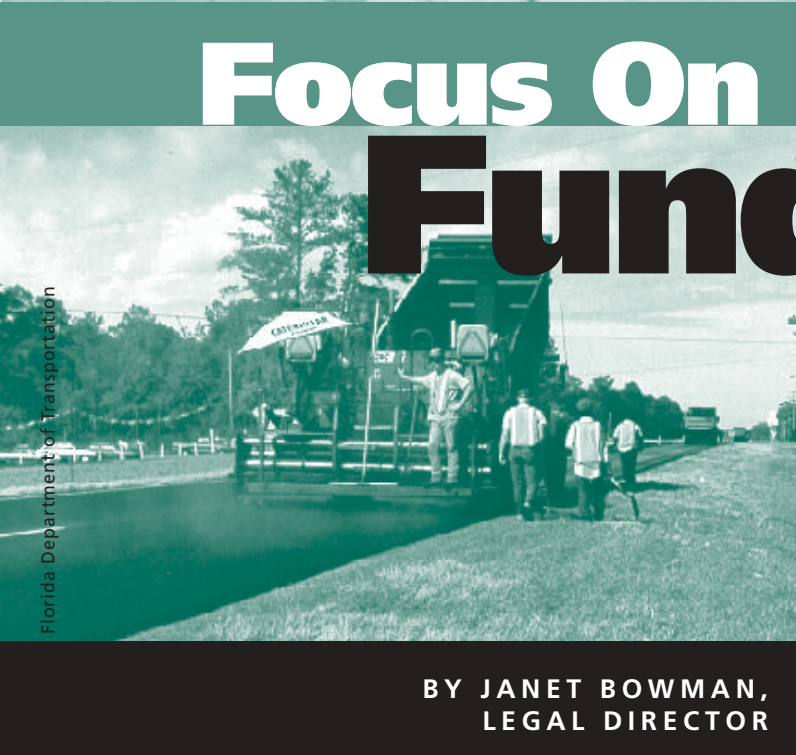


FORESIGHT



Division of Historical Resources



Florida Department of Transportation

Focus On

Funding

With crowded schools, traffic-jammed roads and worsening water shortages, communities across Florida are finding it increasingly difficult to keep up with the consequences of growth. Funding the infrastructure necessary to support effective growth management policies has been problematic since the enactment of the Growth Management Act in 1985. Since then, nine blue-ribbon commissions have studied this issue, generally agreeing that there is a “deficit” in local governments’ ability to fund and build needed infrastructure. Besides recommending the creation of incentives for directing future development patterns to maximize existing infrastructure, repeated recommendations have included modifying the approval provisions for existing local option taxes, expanding the list of authorized expenditures for these taxes, enacting full cost accounting and establishing partnerships for funding.

Local governments use a patchwork of funding sources to finance infrastructure costs. Local sources include user and impact fees, local option taxes, special assessments and ad valorem revenues. State revenue sharing dollars, some of which

Recent Trends in Infrastructure Funding in Florida

can be used for infrastructure, have been declining. Finally, local governments receive various federal and state grants.

Limitations placed on many locally levied revenue sources affect the flexibility of local governments to finance infrastructure. For example, the use of special assessments and impact fees is restricted because there must be a nexus between the benefit received by the user of the infrastructure and the impact fee or assessment paid to the

local government. In addition, many local option sales taxes can only be used to pay for capital projects, not for operating expenses.

Procedural requirements also limit some revenue sources. Many local option taxes require referendum approval, and one study found that, between 1980 and 2001, fewer than half (47 percent) of county referenda for local option sales taxes were approved.

Continued on page 9

BY JANET BOWMAN,
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HINDSIGHT

"Tax reform is not a growth management issue!" Only recently have we heard some colleagues challenge the validity of this widely accepted statement. Perhaps it is time we reconsider.

