Implications of Property Tax Policy Changes for Housing Affordability:

Impact & User Fees

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NTA Spring Symposium

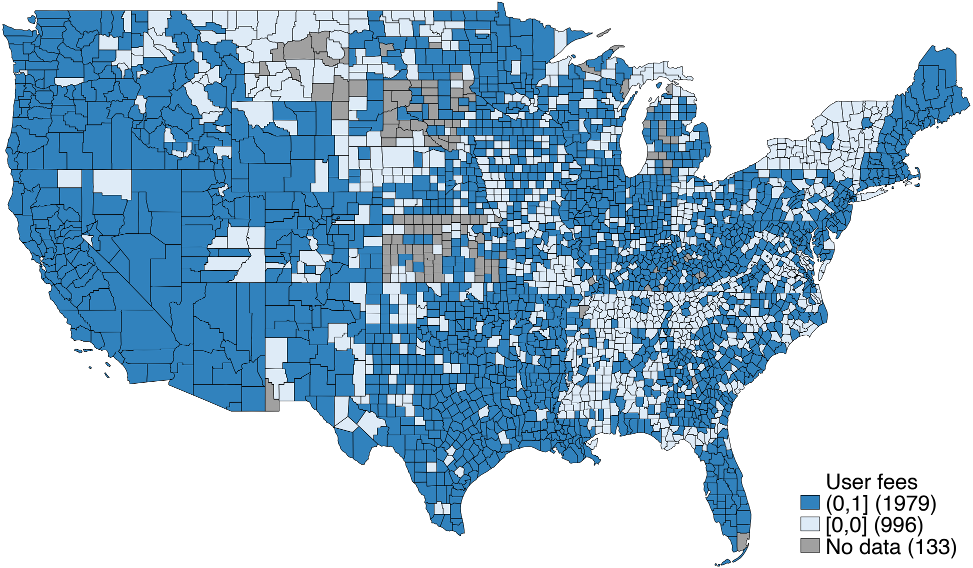
Georgetown University, McCourt School of Public Policy

May 10th, 2024

Taxing new construction vs. property in its existing form

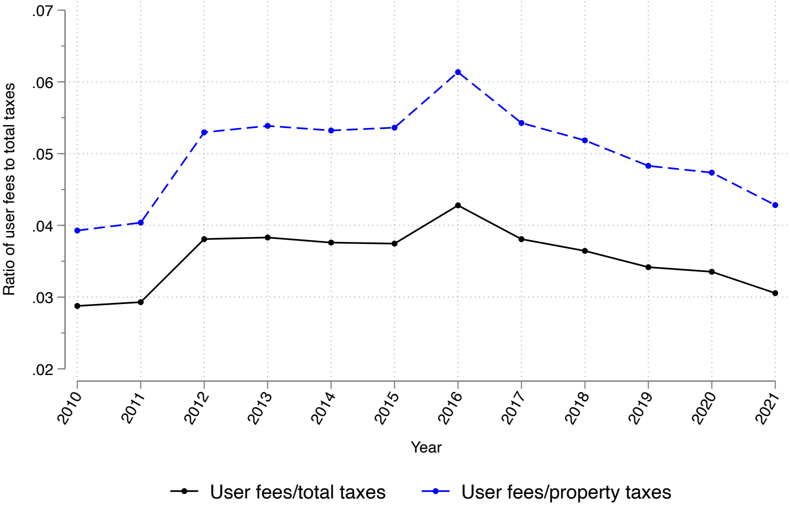
- **Impact fees:** one-time levy on new property development used to finance infrastructure expansion to offset strain caused by that development
  - Can be imposed either upon permitting or subdivision approval
- Alternative: charge homeowners in proportion to services consumed $\longrightarrow$ **user fees**
- Common examples of property ownership-based user fees...
  - Local public transportation
  - Water treatment plants
  - Sewer systems
  - Public school administration (if age-based circuit breaker)
- 21 states allow **special taxing districts** in which low-cost bond issues are (implicitly) backed by revenue cash flows

