the cost of the fees forward to homebuyers. Burge and Ihlanfeldt investigate this possibility and find that non-water/sewer impact fees do raise single-family home sales prices, for both new and existing homes, but that the price increase is proportional to the property's value. In fact, a $1 increase in impact fees was found to raise the price of large and small homes by dramatically different amounts- over $1.25 for large homes but less than $0.40 for starter homes. Their finding lends support to the idea that by reducing the reliance on property taxes, non-water/sewer impact fees lower homeowner's expected property tax payments, which in turn leads to increased demand for all types of residential property within the community. So impact fees do raise housing prices, but only because they increase the attractiveness of the community to new home buyers by lowering expected property taxes.

Policy Implications

From a social welfare perspective, the key finding of their research is that impact fee programs covering services such as roads and schools are able to increase the availability of smaller homes and rental units within Florida's suburban areas, where affordable housing opportunities are needed the most. Their results suggest that, at least in part, the desire to exclude low income residents from suburban areas in Florida has been driven by budgetary motivations. By decreasing the fiscal burden associated with starter homes and rental housing developments, impact fees seem to effectively reduce other exclusionary barriers without substantially harming housing affordability. The implication of their research is clear- if the goal is to increase the stock of affordable housing within Florida's suburban areas, where a majority of the states population resides, the use of non-water/sewer impact fees should be encouraged and the use of other regulatory barriers meant to reduce residential construction should be discouraged.

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