WESTERN UPSTATE
ASSOCIATION OF REALTORS®

Policy Paper and Position on

Impact Fees

A Development Impact Fee is a charge imposed on new developments to generate tax revenue to offset the impact that development will have on local government capital facilities. Builders and developers pay the impact fee to offset the share of the impact their development will have on public facilities. Those impact fees are ultimately passed on to the buyer, whether a homeowner or business, through higher construction costs.

Statement of Position

The Western Upstate Association of REALTORS® believes that funding of improvements to capital facilities must be equitably distributed among all parties that have an impact on capital facilities. Therefore, the Western Upstate Association of REALTORS® supports the South Carolina Development Impact Fee Act of 1999. However, research indicates that in most cases new development already pays its fair share.

What to know:

Impact fees lead to much higher costs than the fees themselves:

1) Impact fees have a substantial effect on affordable housing because the fee is uniformly applied to all residential housing, whether the new home price is $200,000 or $2,000,000. These fees, when attached to the price of a new home, disproportionately affect affordable housing and families least likely to be able to afford the additional cost.
2) Impact fees, imposed on builders/developers and passed on to the home buyers, are typically at a higher rate than the original fee. Finance charges, carrying costs, brokerage commissions, and other “overhead” will ultimately raise the final cost paid by home buyers and businesses.
3) Impact fees, when added to the purchase price of a new home, often increase even more because of the cost of financing. In the end, a homebuyer could pay three times the original amount of the impact fee after mark ups and financing costs.
4) Rising new housing prices resulting from impact fees will tend to boost the value of existing homes.
5) Impact fees aren’t just assessed on new housing development. All development that impacts capital facilities will be assessed. For multifamily and commercial development, impact fees can exceed $1 million, effectively killing some projects.

Impact fees disproportionately benefit owners of existing homes and businesses at the expense of buyers of new homes and businesses. And that new construction is the result of the economic development activity that we gleefully cheer. And in the case of housing, new homes are purchased by new residents at about the same ratio as existing housing, which means that only

about 10-20 percent of new homes are bought by new residents. The rest are bought by families who already live in the community.

Impact fees also do not contribute to sound planning principles because they contribute to sprawl. Not all jurisdictions will see the value in impact fees, particularly if they place a higher value on economic development. As a result, price sensitive development will often occur in areas that don't impose an impact fee, which can contribute to sprawl.

Impact fees cannot be used to maintain existing infrastructure and public facilities. A common misconception about the fees is that they can be used anywhere; however, state and federal law requires the fees to be applied to maintaining current levels of service, not increase it.

Housing's economic impact

Impact fee proponents usually assert that residential development does not pay for itself; however, this assertion is not always true. A study by the National Association of Home Builders in Greenville County found that housing pays for itself in that county from the day the home is occupied. That study shows that by the end of year fifteen, the operating surplus in Greenville County from new residential development produces an estimated $178.0 million in taxes and fees to government greater than the new development's impact on capital facilities.

The problem in many counties and cities is that they commonly reduce property tax rates as revenue from new growth is received. That is great for existing residents, and when that occurs, it's not new development that is not paying for itself, it's existing development. The problem is, new development still requires government services, but government has taken the revenue necessary to serve new development and given it to existing residents in the form of a tax reduction. It is unfair, and wrong, to say new development doesn't pay for itself.

Our position

It is our position that capital facilities should be funded by the broadest possible funding sources and impact fees should only be considered where there is an obvious nexus between the development and the need for expanded capital facilities. And the impact fee should be proportional to the development's impact on capital facilities.

Adopted:
Board of Directors: December 5, 2023