User fees are widely imposed across U.S. localities



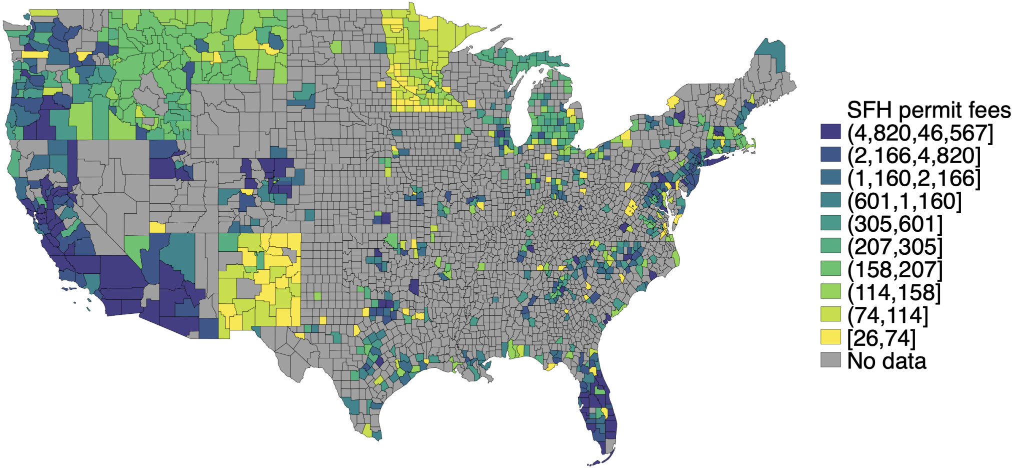
Source: Author's tabulations using CoreLogic Involuntary Liens data for 2015–2019.

User fees comprise $\approx 3-4\%$ of county-level tax revenues



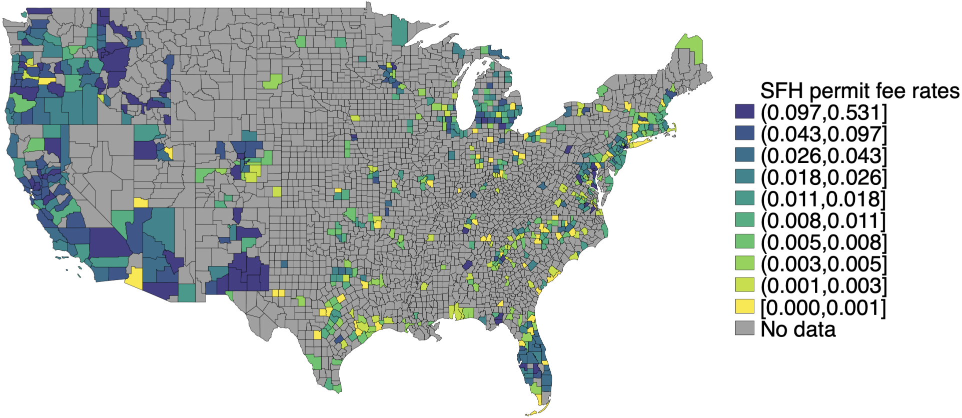
Source: Author's tabulations using local tax revenues reported in the Willamette University Government Finance Database.

Typical new SFH permitting fees very high in West Coast, FL



Source: Author's tabulations using CoreLogic Building Permits data for SFH permits filed in 2015–2019. Median permit fees deflated to real 2015 dollars.

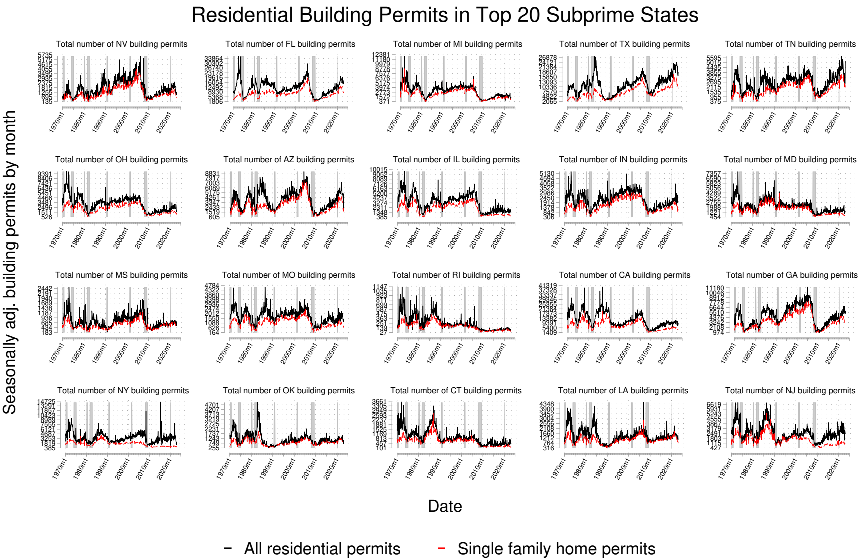
Impact fees can also be very high relative to property values



Source: Author's tabulations using CoreLogic Building Permits data for SFH permits filed in 2015–2019. Total permit fees divided by total project costs.

