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RESIDENTIAL IMPACT FEE INCREASES IN GRAND JUNCTION

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ABOUT THE AUTHOR



Erik Gamm is a Senior Research Analyst with CSI. Erik joined CSI in 2019 and has led research for CSI reports covering the topics of taxation, education, workforce and healthcare. He graduated from the University of Michigan in 2020 with a Bachelor of Arts in Economics, and has experience from Washington, D.C., where he was an intern for the natural resources lobbying firm American Capitol Group.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Colorado's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed about issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take advocacy positions.

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INTRODUCTION

The government of Grand Junction, as the culmination of a process that began in summer of last year, is on the cusp of raising the fees it charges for new development.

These “impact fees,” as they’re named, are designed to cover the burdens that urban growth causes local infrastructure and public services; currently, Grand Junction uses them to fund police, firefighters, parks, and transportation projects. Although the city collects impact fees from all types of development, this report concerns only those charged to residential units and ignores the proposed municipal facilities and affordable housing fees.

This fee increase’s timing is a matter of routine. City law requires Grand Junction’s impact fees to be reviewed and updated every five years. This year’s proposed increase, however, represents a substantial threat to the local housing market. CSI estimates the proposed impact fees would raise the average residential impact fee by 60%—an average of \$4,800 per new unit. If these are enacted, city revenue will increase, home prices will rise, and growth will slow.

KEY FINDINGS

- The new fees would reduce the supply of new units by 8.4% and raise the average housing price by almost 1%.
 - Most of the lost production and the highest relative cost increases would occur among medium-size units priced near the local average.
- Under the proposed fees, 94.9% of new housing units would become more expensive to build.
 - Only units smaller than 851 square feet, most of which are apartments, would be charged lower fees than they are currently.
- If all the proposed fee increases are enacted, Grand Junction's population growth will slow by about 200 people per year and its rate of homeownership will fall.
- In the first year of the new fees, the city government would gain just over \$3 million in revenue as a direct result of the policy.
 - Revenue from impact fees would grow by \$3.8 million while city property and sales taxes would fall by \$32,000 and \$710,000, respectively.

NEW HOUSING SUPPLY AND PRICES

When the cost of producing a good rises, the supply of that good sold at any given price falls. As Grand Junction’s proposed impact fee changes would raise development costs of all but the smallest housing units, it is overwhelmingly likely that the total supply of new housing in the city would decrease under the new fees. Between 2020 and 2024, developers received permits to build an average of 1,095 new housing units per year. If the same number is granted in 2025 along the same distribution of unit sizes, 94.9% of those units would be more expensive to build under the maximum supportable new fees.

According to a 1982 study by RAND, the long-run price-elasticity of housing supply in the U.S. is 11.5, of which 11.3 is attributable to inventory changes. If developers in Grand Junction are as responsive to production cost changes as developers across the country are to price changes, the proposed fee increase (\$4,800 per new unit, on average) would eventually reduce the city’s supply of conventional housing by 8.4%. Assuming this reduction would manifest as an equivalent decline in permitting starting immediately after the new fees come into force, the following impacts would occur over the next 12 months:

