OPINION EXCHANGE

Counterpoint: Developers' studies misrepresent role of fees in housing costs

The Housing Affordability Institute's reports cherry pick data to accuse cities of overcharging for building permits.

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Two recent reports by a builders' industry group called the Housing Affordability Institute — funded by the Builders Association-Housing First (BATC) — paint an incomplete and inaccurate picture of the role development fees, particularly building permit fees, play in housing costs. Both reports have received Star Tribune coverage ("Builders say cities are overcharging for permits," Aug. 21 (http://www.startribune.com/builders-say-cities-are-overcharging-for-permits/556971672/)).

While city governments and developers have historically worked hand in hand when it comes to new development, each operates with different motivations. Cities provide essential services to ensure the health, safety and welfare of residents. Developers and builders are private businesses motivated to construct housing with a goal of maximizing profit margins. Successful collaboration relies on each party's acknowledgment, respect and understanding of the other's primary objectives.

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An almost-finished new home up for sale in northeast Minneapolis.

Cities in our state approach these partnerships in good faith and with a consistent guiding principle — new development should pay for itself. Public infrastructure that serves the new development — safe streets, sewer service and utilities, for example — generally should not be subsidized by existing residents through their property taxes but instead should be included in the development cost.

That is why cities collect development fees that are mutually negotiated by both parties, and that reflect the unique characteristics of each project. Those fees offset the city's costs to make sure that development functions as intended and meets safety standards.

With the release of its reports, BATC has launched a campaign designed to pin complex and multi-varied housing challenges onto city government and shift the cost of new development to existing taxpayers.

The first report claims that city fees are the primary driver of high housing costs, but the report's own data and narrative do not support this. The report's contents instead show that the largest variables in the cost of new construction are labor and materials followed by land costs — all three of which are dictated by market forces and not cities. The authors claim city fees account for "up to" 30% of the cost of a newly constructed home when, in some cities, that number calculated with publicly available data was between 4% and 6%.

Four to six percent is not what separates the market cost of new single-family construction and what the report vaguely refers to as "affordability." It does, however, secure the safety and functionality of new neighborhoods that will stand in our communities long after the builders have sold off the last lot and moved on to the next project.

In its latest report released on Aug. 20, the institute cherry-picks data collected by the Minnesota Department of Labor and Industry (DLI) to accuse cities of willfully overcharging for building permit fees.

That report, though, failed to account for several facts:

• State rules dictate that building permit fees are based on valuation of the construction project, not on the fee-for-service pass-through framework claimed in the report. This is a fundamental flaw and indicates a lack of expertise or a purposeful diversion by the report's authors.

• Builders and developers are involved in setting that valuation.

• Building permit fees do not adequately account for city costs — to fairly analyze the data, all development fees as well as city administrative, engineering, planning and zoning expenses should also be considered.

• The report only uses data from 2014-2018. If the snapshot were for the previous five years, it would instead show that many cities made the difficult decision to use taxpayer money to cover costs related to new development during a recessionary period.

The report went on to assert that several cities in the state have failed to file yearly development fee reports to DLI. However, municipalities are not required to contact the state if they do not collect more than $5,000 in fees. The League of Minnesota Cities is working with cities who failed to meet the submission deadline to ensure they understand compliance responsibilities going forward.

We respectfully reject the Housing Affordability Institute's "us vs. them" strategy. Legislative leaders who might be considering legislation that would undermine local control should reject this approach as well. Our associations believe that paying for local development across all of Minnesota's 853 cities is not a one-size-fits-all proposition. These are policies that should be set by local elected leaders — not dictated by private builders and developers whose motives might be inconsistent with the best interests of the communities.

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