After all, adequate funding of infrastructure has long been a priority of 1000 Friends of Florida as we advocate smart management of growth and change in communities throughout

Sustainable Funding for Growth Management Needed

BY TIM JACKSON

A principal in the community planning consulting firm of Glatting Jackson Kercher Anglin Lopez Rinehart, Inc., Jackson is the incoming president of 1000 Friends of Florida.



the state. With adequate funding levels, elected officials are able to set investment priorities that best meet community needs. Unfortunately, many of the funding sources are not sustainable; that is, the revenues they generate do not keep up with the demands for infrastructure investment. For example, most of our gas taxes are levied on a per-gallon basis, meaning that revenues grow only if consumption grows—with no adjustment for inflation in infrastructure costs, fuel efficiencies, or the use of alternative fuels. Thus the demand for maintenance and improvement of roads and transit systems has grown faster than the gas tax revenues that support these functions. Similarly, in the debate over proposed sales tax reforms, many professionals argue that sales tax revenues do not keep up with our needs for the goods, services, and infrastructure that they fund. Unless Floridians take some action to adopt funding sources that are sustainable, growth management will remain a "we versus they" debate, pitting economic development advocates against environmental advocates. Instead, we need to direct our financial resources to achieve what must be our common goal: great communities that we are proud to pass on to our children and grandchildren. My point here is not to advocate a position on these issues. Rather, it is to encourage growth management advocates to become involved in these continuing debates. Clearly, decisions regarding gas and sales tax reform can profoundly impact our ability to manage growth and change—in both positive and negative ways. Let us not stay out of these debates simply because these are not traditional issues for growth management advocates.

The last issue of Foresight included an excerpt from Robert Davis' article, *Northwest Florida: Last Chance to Protect Paradise*. The complete article is available at www.1000friendsofflorida.org.



FROM THE DIRECTOR



Charles G. Pattison

1000

Friends was one of the first groups to endorse Governor Bush's idea that not only should development pay for all the public costs it creates for services, but that local government should be provided with tools to help determine what those costs are. Everyone agrees that a better understanding of development impacts should not only lead to better, more informed land use

decisions, but that the system for assessing the cost(s) of new development would be more fairly and accurately determined.

The Pros and Cons of Full Cost Accounting

This concept, with some reservations, was nurtured and endorsed by the Governor's Growth Management Study Commission. The charge has since been managed by DCA through a contract with Fishkind & Associates to prepare a usable, fair and equitable model for use in selected test communities before it is considered for statewide application sometime in 2004. In addition to the accuracy of the model, the burgeoning questions have become usefulness, accuracy and availability of input data, and utility of an advisory application of model results.

With many others, we saw the advantages of a comprehensive approach that assessed development impacts, and thereby proportionate costs, to community infrastructure like roads, water, sewer, parks and recreation, libraries and schools. What we did not and have not seen, is a willingness to consider the social and environmental impacts and costs of new development decisions. For example, from a strictly fiscal cost basis, how does one justify affordable housing? In a similar vein, how does one determine the value of secondary or tertiary sewage treatment? What price do we assign to wetlands or rare upland habitat that might be destroyed or displaced?

For us, these are the kinds of questions that a "true" full cost accounting effort must address. We hear the model being developed is meant to show "fiscal" impacts only, and will be just another tool for making better development and land use decisions. The social and environmental impacts and costs are to be left to individual local government policy considerations. How fair, uniform, or predictable is that?

There are other dilemmas. Not the least of these are adequate funding for all types of public infrastructure and the fairness associated with applying the model to "new" development before determining the existing deficits already present from "old" development that in most cases has never paid its fair share to offset its impacts. I hope you will keep these unresolved issues in mind as you read the many perspectives brought to this edition of *Foresight* by a distinguished group of authors.

FOCUS ON FUNDING

Funding for Growth Management: What Florida Needs

DR. JOHN M. DEGROVE

Dr. John M. DeGrove served as Secretary of the Florida Department of Community Affairs from 1983 to 1985, when Florida's current growth management process was established. He also played an instrumental role in founding and leading 1000 Friends.



The failure to fund Florida's growth management system in a manner that supports its full and fair implementation and makes it an effective smart growth strategy has been and continues to be a critical challenge. That failure, in turn, comes directly from our failure to correct a tax structure that does not yield the revenues needed to implement a growth management system that is, in itself, conceptually sound. This is the core message I would like to instill.

