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Flaws in Brookings Impact Fee Report Cited

A recent Brookings Institution study on impact fees, “Paying for Prosperity: Impact Fees and Job Growth,” is seriously flawed and ignores the innovative alternatives available to governments to finance, build and manage infrastructure, according to an analysis by NAHB economists and land use planners.

The Brookings study is authored by Arthur C. Nelson, a strong proponent of impact fees. Nelson has as clients several municipalities that are searching for remedies to their budget crises and for revenue streams to finance their infrastructure needs. The report’s singular focus on impact fees reflects Nelson’s vested interest in impact fee adoption across the country.

The study focuses on impact fees vs. taxes and suggests that impact fees are a more efficient way to pay for infrastructure because impact fees make a direct link between those paying for and those receiving infrastructure benefits.

NAHB analysis finds that impact fees are one of the least efficient, least dynamic ways to finance infrastructure.

- Impact fees are often miscalculated and illegally applied to fund infrastructure facilities that are different from those for which the funds were collected.
- Impact fees are often illegally applied to fund the maintenance of existing infrastructure.
- Impact fees are an unreliable source of revenue that rises and falls with the construction cycle.
- As an undependable source of revenue, communities cannot leverage impact fees by borrowing against them.
- Impact fees make local jurisdictions dependent upon development as a means of funding needed infrastructure.
- There is a significant delay between the time impact fees are paid and the infrastructure is developed.

Not only are these detrimental aspects of impact fees ignored, by limiting the scope of the study to taxes vs. impact fees, the Brookings report ignores the more cost-effective and expeditious tools and arrangements that have been successfully used around the country for infrastructure development.

A new publication by NAHB — "Building for Tomorrow: Innovative Infrastructure Solutions" — identifies many of the most promising alternatives for meeting the infrastructure needs of communities. To download the report, NAHB members can click here.

The Brookings study also claims that impact fees treat all developers equitably. In reality, impact fees are ultimately paid by home buyers. Assessed uniformly, regardless of home price, lower income home buyers are disproportionately affected by the impact fee — further proving the study’s faulty logic. Impact fees are added to the cost of a home and then compounded by interest since they are typically rolled into the home owner’s 30-year mortgage payments.

Every $1,000 increase in the cost of a home deprives more than 400,000 American families of the opportunity to purchase a home. Impact fees across the country now typically range from $1,000 per home to as much as $65,000 in states such as California.The net effect of impact fees is that teachers, firefighters and police officers can no longer live where they work.

In additon, Nelson and his co-authors claim that impact fees are “the grease that helps sustain job growth in the local economy.” The study asserts causality from a simple data correlation showing that areas with fees have positive rates of job growth. The Brookings reports is based on a study of a single state, Florida, which has experienced strong job growth and widespread imposition of impact fees. Whether impact fees reduced the rate of job growth there, and whether Florida’s economy has thrived in spite of impact fees, was never assessed.

For more information on the analysis of this study, impact fees or infrastructure financing, e-mail Keyvan Izadi or call him at 800-368-5242 x8469.
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