

Remarks to Republic City Council
Matt Morrow, CEO
Home Builders Association of Greater Springfield
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I'd like to begin by thanking City Administrator Jim Krischke for his approach to this issue. In my job I see city staff handle matters like this in exactly the wrong manner too often. Your approach has been respectful, and as a partner genuinely seeking honest input that can affect the process. And I want to thank you for that. We may not always agree on what should happen, but there is no doubt that the City of Republic sincerely wants input from the building industry.

It is the position of the HBA of Greater Springfield that community-wide infrastructure should be supported by community-wide funding sources, rather than "impact fees" on new housing. We believe impact fees unfairly place a disproportionate share of the cost of community growth on a small segment of the overall community: buyers of new homes.

Impact fees attach a significant non-market cost to the already considerable costs associated with buying a new home. The buyer of a new home in Republic receives nothing "extra" for the \$740 that is added to the cost of their home. They get water and sewer - just like everybody else in Republic does. And they also pay the same monthly water and sewer rates that everyone else in Republic pays for the service. The disincentive to someone who might prefer to buy a new home in Republic (including anyone who already lives here) is that, in addition to paying for water and sewer services through their rates, they also get penalized another \$740 on the front end.

Yet, one of the big selling points often used for impact fees is that they are somehow more "fair." Proponents argue that new construction and development should "pay its own way." Consultants collect handsome fees for allocating the cost side of development's accounting ledger. Few make any attempt to quantify the economic benefits side of that same ledger. To be fair, and to accurately assess the "impact" of home building on a community's economy, shouldn't we look at the whole picture?

Last year, for the first time, the Springfield, MO MSA finally received a full analysis!

An economic impact study conducted by the National Association of Home Builders (NAHB) Housing Policy Department, shows that the home building industry here not only pays for itself, its net economic impact results overall in more income, jobs and additional revenue for local governments. Examining the impact of the construction industry in three phases: the construction phase; the ripple effect; and, the occupancy phase. The economic impact of the three phases are added up, and then compared to the cost of services such as education, fire, police, utilities, parks and recreation and roads that are required to support the new housing units. The methodology for the study has been peer reviewed, and used repeatedly by reputable academic institutions like MIT, Harvard, and others.

The study found that every 938 single-family homes built in the Springfield, MO MSA will generate thousands of jobs and a cumulative \$109.1 million in revenue, compared to only \$93.0 million in costs. By the end of the second year the housing industry's economic impacts more than offset all the fiscal costs. And, by the end of the second year are more than \$2 million, helping to pay for additional government services.

Now, I'd love to see 938 homes built in Republic this year. But that's a lot - especially by today's standards. Still, take one-tenth of the total and move the decimal point one place. If we could build 94 homes in Republic, net income to local governments (after accounting for all the increased infrastructure costs) will still be more than \$200,000 per year, by the end of year two.

That's a lot of numbers. But the important takeaway is this: the premise that new home construction somehow needs an impact fee attached to it - in order to "pay its own way" - is flatly false.

But that false premise is just the beginning. We oppose impact fees because they slow growth, discourage development, restrict homeownership opportunities and create an even greater strain on existing infrastructure.

In Greene and Christian Counties, every \$1,000 increase in the cost of a new home prices approximately 350 families out of the ability to buy a new home. The consultant hired by the city has given the green light to increase impact fees by nearly \$2,500 to \$3,237 per house. I've heard discussions of less than that amount - but still increases that could represent a 100% increase in current impact fees by 2014. Fee increases like these would undoubtedly deny a number of Republic families their dream of homeownership.

We also know from experience that impact fees, once implemented, always escalate. That is because they are a flawed revenue model. The presence of impact fees incentivizes builders to build less in the city and more elsewhere. So growth slows. But the government is now dependent on new construction impact fee revenues. So what do they do? Raise the impact fee. This further slows growth - further pinching local governments and leading to more hikes in the impact fees. The snowball effect continues until, eventually, a city that once was growing, starts dying. That snowball effect, in fact, is partly why we are discussing this today - and why this likely won't be the last time. Impact fees are a fundamentally flawed funding method for governments - the numbers never add up over the long run.

So, based on all this evidence and more that I won't go on about tonight, the HBA of Greater Springfield believes that impact fees for off-sight infrastructure - while they can seem like a simple, and often politically useful answer - are simply very bad public policy for communities. By extension, we also believe that the less dependent a community is on development impact fees to finance its infrastructure, the healthier that

community will be. Simply put: Any impact fee is harmful to a local economy. And the bigger they get, the more harmful they become.

Of course, Republic is not the only community around here that uses impact fees. And, because Republic's impact fees - thus far - are lower than some of your neighbors, the negative effect these fees are having on your local economy has been "less bad" than the effect larger fees are having in some of your neighboring communities. But that really should serve as a useful warning, not as "headroom" to increase fees - especially in these unprecedented times in the construction industry.

As you can see by the chart I've shared with you, home building in the Ozarks has taken a massive hit over the last few years. In 2011, the number of new homes built here was less than 17% of the homes we built in 2004. Nearly 15,000 construction jobs that used to exist here only a few years ago are now gone. And, as you can see by our forecasts, while we anticipate some improvement, it will be slow and take several years.

The fact remains that some homes will be built in the Ozarks in 2012 and in the years ahead. But where they will be built will depend on a number of factors. And, given the economic hit that those surviving builders have taken, up-front cost will be even more important over the next several years than it normally is. Cities that want to compete for those jobs and for that economic benefit will have to demonstrate they are committed to minimizing costs to build and to treating builders fairly. That's why neighboring counties and cities are publicly stating they will not raise fees in the near term. And it is why some privately - right now - are seriously considering significantly reducing their existing impact fee structures. They recognize that they will have to compete for what new construction is happening.

Traditionally, Republic has been a very builder-friendly city. You have that reputation. But as Will Rogers said, "it takes a lifetime to build a good reputation, but you can lose it in a minute." Please protect your good reputation. Builders are hurting. Many haven't written themselves a paycheck in years. Many more of those still operating have drained life savings just to keep competing. They have more time on their hands to read the news. And when they build, they will want to build in a community where they are confident the local government is eager to partner with them for the benefit of everyone.

So, I'm asking you, please don't send the wrong signal. Tell builders you want them to build in Republic - with your words and also with your policies.