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Impact Fee Use by Wisconsin Communities*

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Local governments in Wisconsin are now subject to a new state Impact Fee Law (Wisconsin Act 305), which was passed in 1994 and takes effect on May 1, 1995. Passage of Act 305 appears to have been advanced by a perception impact fees in Wisconsin were becoming widespread, and that fees were possibly becoming excessive and an obstacle to development. It therefore seems appropriate to examine how local governments in Wisconsin were using impact fees at the time Act 305 was passed.

This paper reports on the results of a study I conducted of impact fee use in 128 local governments in 11 counties in South East Wisconsin (Dane, Green, Jefferson, Kenosha, Milwaukee, Ozaukee, Racine, Rock, Walworth, Washington and Waukesha).+ purpose of this study was to identify and compare impact fees imposed by general purpose local governments. In some communities sewer and water connection fees were imposed by general purpose units of local government, but in many others such charges were collected by independent sewer and water districts. It was felt that including such charges in this study would result in misleading comparisons of the fees imposed by different governmental units. Sewer and water connection charges were therefore excluded for purpose of this analysis. (A separate survey was conducted of sewer and water fees imposed in South East Wisconsin by general purpose units of local government and independent sewer and water districts. The results of that study will be reported on in a subsequent report.)

Excluding sewer and water connection fees, it was found that 76 (59%) of 128 communities imposed some kind of impact fee(s), whereas 52 (40%) did not. Most impact fees were imposed only on *residential* developments, and not on *commercial* and *industrial* developments. Only 25 (33%) of communities with fees imposed some

kind of fee on non-residential developments. Impact fees were much more common in Dane, Washington and Waukesha counties than in others. Impact fees were particularly rare in Milwaukee County.

By far the most common purpose for which fees were imposed was for parks, recreation and open space. 71 (55%) of communities surveyed had ordinances authorizing fees for parks and open space. However, only 24 (19%) made payment of a fee for parks and open space mandatory in all cases. Two-thirds of the ordinances allowed developers to dedicate land for parks and open space "in lieu" of paying the fee, and only required payment of the fee when land offered for dedication was deemed unacceptable. Park and open space fees were specified either as a fixed amount (generally between \$200 - \$400 per housing unit or per lot), or as some proportion of the value of land which otherwise would have been dedicated.

Only 14 communities (11%) imposed fees on new development for public buildings and facilities (such as city buildings, libraries, police and fire stations) and/or for the purchase of capital equipment (such as public works vehicles, and fire and emergency vehicles). Half of the communities (7) imposing such fees were located in Waukesha County, and 3 were in Ozaukee County. Only 5 ordinances (4%) imposed fees for road improvements and traffic signals. Two ordinances imposed fees for bikeways. Twelve governments (9%) imposed fees for the costs of managing stormwater drainage coming off of new development. Twelve of 128 communities surveyed had ordinances imposing impact fees for schools-8 of them in Waukesha County. These school impact fees, which ranged from \$250 to as much as \$2,000 per unit, are now prohibited under Act 305, thus eliminating a major portion of the fees that were imposed by Wisconsin local governments in 1994.

Communities which imposed fees experienced substantially greater increases in population and housing than those which imposed no fees. Communities which imposed fees experienced a 12%-14% increase in population between 1980 and 1990, whereas communities which imposed no fees experienced an average population increase of less than 1%. The supply of housing units increased 26% between 1980 and 1990 in communities which imposed the highest fees, but only 14% in communities which imposed no fees.

Average 1990 per capita property valuation in communities imposing 3-4 fees was \$50,757, versus \$40,877 in communities imposing no fee. Per capita property valuations increased an average of 68% in communities with 3-4 fees, but only 37% in communities with no fees. Median house value in communities with 3-4 fees averaged \$98,193, versus \$78,644 in communities with no fees. This data should not be interpreted as implying that impact fees cause increased house prices. Rather, the data suggests that communities with high per capita valuations, high median house values and rising property values were much more likely to impose fees than communities that lacked those characteristics.

One reason for imposing impact fees might be to help reduce local property taxes. However, there is little evidence that this occurred. Although full value tax rates were somewhat lower in communities which imposed fees, the average 1992 per capita property tax levy in communities with 3-4 fees was \$1438, versus \$1220 in communities with no fees. Also, per capita local government debt was substantially higher in communities with fees than in communities without fees (\$743 versus \$381).

The study revealed wide dissimilarities in fee structures. For example, the Town of Waterford imposed a fee of \$600 per lot on subdivisions of 5 or more acres, but \$350 per on subdivisions of less than 5 acres. The Town of Summit imposed an open space fee of \$400 per lot, but only on subdivisions smaller than 10 acres. In the Town of Brookfield, a capital equipment fee was charged against multi-family and elderly housing units, but not against single family units. The Town of Lisbon exempted elderly housing from all impact fees. Whitewater imposed a \$200/unit open space fee on multi-family housing units, but exempted single family homes from the fee. The City of Mequon imposed the same capital improvement fee on multi-family units as on single family units.

As noted earlier, impact fees were more common in some counties than in others. The importance of

geography and location is also suggested by the fact that communities which imposed fees had lower population densities (823 persons per sq. mile) than those which did not impose fees (1644 persons per sq. mile). Looking more closely at the data, it appears that impact fees were especially common in moderately populated communities on the urban fringe (with population densities lower than cities but higher than rural towns); on the other hand, failure to impose fees was common in heavily populated urban centers, as well as in rural towns outside the path of development. One attribute that densely developed cities and sparsely settled towns often have in common is a weak property market.

Opponents of impact fees have argued that impact fees discourage development of new housing, and not only increase the cost of developing new housing units but also increase the cost of existing housing by restricting the supply of new housing. However, communities which imposed fees experienced greater population growth, and higher levels of housing construction than communities which imposed no fees. Nevertheless, median house values in communities with fees increased only slightly more than in communities with no fees. The data suggests that impact fees are not an obstacle to development, and may even reinforce and encourage development in communities where real estate markets are strong enough to support their initial imposition.

Although the imposition of impact fees has clearly increased in recent years, use of impact fees in Wisconsin still appears to be relatively tame. Forty-eight (38%) of local governments survey imposed no fee whatsoever; another 40 (31%) imposed only one fee, which averaged only \$362 per single family housing unit. Only 36 local governments (28%) imposed two or more fees. Even in communities which imposed three or more fees, total fees averaged only about \$1400-only 1.4% of the median house value of homes in these communities. (Edited by B.O.)

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†A more detailed report of the findings of this research can be obtained from the Department of Urban and Regional Planning, University of Wisconsin-Madison. Ask for Extension Report 95-2.