When the system was strengthened substantially in the mid-1980s by adopting almost all the recommendations of ELMS II, that group sent a clear message to the governor and legislature: if you can't or won't provide the funding to allow the full and fair implementation of the system, don't adopt it at all. The solution, short lived though it was, came out of a mandate in the newly adopted State Comprehensive Plan that called for establishing the State Comprehensive Plan Committee. Chaired by Charles J. Zwick, the 20-member group was charged "with calculating the costs of implementing the State Comprehensive Plan and with recommending specific ways of paying for those costs."

The Committee's report, *Keys to Florida's Future: Winning in a Competitive World*, stated plainly that Florida did not have a tax structure that would produce the dollars needed to implement its newly adopted growth management system, faced as it was with a multi-billion dollar shortfall in carrying out its mandates.

The proposed solution was to extend the sales tax to services. The 1987 legislature, with the full support of newly elected Governor Bob Martinez, did just that, and for six months the state collected the new revenues, earmarked for an Infrastructure Trust Fund from which the state would keep its commitment to pay its share of the concurrency requirement imposed on local government by the new system. Some \$500 million was collected in that time, after which Governor Martinez turned against the new tax and, in a series of bitter special sessions of the 1988 legislature, the tax was repealed and replaced by a one-cent increase in the sales tax on commodities.

This action set off a struggle to find the revenues necessary for the full and fair implementation of the growth management system that continues into 2002. Had the sales tax on services been kept in place, more than \$25 billion would by now have passed through to local governments for the trust fund. This would have made a great difference in providing the incentives needed to bring local governments fully into the system.

I have long contended that repealing the sales tax on services was the worst public policy decision in the history of state. Efforts since then to re-enact some version of the sales tax on services have not been successful. The result is a smart growth system that is conceptually sound, but lacks a tax structure to support its full and timely implementation.

Florida has been a national leader in funding for affordable housing and the acquisition of environmentally sensitive lands. But if Florida is to achieve smart growth for the long term, it is imperative that we find new funding to support an effective growth management system that will lead to sustainable natural and urban systems.

Palm Beach County Convention & Visitors Bureau





Vivian Young

Affordable Housing—Florida has the largest dedicated funding source for affordable housing in the nation, generating \$250 million in 2002 alone. 1000 Friends was instrumental in establishing the coalition that secured passage of the William E. Sadowski Affordable Housing Act of 1992. This act increased the documentary stamp tax paid on the transfer of all real estate in Florida. The monies generated are split between state and local housing trust funds. Since its inception, the act has leveraged several billion in private and other public investment dollars, and has resulted in the creation of over 100,000 new units of affordable housing.

Historic Preservation—Since 1983, more than \$180 million in state grants, matched with \$360 million in local funds, have been awarded for over 2,500 historic preservation projects across the state. These projects include building rehabilitations, historic site surveys, archaeological investigations, preservation planning and community education activities.