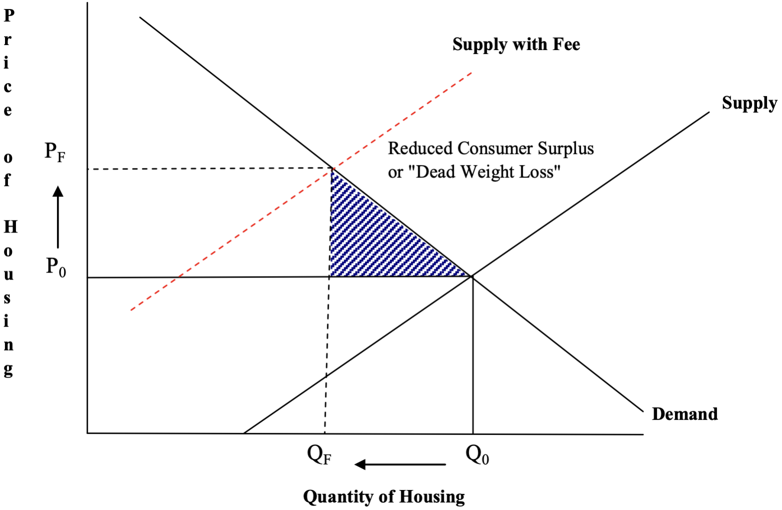
- Although all states have permitting fees, 29 states have formal impact fee statutes
  - **Missing data:** non-disclosure states + lax accounting for different permit types

Impact fees clustered in states with weak housing permit growth



Source: Cortes & LaPoint (2024): "Housing *Is* the Financial Cycle: Evidence from 100 Years of Building Permits."

Impact fees in a classic Econ 101 problem



Source: National Association of Home Builders (2018): "Impact Fee Handbook." [link]

$< 1\%$ of U.S. households priced out of ownership by fees

Figure 3.3 US Households Priced Out of the Market by Impact Fees, 2014

Description	Mortgage Rate	House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households That Can Afford House
Without Fee	4.50%	$275,000	$1,321	$391	$73,382	41,959,112
With Fee	4.50%	$276,370	$1,328	$393	$73,748	41,676,524
Difference		**$ 1,37**	**$ 7**	**$ 2**	**$ 366**	**- 282,588**

* Calculations assume a 10% down payment and a 45 basis point fee for private mortgage insurance. A Household Qualifies for a Mortgage if Mortgage Payments, Taxes, and Insurance are 28% of Income.

- **NOTE:** some strong assumptions in this calculation
  - Idea: impact fees increase disposable income threshold needed to buy house
  - In **high interest rate environment**, fees are a much smaller fraction of ownership cost
  - Fewer households qualify for mortgages when credit supply is tight

Are there differential effects on housing affordability?

- **Pass-through** of higher development costs to renters in supply-constrained areas where developers have *ex ante* market power
- **Pecuniary externalities depend on how the funds are earmarked**
  - In California, many SFH impact fees used as response to local population growth
  - If funds used to finance expansion of infrastructure, does this "fee for service" get positively capitalized into home values? (Cellini, Ferreira, Rothstein 2010)
- **Appeals magnify property tax regressivity** (Avenancio-León & Howard 2022)
  - May become easier to appeal impact fees after SCOTUS decision in *Sheetz*...
  - Homestead exemption undoes mechanical regressivity due to valuation techniques
- **Permitting fees might also crowd-out home renovations with positive externalities**
  - Bellon et al. (2024) show that liquidity constraints prevent green home projects

Summary: when are property taxes preferred to alternatives?

Alternatives to *Ad Valorem* Property Taxes

Instrument	Efficiency	Equity	Administration
Impact/permit fees	(−)	**(?)**	(−)
User fees	(+)	**(?)**	(−)
Special taxing districts	(+)	(+)	(−)
Tax increment financing (TIF)	(+)	**(?)**	(−)

Note: Assuming taxes levied in direct proportion to per-unit externalities.

- User fees more efficient than impact fees if the size of the externality can be accurately measured **(Pigouvian tax)**
- But require continuous monitoring of infrastructure use and revenue collection
- Easier to combine impact/user/district fees with (low-cost) bond financing options

Whither impact/user fees after the *Sheetz* SCOTUS case?

El Dorado County is the defendant in a U.S. Supreme Court case being heard early next year over whether its development impact fees reflect a project's actual impact.

- Similar issues in *Tyler v. Hennepin County* on home equity theft for delinquent taxes (LaPoint 2023)

- *Sheetz v. County of El Dorado*
  - Sheetz ordered to pay $23,420 fee for permitting new SFH in 2016
  - Used as congestion tax for roads in Sacramento/Lake Tahoe area
- 9-0 decision that there is no "legislative exception" to the Takings Clause
- Nollan-Dolan test: impact/user fees must
  1. Be related to "legitimate state interest"
  2. Have **"rough proportionality"** to the impact of the development
- $\Longrightarrow$ More scrutiny of fee magnitudes
  - "Render unto Caesar what is Caesar's"

THANK YOU!