



# POLICY BRIEF

## **How Government Officials Increase Home Prices**

by  
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Policy Analyst

**January 2010**

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### Key Findings

1. In the construction industry policymakers specifically use permit fees, impact fees, land use regulations and direct taxes, all of which add directly and significantly to the cost of construction in our state.
2. Government policies added as much as 28%, or \$67,400, to the cost of a typical single family home in Olympia. In the City of Vancouver the government-added cost to a typical home is approximately \$54,000 or 25%, and in Spokane it is about \$38,000 or 21%.
3. A recent performance audit by the Washington State Auditor's office found that local officials sometimes imposed fees improperly, collect too much in impact fees, and identified several ways local officials could reduce costs and maximize benefits.
4. Conservative estimates by industry sources concede that government officials add around 17% to the price of a typical home.

### Summary

Policies that increase tax revenues and regulate the growth of communities have a direct impact on the cost of construction in our state. Lawmakers use a variety of tools to control growth and manipulate revenues, such as building, utility and impact fees, land use regulations and business taxes. The increased costs effect businesses ability to remain competitive, as well as the price that consumers must pay for the goods and services provided.

### Introduction

In answering a reporter's question earlier this year about the high cost of living in Washington, Governor Christine Gregoire said, "The cost of building a home is not determined by the state."<sup>1</sup> The Governor was responding to an aerospace industry study by the Snohomish Economic Development Council showing that Washington is at a severe competitive disadvantage compared to other states because of our high cost of living.<sup>2</sup>

The Governor's offhand comment is at odds with the facts. Policies imposed by state leaders strongly determine the cost of living in Washington, including the cost of building a home, high tax rates on businesses and individuals, as well as other general costs.

For instance, this study finds that government policies added as much as 28 percent, or \$67,400, to the cost of a typical single family home in Olympia. In the City of Vancouver the government-added cost to a typical home is approximately \$54,000 or 25 percent, and in Spokane it is about \$38,000 or 21 percent.

The sharp discrepancy between the Governor's casual attitude toward the power of state government and the findings of the aerospace study requires a closer look at whether, and to what extent, government officials increase the cost of home construction in our state.

Throughout all construction projects, whether residential, commercial, public or private, the cost of government policies are imposed through the additional regulatory processes required by state officials, and the costs incurred as a result of rules and regulations imposed by lawmakers. Ultimately these processes

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<sup>1</sup> Interview with Gov. Gregoire by Austin Jenkins, "Inside Olympia" show, aired April 16, 2009, at [www.tvw.org](http://www.tvw.org).

<sup>2</sup> "Aerospace Industry Competitiveness Study," by Deloitte Consulting, April 2009.

and policies significantly contribute to higher costs for both businesses and taxpayers, and increase the cost of living for everyone in Washington.

State and local officials use a variety of methods to increase their tax revenue and to regulate the growth of their communities. Decisions made by officials regarding the timing and use of these methods have a direct impact on raising costs for homeowners, business owners and taxpayers generally.

The primary ways government officials raise construction costs and increase their tax revenue fall into three broad categories:

- Building fees,
- Land use regulations,
- General state and local taxes.

This study examines the costs associated with each of these methods and assess how and to what extent decisions made by public officials add to the cost of commercial and home construction, and consequently to the cost of living and running a business in Washington.

## **Building Fees**

Imposition of direct building fees is one significant way government officials add cost to all construction projects. Both state and local governments are authorized by state law to collect fees to pay for legitimate administrative costs. Administrative costs are supposed to be limited only to useful services that serve the public interest, such as public safety. Local officials are not supposed to impose high building fees simply for the purpose of increasing the amount of revenue they collect from the community.

There are several different fees collected by government officials during the building phase of construction. This includes permit and utility fees which are required before the planning and building of a construction project is allowed to go forward. Additionally some local officials have added impact fees. These fees are less common, but nevertheless add significantly to the total cost of construction.

Governor Gregoire's comment that government does not add to the cost of construction reflects the common assumption that the average citizen is not aware of the added costs government officials impose on all construction projects. Whether due to lack of transparency, general apathy by the consumer, or because fees are usually paid upfront by a contractor and then hidden in final home price, the end result is the same. The homebuyer ends up paying more, and local officials end up collecting more money, whether the citizens recognizes the reason or not.

