# Impact fees are a fairer way to pay for the cost of new growth

Posted By Nick Voges On July 30, 2010 @ 8:57 am In Blogs,Zeitgeist | 1 Comment

Photo by Heath Haussamen

I believe that most of us want to live in vibrant communities with safe, well-maintained neighborhoods.

This costs money.

When **new** developments are being built they often require **new** money to pay for the **new** infrastructure they require. Too often this new money comes from already existing neighborhoods. Unfortunately, that means that the residents of these neighborhoods end up paying the infrastructure costs for new developments – which are sometimes badly-planned, often on the edge of town, and not in keeping with community standards.

Because there's not enough money in the community chest to pay for both the existing neighborhood's infrastructure costs **and** the new needs of new developments, existing neighborhoods deteriorate. How to pay for these new developments has been a hot topic in Albuquerque and Las Cruces over the last few years.

## Options for financing new development

Other than expecting existing neighborhoods to pick up the tab, here are some of the options often proposed when talking about financing new developments:

- Stop development altogether. Since well-planned growth can be a boon to local communities and economies, most people – including me – would rather not stop development altogether and find a fair and efficient way to finance new developments.
- Raise taxes to cover the costs of the new development. As you might guess, this has proven politically impossible so municipalities have had to look for other more feasible options.
- Ask the people who will benefit most from the new development (developers, builders and new residents) to pay a fee that covers the majority of the costs associated with building it.

Because well-planned growth can be a very good thing for communities, many municipalities have begun to assess impact fees – modified forms of the third option, depending on the municipality – to spread the new costs of new development around to the developer, builder and new resident, rather than forcing existing neighborhoods to subsidize the new developments. Following are some examples of the types of public services that impact fees pay for:

- Roads
- Water and sewer infrastructure
- Police and fire stations
- Schools

Again, these services cost money. In the past, citizens were willing to pay more property taxes to pay for improved quality of life and sufficient investment in the infrastructure and public services that we've come to expect from our communities. But, as I've discussed before, we've grown unwilling to support raising taxes, even to pay for much needed infrastructure and services.

**This has left our municipalities in the impossible position of having to offer greater services to more neighborhoods without an increase in revenue.**

Theoretically, we are told, the new developments will pay for themselves over time. Unfortunately, our depleted public coffers (not to mention our fading historic neighborhoods) have proven that argument false. Furthermore, this argument depends on the assumption that the new development will be full and successful. We need only look to the pristine, unused roads bordering the empty lots of the half-full developments along Highway 70 in Las Cruces to see that it'll be a long time – if ever – before those developments repay the infrastructure investment made by existing neighborhoods.

To me, this seems like another example of privatized profit and public risk. If the development fails, we are left paying the long-term costs to maintain the infrastructure. That's neither fair nor efficient in my opinion.

## Impact fees have become fair and practical mechanisms to bridge the funding gap

Impact fees allow for new development to be paid for by the developers (who often end up splitting the cost of the fee between themselves, new residents and the landowner, depending on the economic conditions) rather than the folks living in existing neighborhoods.

Furthermore, for communities with a good plan for how and where they'd like to grow, impact fees can encourage development in already existing communities. Smart impact fee structures are tiered so that new developments that are close to already existing infrastructure and services (and therefore cost less to outfit) pay a greatly reduced fee or, in many cases, no fee at all.

Remember, impact fees - **by law –** may only pay for the costs of new infrastructure (including expansion or improvements to existing infrastructure) that the development requires. Lower fees in already existing neighborhoods encourages growth in areas that have better access to existing infrastructure, existing transportation hubs, existing police and fire stations, and existing schools.

Similarly, the more new infrastructure a new development requires, the more fees they'll pay for their impact, which helps avoid inefficient leapfrog developments on the outskirts of town. In this way, impact fees can aid community planning and encourage neighborhood revitalization.

## But not everyone agrees

A recent editorial in the Albuquerque Journal complains that Albuquerque's impact fee structure is:

> "…both overly complicated — there are 22 parts of the city with different fee calculations — and it unfairly penalizes the city's outskirts, where the fees are substantially higher than in older parts of the city."

These complaints underscore a critical misunderstanding of impact fees. Good impact fees are structured so that the amount of the fee is correlated to the cost of expanding the infrastructure in the particular community. Considering that Albuquerque has over 500,000 residents and covers over 180 square miles of land, 22 different fee calculations doesn't sound bad to me.

Furthermore, the complaint that fees are higher on the city outskirts doesn't make sense. It costs more for the city to build and maintain infrastructure out there. Someone has to pay those costs. It seems most fair that the developers and the future residents pay the higher cost for choosing to live and do business further out of town.

In his recent op-ed in the Albuquerque Journal, Albuquerque City Councilor Dan Lewis argues that impact fees are:

> "A hidden regulatory tax. They are unfair, regressive and discriminatory… With our fragile economy we should make every effort to extend the freezing of this regulatory burden on those who would invest in home and business construction and jobs in our community."

To hear Councilor Lewis tell it, one might think that impact fees are the single biggest barrier to prosperity in New Mexico. The truth of the matter is that, without some method to pay for the costs associated with new development, existing residents have been paying for infrastructure on the edge of town even while their local police and fire stations get run down. Not fair. As I've explained above, impact fees are not a "regulatory burden" but rather a fair way to pay the costs of building new developments.

Later in his op-ed, Councilor Lewis says:

> "Now is the time for Albuquerque not only to extend the current moratorium on impact fees, but to work for a systemic change to these regulations and make sure people are not penalized simply for providing desperately needed residences, products, businesses and services to our city."

Really? Are there not enough houses for sale in Albuquerque? I find this hard to believe. Are people truly desperate for a house and they just can't find one? According to this report, there are many nice houses for sale in Albuquerque. Is there really no place in an already existing neighborhood for an entrepreneur to set up shop? The councilor himself refers to empty buildings that someone could rent right away.

Setting up in an already existing house or business would reduce the impact fees drastically. Besides all of this sidesteps the essential question: Is it fair to expect existing neighborhoods to pay for new development? I don't think so.

Furthermore, I wish Councilor Lewis had offered some ideas for this "systemic change" because building new infrastructure is going to require increasing revenue one way or another. There may be a better way to fairly collect the fees but why make existing neighborhoods pay the tab for new developments while we figure it out?

I doubt Councilor Lewis will be proposing a tax increase anytime soon. Without impact fees, who will pay for the cost of these new developments? You and I will. And, in the meantime, our roads and parks and schools deteriorate. That's not fair.

*Nick Voges is the blogger behind NMPolitics.net's Zeitgeist. E-mail him at nick@nmpolitics.net.*

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## 1 Comment To "Impact fees are a fairer way to pay for the cost of new growth"

**#1 Comment** By Hemingway On July 30, 2010 @ 9:50 am

This is a good commentary on the necessity of impact fees. Here is a comprehensive study by Brookings Institution Center on impact fees. To lower impact fees would be a disaster to the community and to a city's budget. It would be like a doctor going back to bleeding his patients for health in the Middle Ages.

http://www.brookings.edu/ES/urban/publications/nelsonimpactfees.pdf

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