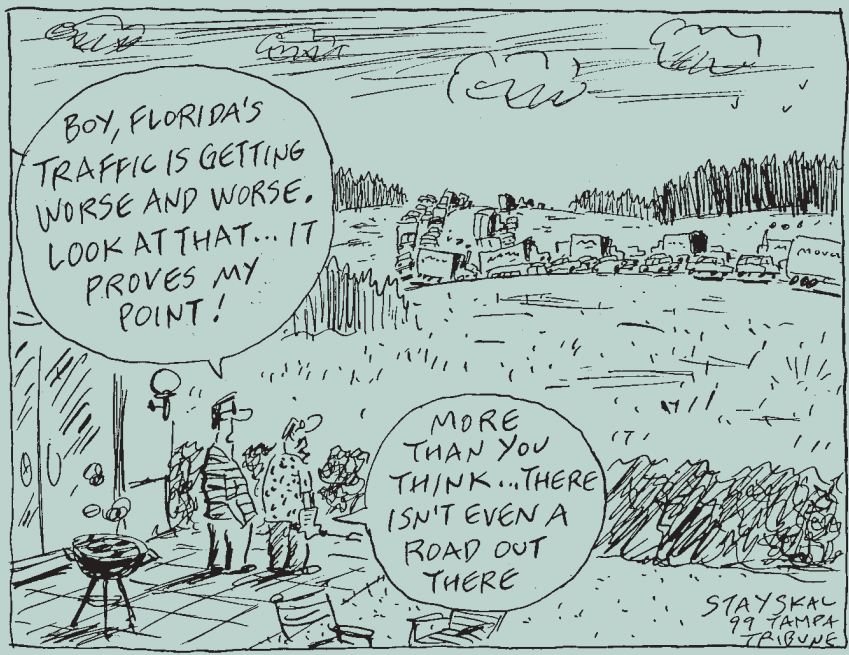
Funding Success Stories

Land Acquisition—To protect environmentally sensitive natural areas from development, Florida has one of the most aggressive land acquisition programs in the nation. Today, more than 1.25 million acres of land are in public ownership. Most of this is due to two \$30 billion programs—the Preservation 2000 program, launched in the 1990s, and its successor, Florida Forever, created in 1999. Earlier efforts include the \$20 million bond issue of 1968, and several 1970s initiatives, including the Environmentally Sensitive Lands, Save Our Rivers, and Save Our Coasts programs. Additionally, to date, 25 counties and several municipal governments have established locally-funded land acquisition programs.

Now Available!

A Healthy Environment and a Strong Economy: A Citizen's Guide to Smarter Growth in Martin County

This reader-friendly handbook outlines how the citizens of Martin County can help protect their quality of life, promote a stronger economy and better protect natural resources by following the principles of smart growth.



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It is available: On-line at www.1000friendsofflorida.org or by calling 850.222.6277

(Free to Martin County residents; \$3 shipping and handling for all others)

This guide was funded in part by: Curtis and Edith Munson Foundation ■ Norcross Wildlife Foundation ■ Northern Trust Bank of Florida ■ Martin County Members of 1000 Friends of Florida



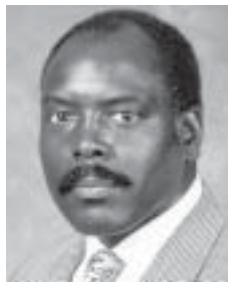
Florida Department of Transportation

As I write this piece, I am heading out the door to another meeting of the Fiscal Impact Analysis Model (FIAM) Work Group. Our goal is to develop a working model for local governments to use to determine the fiscal impact of planning decisions. The model's first incarnation will have an open architecture, using baseline data for cost of services that were developed in conjunction with seven pilot communities. This cost averaging approach is sufficiently broad and adaptable so that local governments may use these costs for services or plug in known data. Beta testing within the pilot communities is underway.

The Fiscal Impact Analysis Model: A Work in Progress

BY THADDEUS COHEN

A member of the board of 1000 Friends of Florida and an architect by profession, Cohen served on the Governor's Growth Management Study Commission and subsequently was appointed by Governor Bush to the Fiscal Impact Analysis Model Working Group.



What is often missing in policy considerations is the ability to analyze options, to see their ramifications. Policy makers can use the FIAM to develop various growth scenarios, and to test each one against current capital and human resource outlays as well as future expected expenditures. This conjoining of the planning process with cost and investment considerations can help them understand the dynamics at play within their communities.

In developing the model, we discovered that major policy questions have not been answered. What will the model tell us, and how will the information be used? Many of us in the work group feel the model should be a tool to help policy makers better understand the fiscal implications of their planning decisions. The comprehensive plan, which is the blueprint for the community's growth, should align with the costs to provide the services to support that growth.

Does it account for the unfunded backlog of infrastructure, and who will pay for growth? While the model does acknowledge that there are costs, it is not about assigning them. And yes, the unfunded backlog is accounted for; therefore, the model accounts for the cost of new growth or development.

The use of this tool also is being hotly debated. There is a danger that policy makers could turn the FIAM into a scapegoat to avoid making tough policy decisions—the model-made-me-do-it syndrome. This tool is not intended to be used as a thumbs up or down on a particular project. Clearly, there are projects that a community feels are important that do not pay for themselves but serve the community. For example, to reject such projects as affordable housing, a stadium or a convention center because they do not cover their share of the cost of services is misguided. Similarly, to only plan for gated communities because of their low service costs distorts the sense of a balanced community, which is vital for Florida's future economic prosperity.

The model's best use will be to monitor the collective decisions that are being made and to test them against the visions set forth in the local plan. In other words, are we building the community we said we wanted, and are we prepared to provide the resources to support that vision?