## **Building, Permitting and Utility Fees**

A review of how fees are applied to the construction of a typical single family home across the state shows how regulatory costs add up at each step of the building process. Local officials collect a wide variety of fees, such as building permit issuance, plan review, site inspections, electrical review, plumbing review, state permits, among many others. These fees are charged by local building departments as part of the mandatory planning and permit fee process.

In addition, local officials charge homebuilders for connections to existing municipal services like hook ups to water, storm drainage and sewer services. These services are reviewed by the utility department at the local level and are reflected in the utility fees they charge.

The table below shows the total cost of building permit fees and utility fees charged by selected city officials around the state for planning and permitting on new construction. These fees must be paid in full up front before officials will allow the construction of a single family residence.

Permit & Plan Review Fees	Olympia <sup>1</sup>	Seattle <sup>2</sup>	Issaquah <sup>3</sup>	Spokane <sup>4</sup>	Everett <sup>5</sup>	Cle Elum <sup>6</sup>	Vancouver <sup>7</sup>
Planning/ Building Permit	\$5,240	\$4,576	\$4,077	\$3,843	\$3,391	\$3,203	\$2,901
Utility Fees	\$11,037	\$4,619	\$5,224	\$3,632	\$3,765	\$7,815	\$4,855
<b>Total Fees</b>	<b>\$16,277</b>	<b>\$9,195</b>	<b>\$9,301</b>	<b>\$7,475</b>	<b>\$7,156</b>	<b>\$11,018</b>	<b>\$7,756</b>

<sup>1</sup> E-mail exchange with City of Olympia building official Tom Hill, May 18, 2009, copy available on request.  
<sup>2</sup> Online fee estimator, Department of Planning and Development, City of Seattle, at [www.seattle.gov/dpd/online-services/](http://www.seattle.gov/dpd/online-services/).  
<sup>3</sup> E-mail exchange with City of Issaquah Permit & Licensing Supervisor Sandra Wirth, September 8, 2009, copy available on request.  
<sup>4</sup> E-mail exchange with City of Spokane Permit Coordinator Sean Shields, May 21, 2009 copy available on request.  
<sup>5</sup> E-mail exchange with City of Everett Permit Tech Mollie Hughes, August 13, 2009 copy available on request.  
<sup>6</sup> E-mail exchange with City of Cle Elum building official Robert Omans, September 15, 2009 copy available on request.  
<sup>7</sup> E-mail exchange with City of Vancouver Administration and Policy Team Manager Michael Merrill, September 4, 2009, copy available on request.

The fees for each jurisdiction above reflect the rate based on the construction of a typical 2,500 square foot home with a 480 square foot garage and 180 square foot porch or deck with a roof. Not all fees charged by one jurisdiction are imposed by another.

The variation in fees also reflects the ability of local officials to manipulate how much they charge for new home building based on their estimate of costs and how much revenue they would like to collect.

Officials in Olympia, for example, charge more than twice as much for the same permitting services as do officials in Spokane, yet the cost of issuing a building permit is not significantly greater in the Puget Sound region than it is in Eastern Washington. The higher building fee constitutes a significant revenue windfall for officials in Olympia, while builders and homebuyers receive no greater service or public benefit than if they were building the same house in Spokane.

## Impact Fees

State lawmakers have also authorized local officials to impose impact fees on homebuilders and their customers: “In Washington, impact fees are authorized for those jurisdictions that are required or choose to plan under the Growth Management Act.”<sup>3</sup> Across Washington there are more than 15 jurisdictions that currently levy added impact fees. Impact fees are authorized by state law for use in association with new construction projects, but are limited to collection on projects pertaining to roads, parks, fire and schools.

Impact fees are typically imposed when a building permit is issued for a construction project. For instance, a new development consisting of several single family homes is assessed an impact fee on each home built in the new development.

The table below shows the total cost of impact fees collected by local officials for the new construction of single family residences.<sup>4</sup>

<sup>3</sup> “Use of Impact Fees in Federal Way, Olympia, Maple Valley, Redmond and Vancouver,” by State Auditor Brian Sonntag, October 14, 2008.

<sup>4</sup> “National Impact Fee Survey: 2008,” by Duncan Associates, October 2008.

