LEAGUE of MINNESOTA CITIES

Cities and Residential Development Fees

This information can help you discuss how development fees and expenses work in your city.

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The Issue

- Development in a community should pay for development. Related public infrastructure necessary for homes both within a new residential development and infrastructure outside of the development that is connected to the development should be funded by developers, not by existing property taxpayers who already reside in the community.

- Cities have a responsibility for the health, welfare and safety of residents, and for providing essential neighborhood infrastructure—safe streets, water and sewer service, and utilities. Cities won't sacrifice home safety, building durability, and necessary infrastructure so builders can make more money.

- The existing funding mechanism for public infrastructure development includes city collections of developer fees. Those fees cover the city's costs related to the review, approval, and inspection of the development—cities charge these fees on a cost-recovery basis.

- Developers are not coerced into a fee agreement with the city. Instead, they negotiate and enter into development agreements with cities that outlines what is paid for to support the development.

- Development fees don't always cover all of a city's costs related to new development. Therefore, the city has to tap into the only other source of funds: local taxpayers.

- There isn't a one-size-fits-all approach to how cities plan for residential development. Every Minnesota city is unique, from its size and economics to its infrastructure and geology. The city resources necessary to build a development in Lakeville varies from what it would take to build it in Medford – and the corresponding costs vary, too. There can't be a one-size-fits-all approach across the state.

Misleading Housing Affordability Reports

- A recent report distributed by a developers' advocacy organization called the Housing Affordability Institute and titled "Priced Out: The True Cost of Minnesota's Broken Housing Market" paints an incomplete and inaccurate picture of the role that development fees play in housing development costs for consumers.

- The Housing Affordability Institute is an industry organization created by the Builders Association of the Twin Cities – also known as Housing First. They are using misleading industry reports to bully cities to increase builders' profits.

- The report examined 10 cities selected by the authors, approximately 1% of all cities in the state.

- Though the report focuses on city fees, the largest cost variables for building a home remain labor and materials at 48-55% (dictated by the developer), followed by land costs. City costs are not explicitly listed as significant cost variables in the report.

- The report is muddy and misleading when it comes to defining a fee. In one published example cited by the authors, costs for a pool that a developer chose to build is inaccurately portrayed as a city fee.

- Calculations included in the report failed to account for in-and-out monies that were returned to developers as escrows or credits and would reduce the net total fees charged to them.

- The report makes references to affordably-priced homes, but half of its data is based on construction of 4-bedroom, 3-bathroom, 3-car garage, 2,500 square-foot homes—hardly a typical Minnesota home, particularly for first-time homeowners.

- In another report, the Housing Affordability Institute failed to share that the state requires "Building permit fees shall be based on valuation." The value of the home varies from community to community.

- The report cherry-picked data by failing to include available information on development related expenses readily reported on the DLI annual report. With inclusion of these numbers, the data does not support the advocacy organization's narrative.

For more information, visit www.lmc.org/housingfees*.*