



State lawmakers and homebuilder advocates held a press conference at the Capitol on Tuesday to discuss the findings of a new report on building permit fees. David Siegel, executive director of Housing First Minnesota, is at the lectern. (Staff photo: Brian Johnson)

Homebuilders allege permit-fee gouging

By: Brian Johnson ☉ August 20, 2019 4:08 pm

Advocates for Minnesota homebuilders released a report Tuesday that says local governments are overcharging residential builders and developers on permit fees, thus driving up the cost of new homes.

From 2014 to 2018, Minnesota municipalities overcharged builders by \$78.3 million for permit-related services such as plan reviews and inspections, according to the 32-page report conducted by the Housing Affordability Institute, a research arm of Housing First Minnesota.

Housing First Minnesota, which represents 1,100 homebuilders statewide, says such practices violate a state law that requires building permit fees to be "proportionate to the actual cost of the service for which the fee is imposed."

But critics say the report doesn't tell the whole story. The five years covered in the report represent a time when the economy was doing well. When the economy is bad, cities oftentimes pay more than they get back in fees, according to the League of Minnesota Cities.

"This is snapshot in time and there is an unfortunate characterization of these fees," said Irene Kao, a lobbyist for the League of Minnesota Cities. "In some ways there has been some cherry-picking as part of the data collection."

A group that includes state lawmakers and advocates for the homebuilding industry discussed the report during a press conference Tuesday at the State Capitol. A key message was that cities are improperly diverting excess fee revenue to pad their general funds or pay for pet projects.

One city, Corcoran, used building permit fees to pay for a city hall remodeling project, the report noted. According to a city newsletter, the city plans to "use only funds from new development," such as building permit revenue from new homes, "to pay for the remodel."

To fund that project, the city of Corcoran charged \$4,500 for permits that represented about a \$1,400 cost to the city, according to the report. Corcoran officials couldn't be reached for comment Tuesday.

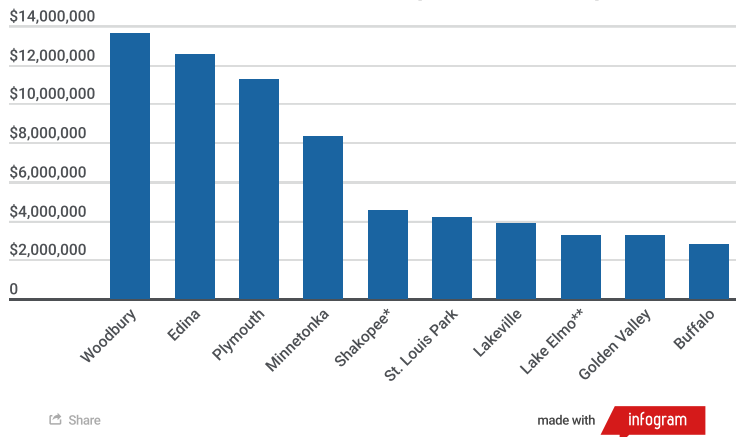
At the press conference, Rep. Jim Nash, R-Waconia, called for cities to refund homeowners who were overcharged, and Rep. Barb Haley, R-Red Wing, vowed to introduce a bill that protects those who uncover such practices under the state's whistleblower law.

"I consider this an illegal tax on housing," Haley said.

Inflated fees make housing less affordable, and that's a big problem in Red Wing, she added. Each day, roughly 10,000 employees commute to Red Wing, but they can't afford to live in the city because there's a shortage of affordable homes, she said.

Nash said cities have been using homeowners as "some sort of ATM for future projects."

Excess permit revenue (2014-2018)



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* Did not file 2014 Annual Report

** Did not file 2014, 2015 and 2016 Annual Reports

Source: Housing Affordability Institute, a research arm of Housing First Minnesota

Between 2014 and 2015, the top five cities for excess permit revenue were Woodbury (\$13.66 million), Edina (\$12.5 million), Plymouth (\$11.2 million), Minnetonka (\$8.3 million) and Shakopee (\$4.5 million), according to the report.

Jason Egerstrom, a spokesman for the city of Woodbury, said the city is reviewing the report in its entirety to gain additional information.

"It's important to note the report recognizes there could be some variables in how expenses and revenues were defined by each community," Egerstrom added.

"Also important, each community has its own unique challenges as it relates to development, and we believe legislative changes are needed to allow growing cities to balance the burden of development with their responsibility to provide their share of the region's population growth. The city looks forward to working with Housing First Minnesota and its building partners to develop solutions in the upcoming legislative session," Egerstrom said.

Egerstrom added that the city of Woodbury has "strong relationships with our building and development community."

The report says a "concerning number of municipalities" have failed to submit annual permit reports required by state law, and that some cities aren't tracking how much it costs to perform inspections.

The report was based in part on information from cities' financial reports and data filed with the Minnesota Department of Labor and Industry. Researchers also directly contacted 18 cities with strong residential construction activity.

Nine of the 18 cities responded, and all but one of the nine reported that “over-collected funds” are sent to the city’s general fund, according to the report.

David Siegel, executive director of Housing First Minnesota, said the permit fee issue is one of many “road blocks” to creating affordable new homes in Minnesota.

“State law and agency guidance on permit fees are straightforward: Building permits must be proportionate to the actual cost of the service for which the fee was imposed. In other words, what it costs a city to review plans and inspect a homebuilding project is about what it should cost” for the fee, Siegel said.

Homebuilder advocates are asking the newly created Minnesota Legislative Commission on Housing Affordability and the Senate Select Committee on Homeownership Affordability to “further study” the issue.

The report comes just eight days after Housing First Minnesota sued the city of Dayton over a new transportation fee tied to residential development in the city.

Housing First Minnesota claims in the lawsuit that the city’s “transportation infrastructure” fee fails to comply with state law and that it would make housing less affordable. The fee was enacted in July.

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