Jurisdiction	Total Cost	Jurisdiction	Total Cost
Bellevue	\$415	Olympia	\$10,484
Kitsap County	\$2,165	Anacortes	\$12,202
Bonney Lake	\$4,954	Woodland	\$12,446
King County	\$5,574	Burlington	\$12,888
Bothell	\$6,990	Issaquah	\$14,999
Sno. County	\$7,329	Kirkland	\$15,244
Vancouver	\$8,539	Bellingham	\$19,177
Tumwater	\$10,043		

A recent performance audit by the Washington State Auditor’s office reviewed the use of impact fee revenue by local officials. Auditors found that local officials sometimes imposed fees improperly, sometimes collected too much in impact fees, and identified several ways local officials could “minimize costs and maximize the benefits associated with them.”<sup>5</sup> Additionally the audit highlighted the following conclusions regarding the cost of impact fees:

“The lack of clarity in state law may be causing some cities to calculate and spend impact fees in a manner that could be inappropriate.”<sup>6</sup>

“In one city officials are charging builders higher impact fees than they should and their fees are not supported by a capital facilities plan as prescribed by law.”<sup>7</sup>

“Homeowners in new developments in some cities are receiving little or no public benefit in return for the impact fees they paid.”<sup>8</sup>

While the use of impact fees is not prominent throughout the state, the ability to charge these fees has gained popularity in some local governments, especially where local officials would like to increase the amount of tax money they collect from the community.

As mentioned, fees collected by government officials are supposed to pay for the direct costs associated with delivering public services to a new housing development. Therefore, the fee’s cost should be limited to the actual costs of providing administrative oversight and the cost should directly provide the public improvements and infrastructure needed.

Many jurisdictions regularly go through a cost recovery process to ensure that sufficient fees are being collected to cover government costs. However, because only government is authorized to collect fees on construction projects, there is no competition to drive down the cost of the services provided. Therefore government operates a monopoly over these services, meaning local officials can charge as high a fee as they like, even when many new homeowners receive no benefit.

As a follow-up to the research on impact fees, the State Auditor is conducting a performance audit of permit fees in Washington. This new audit will provide additional insights into the cost of fees and whether or not local officials are using fee revenue in compliance with state law.

<sup>5</sup> “Use of Impact Fees in Federal Way, Olympia, Maple Valley, Redmond and Vancouver,” by State Auditor Brian Sonntag, October 14, 2008.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

## Land Use Regulations

Land use regulations are another way policymaker's artificially increase the cost of new homes.

Perhaps the most sweeping of all land use regulations in Washington is the state-imposed Growth Management Act (GMA) which, when adopted in 1990, established 14 statutory goals local governments have to consider when planning for future development. In addition to the GMA, the state imposes land use regulations through state agencies that oversee water use, storm water run-off and pollution. Lawmakers have given state agencies rulemaking authority which officials use to impose detailed regulations and levy added fees without reference to the legislature.

Today, many land use restrictions are imposed by both local and state officials in order to implement the 14 goals of the GMA. These regulatory restrictions often work against each other. For example, local officials have imposed regulations that limit the supply of land in an effort to protect the environment. Yet they have adopted other policies designed to promote growth.

Many of these policies are contradictory and add confusion and costs due to delays or challenges of individual policies. Such regulations include urban growth boundaries, critical area ordinances, density requirements, tree tract and open space requirements, and street standards.

A recent study by Dr. Theo Eicher, economics professor at the University of Washington, looked at the cost of land use regulations such as GMA. Professor Eicher found that "the largest share of housing price increases was associated with regulations, which added about \$203,000 to housing prices in Seattle."<sup>9</sup> In Kent and Everett regulatory rules added \$125,000 and \$113,000 respectively to housing prices in the local market.<sup>10</sup>

Dr. Eicher's research shows that since the adoption of the GMA, more than 50 percent of the increase in the price of housing was caused by land use regulation. Professor Eicher's analysis was met with stiff criticism from the Washington Chapter of the American Planning Association (APAWA).

In late 2008, the APAWA released its own study evaluating the costs of land use regulations. Among the key findings of the report the APAWA wrote:

"The bottom line is that regulations are unlikely to contribute more than 17 percent of the final price of a typical home, and the impact in many communities may be much less. To use Seattle as a point of comparison, 17 percent would represent about \$68,000 (in current dollars) of a \$400,000 home."<sup>11</sup>

Although the APAWA authors do not agree with the findings in Professor Eicher's study, they do agree that land use regulations contribute significantly to the cost of construction in our state. Even a \$68,000 increase caused by the actions of government officials is enough of a market distortion to price many working class families out of being able to buy their first home.

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<sup>9</sup> "Housing Prices and Land Use Regulations; A Study of 250 Major U.S. Cities," by Dr. Theo Eicher, University of Washington, 2008, <http://depts.washington.edu/teclass/landuse/Housing051608.pdf>. See also, "UW study: Rules add \$200,000 to Seattle house price," by Elizabeth Rhodes, *Seattle Times*, February 14, 2008.