The fiscal analysis impact model will be another tool in the growth management tool box. As with any new piece of equipment, practice and care will be required to operate it effectively. Above all, those who become skilled in its use will also need to apply good judgment and common sense.

A highly volatile and emotional issue, sales tax reform directly affects virtually everyone personally. Reform is usually semi-permanent—we feel its consequences for many years to come, and once changes are made, no one wants to revisit them any time soon. Further complicating things, there never is a “good” time to undertake tax reform. The argument goes, in tough economic times people will be forced to pay more taxes, making it more difficult for business in already challenging times. In good times, it’s hard to make the case for needing reform because the money is rolling in and there are huge surpluses. Plus, critics fear, changing the tax structure might hurt businesses and bring the booming economy to a halt.

Why is a booming state like Florida, with so much growth and so much economic activity, constantly falling short in its budget in the first place? Most tax experts will tell you that best approach is a very broad base with a very small level of taxation. In 1964, for example, Florida’s 3 percent sales tax covered 68 percent of our economy activity. The worst situation is to have a narrow base and ever-escalating increase in taxes. Today’s tax rate of 6 percent (with a 1 percent local option) covers only 55 percent of Florida’s economy (probably due to the increase in services in today’s economy). If Florida is not going to initiate an income tax, and most agree this will not happen, it is critical to make sure that the sales tax is appropriately allocated. It is, after all, the driving force in Florida’s revenue.

As one who was involved in the 1987 attempt to implement the services tax, I would like to offer some observations.

First, the timing of reform is critical. When the Legislature passed the services tax in 1987, the bill did not get to Governor Martinez until mid-June. The tax took effect July 1. That was a major mistake. With only a few weeks’ notice, businesspeople across the state were suddenly having to direct their bookkeepers and sales people to collect this new tax. No rules had been completed outlining the procedure and the process. There were no seminars on how or when to collect the tax. No forms to submit the tax had been printed. Any new tax needs sufficient lead time to be implemented.

Second, the heat will get intense. The 1987 services tax caused panic in July. If businesses didn’t collect enough, they would have to make up the

difference. If they overcharged, they might get outbid by a competitor. In August—when July’s taxes needed to be submitted to the state—tensions increased and, wisely, this was when the advertisers launched their major attack opposing the services tax. They did the politically smart thing, zeroing their attacks on one person, the Governor. Governor Martinez felt the heat and reacted quickly.

Third, it is important to stay the course. Every legislator needs to consider the issue very seriously, and should not opt for an increase in taxes unless he or she has really analyzed the situation and is prepared to stay the course. The 1987 services tax was in effect for less than two months when Governor Martinez started backing down. He first called for a referendum to find out what people thought about the tax. Many legislators quickly jumped on the referendum bandwagon. One segment supported the services tax, another called for its repeal, and a third advocated “repeal but replace.” Social groups, which stood to benefit most from the services taxes, were asked to drum up support. But as the political

winds shifted, they started supporting the move to repeal the services tax and increase the sales tax from 5 percent to 6 percent. Six special sessions later, in December of 1987, the “repeal and replace” segment won.

The current political rhetoric suggests that tax increases will be considered next year. Whether it’s expanding the sales tax, creating a new tax, or increasing existing taxes, legislators need to take a lesson from the 1987 services tax debacle. If there’s not a strong consensus on the tax issue, nothing will happen—nor should it.

Some Observations on Sales Tax Reform

BY CURTIS KISER

Kiser served in the Florida Senate from 1984 to 1994, and in the House from 1972 to 1982. Now a partner with the law firm of Holland and Knight, since 1996 he has been on the Board of Directors of 1000 Friends of Florida.





At long last, the necessary steps to bring about school concurrency to Palm Beach County are complete. At last there is a planning agreement between the county, school board and municipalities to ensure that, when a residential development opens, a school is in place to accommodate the new population growth. The road to implementing school concurrency has been long and often tedious, but along the way, local entities found new ways to coordinate priorities and collaborate.

School Concurrency: Real Partnerships Survive the Test

BY KAREN T. MARCUS

1000 Friends' Board
Member Karen T. Marcus
has served on the Palm
Beach County Board of
County Commissioners
since 1984 and has been
a tireless advocate for
school concurrency.



