

by Walter J. Zukowski

Growing pains: Financing public costs with development fees

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Any time a school district faces population growth, it experiences some level of growing pains: the faster the growth, the greater the potential for financial problems. But ways exist for school districts to discuss these fundamental problems, work cooperatively with municipal officials and private developers, and solve these issues before the next influx of students begins.

The first problem involves facility usage and overcrowding. School districts in the path of progress face rapid subdivision development. It takes time to address the stresses caused by such subdivisions.

In the short term, schools faced with large increases in population may need to renovate existing facilities. They may need to add multiple classrooms. They may need to raise bonds in order to finance this growth. And if they cannot solve these situations, they may have to consider reorganization.

The second problem involves the costs of educating these new students until property taxes are first paid. Most schools in Illinois are funded

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primarily by a combination of local real estate taxes and state aid. However, the formulas used for each of these revenue sources do not provide any additional funding to schools absorbing such growing populations for as long as two years. In the mean time, the school is responsible for the education of the children who move into the community and live in those new houses.

In addition to the lag in property taxes, school districts experience a delay in receiving state aid. A district's state aid is dependent upon a number of factors including its Aver-

age Daily Attendance (ADA). The report for ADA is submitted at the end of the school year. Over the course of the second school year, the school will finally start to receive these payments.

How does a district deal with these problems? All too often, the most common way is by a reduction in services. In a large district, it is possible to reduce services to other students and therefore free money up to educate the new students. However, in small and rural districts, it may not be possible to reallocate funds in this way.

Moreover, a district that does adjust resources this way runs a significant risk of incurring the wrath of those who have been residents of the district for a number of years. They believe that they have previously paid through referenda and bond issues for a quality education for their children and grandchildren. They are frequently unhappy with the thought that their resources will now be used to pay for "new people" entering the community.

Another common way school dis-

tricts deal with the “lag” between revenues and expenses is to issue bonds. This could solve the problem, although districts run into many of the same arguments raised with regard to the reduction in services. Moreover, districts run the risk that the issuance of the bonds will receive a challenge, causing them to be delayed.

What’s the solution? Many districts are looking to the source of the problem for the solution. They are encouraging municipal and county leaders to implement fees that are levied on those people and entities benefiting from the new subdivision as a way of lightening the financial burden on the existing community and providing a means by which the district can adequately serve both existing students and new ones. These fees fall into three basic types: impact fees, transition fees and capital fees.

Impact fees

The first fee commonly implemented by a municipality (pursuant to 65ILCS5/11-15.1-2(d)) is known as an “impact fee.” The statute specifically authorizes municipalities to condition annexation of a particular development on the contribution of land, or money. At the county level, the same type of fee is more commonly referred to as a “land/cash fee” (pursuant to 55ILCS 5/5-1041).

Regardless of the name, its function is to raise money or set aside land for a school district to help pay for the purchase of land in order to expand district capacity. Many auditors have an even more expansive definition, allowing money to be used for any capital repair or expansion

project.

Current formulas attempt to equate the burden created by a new subdivision to the cost of the fee. The concept is widely accepted at this point. It estimates the number of students to be generated from the subdivision. This requires that the municipality consider statistical census information regarding the density of population based upon community data and the type of housing to be constructed.

Based on the student population from the subdivision, we can estimate — based on architectural guidelines — the minimum number of acres of land necessary to construct a new school. The value of the real estate per acre is an important element in the calculation, as well. Municipal and county ordinances commonly establish the fair market value of improved land per acre. Some allow the local school district and/or the developers themselves to play a role in determining the value of “improved land.”

Chart A shows a modest survey of municipal impact fee information collected from communities in the path of development radiating out from Chicago. This information is provided to show the scope of impact fees commonly implemented by communities facing rapid development.

Transition fees

Another problem faced by schools is the unreimbursed operational expenses incurred as a result of new students. Because of the lag in receipt of local real estate tax revenues and state aid, there can be a delay of up

CHART A
Development Fee List for Schools by County*
Sample Calculations

County	Land/Cash Impact Fee
Boone	\$3,280.00
DeKalb	\$3,203.93
Grundy	\$5,019.00
Kankakee	\$5,019.00
Kane	\$5,220.00
Kendall	\$3,746.00
Lake	\$3,012.00
LaSalle	\$2,921.20
McHenry	\$5,837.00
Will	\$5,220.08

* Assumes a four-bedroom detached single family house in a unit district with a valuation of \$100,000 as of May 2008

to two years for the district to receive revenue with which to educate new students.

Thus, the money a school district has in any given year is based upon valuation and enrollment from the past. In a sense, the money is calculated to provide education to students who are *continuing* in the district. If the district is obligated to use a portion of that money to educate new students, it may be forced to reduce the level of services or seek other forms of revenue.

Because of this, many communities have adopted what are commonly called “transition fees” to provide a source of revenue for the cost of educating *new* students until the district begins to receive tax revenue and state aid for those children. The transition fee calculation brings together many sources of information in an attempt to calculate the cost of the student, any offsetting revenues and the uncollected balance between the two.

This fee, also known as a “gap

fee," helps ensure there is no disruption to educational services provided to students.

Counties currently lack the authority to implement transition fees. Thus, it is all the more important that schools districts ensure that subdivisions developing within unincorporated areas be subject to a reasonable land/cash fee, so that at least some of the resulting costs will be borne by the parties generating the cost.

Capital fees

The final type of fee is the "capital fee," designed to provide revenue

to construct classroom space often made necessary by subdivision development. This fee can be necessary where, as a result of one or more new subdivisions, a school district is required to substantially expand its physical plant.