FIGURE 1 – AVERAGE IMPACT FEE INCREASE BY UNIT SIZE

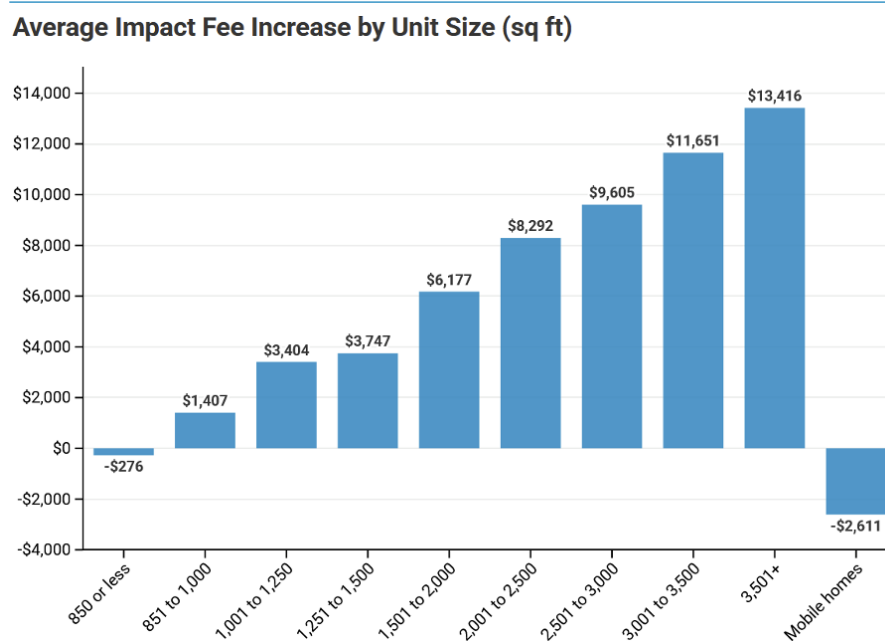


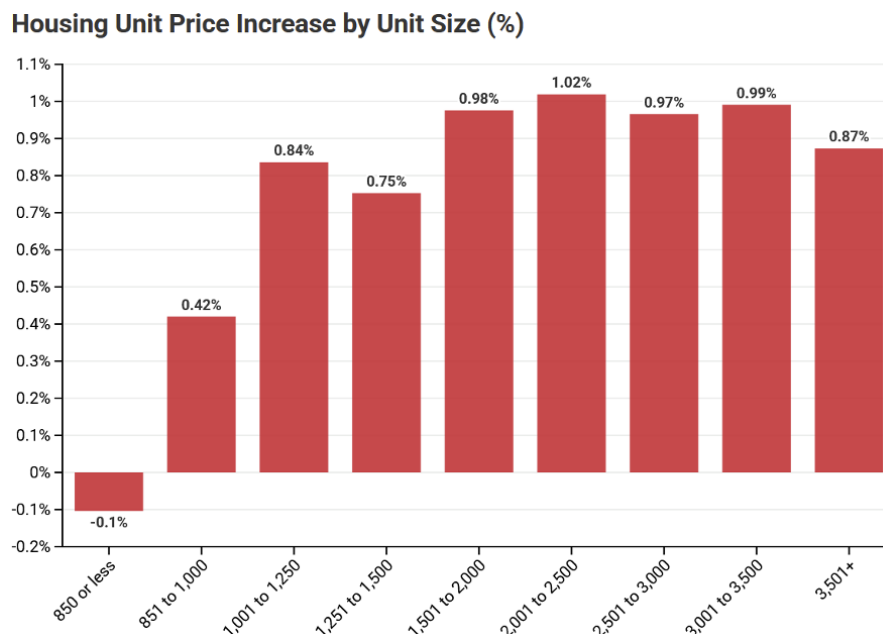
FIGURE 2 - HOUSING SUPPLY IMPACTS THROUGH ONE YEAR OF NEW FEES

| Housing Supply Impacts through One Year of New Fees | | | | | | |
|---|--------------------|-----------------|----------------|------------------------------|------------------------|-------------------|
| Unit size | Average unit value | New total fee | Fee increase | 1-year supply impact (units) | Long-run supply impact | Population impact |
| 850 or less | \$265,001 | \$5,891 | -\$276 | 2 | 1.2% | 4 |
| 851 to 1,000 | \$334,626 | \$7,574 | \$1,407 | -3 | -4.8% | -7 |
| 1,001 to 1,250 | \$406,938 | \$9,571 | \$3,404 | -11 | -9.5% | -24 |
| 1,251 to 1,500 | \$497,329 | \$11,780 | \$3,747 | -19 | -8.5% | -42 |
| 1,501 to 2,000 | \$632,914 | \$14,742 | \$6,177 | -37 | -11% | -81 |
| 2,001 to 2,500 | \$813,696 | \$17,846 | \$8,292 | -16 | -11.5% | -35 |
| 2,501 to 3,000 | \$994,477 | \$20,300 | \$9,605 | -4 | -10.9% | -9 |
| 3,001 to 3,500 | \$1,175,258 | \$22,346 | \$11,651 | -2 | -11.2% | -4 |
| 3,500+ | \$1,536,639 | \$24,111 | \$13,416 | -2 | -9.9% | -4 |
| Mobile home | \$128,238 | \$1,817 | -\$2,611 | 16 | 23% | 35 |
| Totals/averages (excluding mobile homes) | \$570,767 | \$12,782 | \$4,800 | -92 | -8.4% | -202 |

Besides reducing the supply of new housing, higher development costs can also be expected to raise rents and house prices. If the full fee increase is passed onto buyers at every unit size, the average price of new housing in Grand Junction (excluding mobile homes) will rise by .84% to \$570,767. The severity of this impact will vary by unit size and peak among units of sizes between 2,001 and 2,500 square feet.