School concurrency took root about seven years ago in Palm Beach County in a booming construction climate. As developers built more and more new homes, classrooms became increasingly overcrowded and school construction lagged farther and farther behind. At first, the developers opposed such a plan, concerned that it would limit or severely halt construction in good economic times. Municipalities, too, felt threatened, fearing they would have to give up control over planning within their own jurisdictions. The school district knew it would be faced with accommodating plans for building new schools and expanding others. To bring these entities together and put a plan in place would require years of negotiation and compromises and concerted action by all concerned.

Because the state requires that school concurrency be countywide, the first step was for local governments in the county to enter into an "interlocal agreement" with the school district to implement school concurrency. In Palm Beach County, this involved 28 agreements—26 municipal jurisdictions plus the county and the school board. Eleven other municipalities in the county could opt out because they had no schools within their boundaries, were more than 80 percent built out or had approved fewer than 50 new homes in the previous five years. Second, participating cities had to have a comprehensive plan adopted within one year of the agreement's execution. Next, the state Department of Community Affairs had to process the municipalities' amendments. To expedite the review process, DCA used Palm Beach County's amendments as a model. Finally, the Board of County Commissioners had to incorporate the process into the Unified Land Development Code.

With all these requirements having been met in late June, Palm Beach County's concurrency ordinance came to fruition and is now in effect. The goal now is that by 2004, all schools in the county will be operating at no more than 10 percent over their capacity.

I am extremely proud that Palm Beach was the first county in the state to successfully complete the concurrency process. This would not have been possible, however, without all of the partnerships that were formed. The bottom line is that commitment to meeting our students' educational needs in a growing county like Palm Beach took precedence over bureaucracy, resulting in cooperation to achieve mutual goals. Who could ask for more?

The Growth Management Act does not need reforming or renaming. It needs proper funding. This was promised by the authors of the Growth

Management Act in 1985, but policy makers since then have failed to keep the promise. Growth management without adequate, reliable funding is meaningless.

Given sufficient resources, local governments are free to make land use decisions based on community visions. Without such resources, communities move to ever higher exactions and impact fees. The result is more home buyers having to choose homes that are farther from their jobs, causing more “car time” and more sprawl. You get the picture: the unintended consequence of inadequate funding is communities planning with one arm tied behind their backs.

A prime example of this funding dilemma can be seen in school construction. The Florida Home Builders Association (FHBA) has always supported quality public schools. Our children attend these schools, too, and the home-builder community cares deeply that schools must provide the kinds of learning environments needed for success. However, the trend toward funding schools through ever increasing impact fees places an unfair burden on a small segment of Floridians.

The FHBA believes that new homes, and the Floridians that buy them, should pay their fair share of infrastructure costs. However, not all types of infrastructure are the same, and the growth in demand for infrastructure is not due solely to new development. For example, 50 to 70 percent of the new students in many school districts in a given year are attributable not to new home construction but rather to in-migration and birth rates. Likewise, the increase in trips on our roads is not just result of more houses but also of more cars per capita, more trips per car, and more tourists. Reliance on impact fees or any other fee structure to fund infrastructure that does not match those entities generating the demand is doomed to failure. Impact fees, because they are fixed assessments and not based on value, fall disproportionately on modest homes.

The FHBA has long been a supporter of broad-based taxes to fund infrastructure. This position is based not on self-interest but on fairness. Communities and no-growth advocacy groups cannot control development by strangling the funding of infrastructure, as happens when referenda on local funding issues occur. The consequence of inadequate funding is not less growth but less growth management.



Vivian Young

Growth Management and Funding: The Florida Home Builders Association Perspective



The Florida Home Builders Association (FHBA) is a 15,000 corporate-member professional and trade association representing the residential construction industry in Florida. FHBA's cornerstone is its governmental affairs, political action and legal defense programs designed to promote and protect homeownership opportunities in Florida.

Recent Trends

Continued from front cover

At the state level, the Legislature has been reluctant to give local governments more flexibility to levy and use some authorized revenue sources, authorize new local option taxes, or provide additional revenue sharing dollars. For example, as part of the growth management package for the 2001 legislative session, the Senate proposed allowing school boards and local governments to levy the school capital outlay surtax and infrastructure sales surtax by a supermajority vote of the governing body, rather than by referendum to fund school construction. Ultimately, on the last day of the session, this provision was removed from the bill.