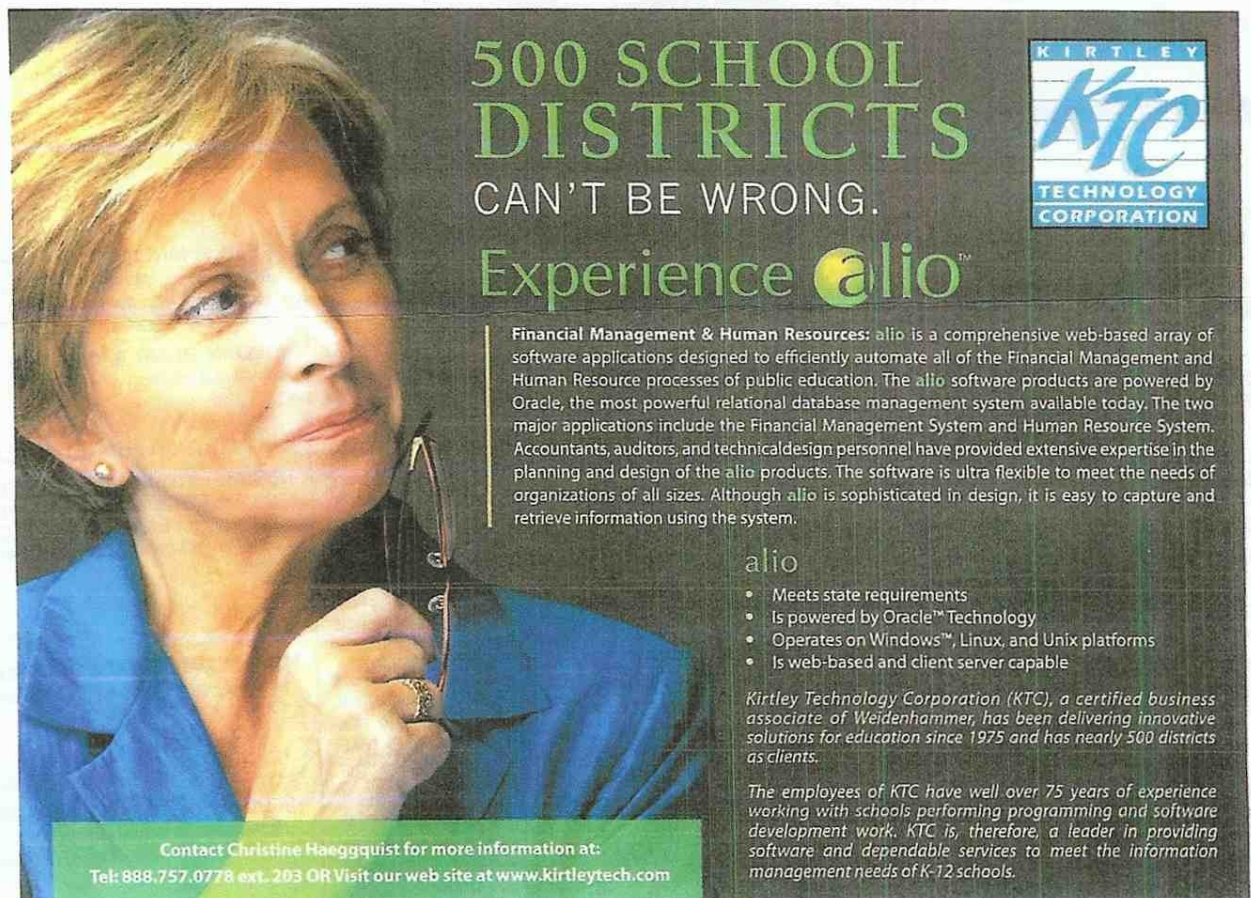
The additional local revenue generated by impact and transition fees just barely keeps ahead of the cost imposed by new residential development. They do not address the new bricks or mortar expenses required when a school is already full of students. Without a capital fee, it often is not feasible for a school to support new subdivision development with-

in its jurisdiction.

District architects can estimate the amount of square footage necessary for each new student, based on generally recognized standards. The district then works with the municipality to determine the cost per square foot of any new facility.

Once that information is determined, it is common for municipalities to apportion the resulting fee based upon the number of bedrooms in a dwelling unit. The fee is generally collected at the time application is made for a building permit.

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Despite these charges, many developers and homeowners recognize the increased value to the subdivision as well as individual properties because of quality school facilities. Thus, the capital fee should be seen by the community as an investment in its future, not as an expense.

The fact that many municipalities have elected to implement all three types of fees creates an awareness of the scope of costs generated by new residential subdivision development. Chart B shows the multiple fees that communities have assessed.

All taxing bodies that have an impact on schools should recognize that their community will not be as attractive to people if their school building is deteriorating, or the quality of education in their school is not

keeping pace. Some districts need land in order to build school expansions. Others need cash in order to educate students.

Impact, transition and capital fees help to ensure that the people who are causing the expense, and the

people who are benefiting from the local school district's quality education and using the facilities previously paid for by other taxpayers, pay their fair share in this process. ✍

CHART B
Impact, Transition and Capital Fees by Municipality*
(Sample calculations)

Fees	Impact Fees	Transition fees	Capital Fees	Total fees
Lake in the Hills	\$8,671.41	\$4,000.00		\$12,641.41
Plainfield	4,063.00	3,284.00	\$5,220.00	12,567.00
Algonquin	5,895.28	4,000.00		9,895.28
Plano	3,426.85	6,000.00		9,426.85
Shorewood	3,357.46		5,200.00	8,577.46
Wauconda	2,576.42	4,500.00		7,076.42
Yorkville	5,094.73	3,000.00		8,094.73
Channahon	2,951.25		5,200.00	8,171.25
Romeoville	1,625.82		5,220.00	6,845.82
Aurora	2,965.73		3,500.00	6,465.73

* Assumes a four-bedroom house in a unit district

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