The largest supply losses and relative price increases would occur near the middle of Grand Junction's current price range (see Figure 3). The only units that would become cheaper to produce, and so increase in supply, are mobile homes and conventional units smaller than 851 interior square feet (68% of these, according to CSI's estimates, are apartments). Accordingly, the proposed impact-fee increase would both place an artificial limit on Grand Junction's growth by slowing new development and reduce its homeownership rate by raising home prices by more than apartment prices.

FIGURE 3 - HOUSING UNIT PRICE INCREASE BY UNIT SIZE



FISCAL IMPACTS

Grand Junction's decision to raise its residential impact fees would affect three of the city government's revenue streams: the impact fee itself, residential property taxes, and sales/use taxes paid on construction materials used within the city. Because the policy would cause the supply of new housing to fall, the city stands to lose revenue from property and sales taxes; the supply effect would be small enough, however, that revenue generated from the new fees would exceed the revenue lost to reduced homebuilding activity.

Below is a summary of how these three sources would respond to the proposed fee increases (Figure 4). These numbers do not include estimates of additional revenue losses due to slowed population growth; these, though substantial, are beyond the scope of this report.

The \$3.8 million collected directly from the fee increase would fund transportation projects and Grand Junction's police, fire, and parks and recreation departments. Earlier proposals for impact fee hikes included a further component that would fund municipal facilities, but this piece is likely to be abandoned at the recommendation of City Council staff by the time the new fees are finalized.