Once again, for the upcoming budget year, the state faces serious financial challenges. Given declining sales tax revenues, increases in medicaid and education costs, the loss of federal estate tax revenue, and the new requirement that the state pay Article V court costs, it is unlikely that local governments will receive any immediate relief from the state.

On a more positive note, in the past year, school boards and local governments have been unusually successful in receiving voter approval to levy local option sales taxes. For example, voters recently approved referenda to levy or extend the school capital outlay surtax in Escambia, Flagler, Orange, Manatee and Volusia Counties. If these trends continue, local governments will continue to rely primarily on locally levied revenue sources to fund infrastructure needs.

	RESIDENTIAL		GENERAL		
	Single	Multi	Industry	Office	Retail
	Each Dwelling			Per 1,000 Ft	
ROAD					
Maximum	\$4,631	\$3,235	\$2,279	\$4,892	\$8,172
Minimum	\$141	\$123	\$43	\$162	\$334
Average	\$1,455	\$981	\$815	\$1,588	\$2,966
Median	\$1,259	\$832	\$799	\$1,450	\$2,690
PARKS					
Maximum	\$2,480	\$1,714	(a)	(a)	(a)
Minimum	\$92	\$79	(a)	(a)	(a)
Average	\$535	\$420	(a)	(a)	(a)
Median	\$386	\$338	(a)	(a)	(a)
STORM DRAINAGE					
Maximum	\$640	\$367	\$381	\$841	\$976
Minimum	\$160	\$267	\$213	\$429	\$705
Average	\$400	\$317	\$297	\$635	\$841
Median	\$400	\$317	\$297	\$635	\$841
WATER					
Maximum	\$2,720	\$1,904	\$489	\$1,630	\$987
Minimum	\$237	\$196	\$64	\$335	\$445
Average	\$1,186	\$964	\$230	\$918	\$750
Median	\$1,059	\$912	\$138	\$788	\$819
SEWER					
Maximum	\$2,691	\$2,499	\$305	\$1,745	\$2,181
Minimum	\$299	\$199	\$201	\$985	\$493
Average	\$1,633	\$1,371	\$267	\$1,293	\$1,370
Median	\$1,584	\$1,340	\$295	\$1,148	\$1,435
SCHOOL					
Maximum	\$2,828	\$2,081	(a)	(a)	(a)
Minimum	\$348	\$66	(a)	(a)	(a)
Average	\$1,546	\$931	(a)	(a)	(a)
Median	\$1,260	\$759	(a)	(a)	(a)
PUBLIC FACILITY					
Maximum	\$308	\$308	\$235	\$637	\$1,533
Minimum	\$26	\$26	\$7	\$17	\$17
Average	\$158	\$140	\$71	\$164	\$304
Median	\$157	\$143	\$49	\$115	\$214
SOLID WASTE					
Maximum	\$160	\$160	\$170	\$90	\$450
Minimum	\$64	\$61	\$54	\$54	\$54
Average	\$98	\$95	\$112	\$72	\$252
Median	\$70	\$64	\$112	\$72	\$252
PUBLIC SAFETY					
Maximum	\$246	\$246	\$147	\$147	\$210
Minimum	\$31	\$23	\$4	\$19	\$5
Average	\$86	\$79	\$33	\$68	\$95
Median	\$73	\$58	\$19	\$60	\$77
LIBRARY					
Maximum	\$280	\$242	(b)	(b)	(b)
Minimum	\$54	\$54	(b)	(b)	(b)
Average	\$152	\$134	(b)	(b)	(b)
Median	\$139	\$123	(b)	(b)	(b)
TOTAL (c)					
Maximum	\$17,329	\$12,994	\$4,191	\$10,167	\$15,479
Minimum	\$1,516	\$1,137	\$636	\$2,051	\$2,103
Average	\$7,397	\$5,545	\$1,921	\$4,835	\$6,930
Median	\$6,512	\$4,986	\$1,763	\$4,322	\$6,525
TOTAL LESS UTILITIES					
Maximum	\$11,918	\$8,591	\$3,397	\$6,792	\$12,311
Minimum	\$980	\$742	\$371	\$731	\$1,165
Average	\$4,578	\$3,209	\$1,424	\$2,624	\$4,810
Median	\$3,870	\$2,734	\$1,330	\$2,386	\$4,271
SAMPLE SIZE					74