<sup>10</sup> Ibid.

<sup>11</sup> "Observations on the Costs of Land Use Regulations and Growth Management: Critical Perspective on a Controversial U.W. Study," by American Planning Association, Washington Chapter, Committee on the Cost of Land Use Regulations, August 2008.

## General State and Local Taxes

The third way government officials add costs to home and commercial construction are the tax policies and collections imposed at both the state and local level. In addition to fees and regulations, the construction industry must pay full property, sales and business taxes in the state, except where special interests have carved out an individual exemption.

A study prepared by the Department of Construction Management at the University of Washington reviewed the economic benefits that the construction industry brings to Washington state. Researchers found that the industry provided jobs for approximately 11 percent of the total private work force, and that 12 percent of all industry payrolls were through construction.<sup>12</sup> These numbers show that the construction industry is an important economic driver in our state.

In addition to showing the wide-ranging economic contributions of the industry, the University of Washington study reports the total tax assessment levied on construction in 2008. The construction industry in the state paid more than \$1.9 billion in state sales tax and an additional \$337.5 million in Business and Occupation taxes.<sup>13</sup> Construction companies paid additional sales taxes to local governments of more than \$440 million.<sup>14</sup> All these costs are passed on to consumers in the form of higher home prices and higher retail prices charged by businesses. In the housing market, the increased costs added by government officials often put homeownership out of reach for many working families in Washington.

## Conclusion

Current state law provides local and state officials with a variety of ways to maximize their tax revenues through permits, assessments and impact fees on construction activities. In the construction industry policymakers specifically use permit fees, impact fees, land use regulations and direct taxes, all of which add directly and significantly to the cost of construction in our state.

A conservative estimate by industry sources concedes that government officials add around 17 percent to the price of a typical home. University research has found that decisions by government officials can as much as double the cost of a typical home in our state. Even a low estimate between these two findings confirms that efforts by officials to collect revenue adds significantly to the market price of housing, and makes realizing the dream of home ownership more difficult for many Washington families.

Many of the laws used to regulate the construction industry are needed to provide safety or serve the public interest. However, as the data above shows, local officials often impose construction fees when they don't need to, and that these taxes and regulations have a strong effect of unnecessarily increasing the cost of construction in our state.

The data also show that policymakers, from one jurisdiction to the next, have the ability to manipulate the rules to leverage greater tax revenues

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<sup>12</sup> "A Study of the Economic Impact of the Construction Industry on the State of Washington," by John E. Schaufelberger, Department of Construction Management, University of Washington, September 2009.

<sup>13</sup> Ibid.

<sup>14</sup> Confirmed e-mail exchange with Mike Gowrylow, Washington Department of Revenue, November 2009, copy available on request..

for their city or county. For example, based on current median home prices,<sup>15</sup> to build a single family residence in Olympia, the government officials added costs for building fees and land use regulations totals \$67,400. In Vancouver the government-added cost is approximately \$54,000, and in Spokane officials add about \$38,000.

The added cost of government has an effect on business owners' ability to remain competitive, as well as consumers' ability to afford goods. This is one of the points made by the aerospace industry report on Washington's poor business competitiveness compared to more affordable states, such as South Carolina. The result, as seen in the case of aerospace, is a gradual migration of business activity and jobs from high-cost Washington to lower-cost states.

As state and local officials continue to ignore or downplay their role in adding to the cost of construction in Washington, they will continue to put local communities and the state as a whole at a marked competitive disadvantage compared to the business climate in other states.

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<sup>15</sup> "Median Home Prices; State of Washington and Counties Time Trend," by Washington Center for Real Estate Research, Washington State University, 2008 and first half of 2009, at [www.wcrer.wsu.edu/WSHM/2009Q2/MHP-Time%20Trend.pdf](http://www.wcrer.wsu.edu/WSHM/2009Q2/MHP-Time%20Trend.pdf).



## About the Author

**Brandon Houskeeper** joined Washington Policy Center in the fall of 2007 as the Director of WashingtonVotes.org and as a policy analyst providing research and support on a variety of issues. Before joining WPC, Brandon served as the Government Affairs Director for a professional home builders association bringing with him over six years of experience and understanding of the legislative process at the state and local level. Brandon earned his bachelor's degree in Political Science from the University of Washington.



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