FIGURE 4 – CITY REVENUE IMPACTS OF NEW FEES

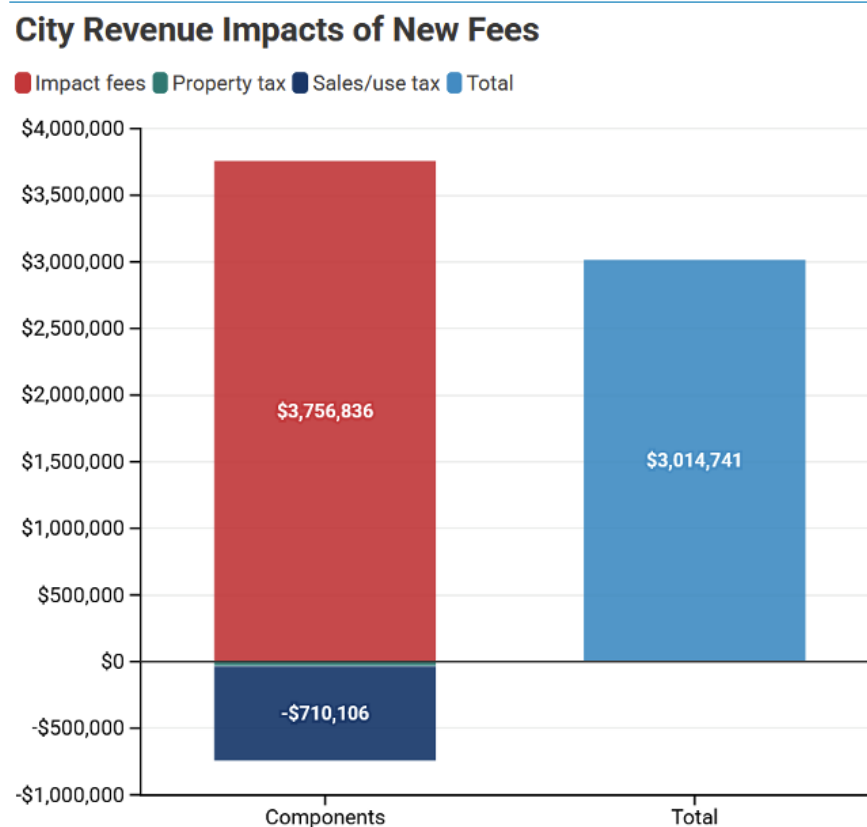


FIGURE 2 - HOUSING SUPPLY IMPACTS THROUGH ONE YEAR OF NEW FEES

| Impact Fee Revenue per Unit by City Function | | | | | |
|--|---------|----------------------|--------|----------------|-----------------|
| Unit size | Fire | Parks and Recreation | Police | Transportation | Total |
| 850 or less | \$501 | \$1,530 | \$179 | \$3,681 | \$5,891 |
| 851 to 1,000 | \$648 | \$1,978 | \$232 | \$4,716 | \$7,574 |
| 1,001 to 1,250 | \$822 | \$2,508 | \$294 | \$5,947 | \$9,571 |
| 1,251 to 1,500 | \$1,016 | \$3,100 | \$364 | \$7,300 | \$11,780 |
| 1,501 to 2,000 | \$1,276 | \$3,895 | \$457 | \$9,114 | \$14,742 |
| 2,001 to 2,500 | \$1,550 | \$4,731 | \$555 | \$11,010 | \$17,846 |
| 2,501 to 3,000 | \$1,764 | \$5,384 | \$632 | \$12,520 | \$20,300 |
| 3,001 to 3,500 | \$1,944 | \$5,935 | \$696 | \$13,771 | \$22,346 |
| 3,500+ | \$2,098 | \$6,404 | \$751 | \$14,858 | \$24,111 |
| Mobile home | \$160 | \$0 | \$56 | \$1,601 | \$1,817 |

Apart from the direct revenue increase, the city would stand to lose \$742,000 in combined property and sales taxes under the proposed fees. The loss of new housing supply estimated in the previous section of this report amounts to about \$58.2 million of residential value; at an average effective assessment rate of 6.9% and a city mill levy of 8, Grand Junction’s property tax revenue would fall \$32,000 short of its expectation. Across the county, including local school and special districts, the total revenue loss would be \$290,000 (notwithstanding the possibility that homebuilding activity increases elsewhere in Mesa County in response to the new fees).

The decrease in revenue from sales tax would be a result of reduced local demand for construction materials; materials generate about 40–50% of the cost of building a house, developers’ gross profit margins hover around 20%, and Grand Junction’s sales tax rate is 3.39%, so the total loss from sales tax remittance would be \$710,000.



BOTTOM LINE

The impact fee increase under consideration in Grand Junction would affect the city's housing market and city finances.

The proposed fee increases would reduce new housing supply by 8.4%, raise average home prices by nearly 1%, and make 94.9% of new units more expensive to build, with the greatest impact on medium-sized homes near the local average price. While smaller apartments under 851 square feet would see lower fees, the changes would slow Grand Junction's population growth by 200 people annually and reduce homeownership rates.