It is no surprise to observe there has been a revolution in governmental finance. “Down with taxes!” has been the battle cry of this modern day revolution. While actual taxes paid have rarely, if ever, actually fallen, all levels of government have had difficulty finding revenues to meet desired service levels. Given a tendency toward federal fiscal retrenchment, local and state governments have looked for “innovative” and “creative” methods of revenue generation. It would appear that both of these methods of finance involve finding someone else to pay. As revenue sources became more difficult to find, lower priority expenditures were first reduced and often eliminated.

Unfortunately, because it is easier to cut capital spending than continuing operations, “infrastructure” became a frequent fatality.

Even within a general context of tax limitations, taxes have been increased. Although motor fuel taxes, a major component of infrastructure finance, have been increasing at an annual rate of 13 percent per year (combined state and federal), these increases have been insufficient. Additionally, while virtually all states have increased general taxes, as have most local governments, these also have been insufficient to counter the decline in infrastructure finance.

Investment in public capital—infrastructure—has been so low that the aggregate stock of public capital is declining in the United States. Almost daily reports of falling bridges and unheard of traffic delays confirm this decline.

Clearly, additional resources are needed. No student of this subject has failed to recommend massive additional resources. The issue is, what will be the source, or sources, of these resources? One commonly used means is assessments on new development: impact fees.

Impact fees were first used in California, Texas and Florida, the three states with most of the nation’s new development. Today, in one form or another, they are found throughout the

The Rise of Impact Fees in Local Government Finance

BY JAMES C. NICHOLAS¹

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¹ J. Nicholas, Practitioners Guide to Development Impact Fees, Chicago: American Planning Association, 1991, p.2ff. Also see Gus Bauman and William Ether, “Development Exactions and Impact Fees: A Survey of American Practices,” *Law and Contemporary Problems*, 50:1, 1987, pp. 51-68.

² *Contractors and Builders v. Dunedin*, 329 So.2d 314 (Fla. 1976).

MEMBERSHIP HIGHLIGHTS

country.¹ Though they sometimes are called hook-up or connection charges, facility benefit assessments, or system improvement charges, the most common name is impact fees. Regardless of what they are called, they all have the same purpose of shifting a portion of capital costs to new development. Today, impact fees exist for capital improvements to:

- potable water
- solid waste
- arterial roads
- local roads
- parks
- fire protection
- public buildings
- emergency medical service
- sewers
- drainage
- collector roads
- public schools
- public libraries
- law enforcement
- public cemeteries

In addition, linkage fees, a close relative of impact fees, exist for:

- low income housing
- mass transit
- art-in-public places
- job creation
- day (child) care facilities
- affordable & employee housing

Impact fees are charges enacted by local government to recoup a proportional share of the cost to provide new development with capital facilities. Thus, the fee amount is based upon this cost. The Florida Supreme Court expressed the concept of impact fees as follows: “The cost of new facilities should be borne by new users to the extent new use requires new facilities, but only to that extent.”²

RISING COSTS, RISING FEES

One of the first of what we today would call an impact fee was adopted by Broward County in 1972. A charge of \$200 per residential unit was paid at the issuance of a building permit. As impact fees have grown to become an important component of infrastructure finance, so the amount of these charges has risen substantially. Today the average road impact fee in Florida is \$1,455 for a residence. Impact fee collections in Florida are estimated to exceed \$1 billion annually and finance as much as 25 percent of all infrastructure spending. While impact fees are controversial, they do fill a need for additional resources. Given the reluctance of legislative bodies to provide additional general resources, the expectation is that impact fees will assume a greater role in the future, and in even greater amounts. This may be especially true for public schools.

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FROM THE CHAIRMAN EMERITUS



Florida is precariously balanced between change and preserving what we have and love. Government, organizations and individuals must ensure that we grow sensibly and equitably. 1000 FRIENDS OF FLORIDA wants to be a part of the solution. We are determined to see Florida's quality of life protected and preserved.

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Nathaniel Reed
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