Who Pays for Growth?

The City of Brownsville is proposing the implementation of a "Capital Recovery Fee" on new constructions. An average fee of $1,000 dollars would be collected on every new building in the city, both residential and commercial. The city's justification is to cover the cost of roadway and capital expenses needed to service these new structures. As the city's final report describes it: "Growth paying for Growth."[1]

Growth can't pay fees. People pay fees. People also face the consequences of policy choices. Growth does neither. The question the citizens of Brownsville must ask is who will actually pay this fee and what will be its consequences for the residents of Brownsville? The answer, Brownsville's aspiring new homeowners will be saddled with increased home prices and, potentially, decreased housing production.

At cdcb, our mission is to make homeownership accessible to as many members of our community as possible. In this way, they build generational wealth through equity in their homes, bringing a range of economic benefits to themselves and the city. In the last five years, we have brought over $31 million in private funding into the community through construction and financing and we have produced 341 new housing units. The proposed Capital Recovery Fee represents an obstacle to affordability, and that is by design. Historically fees such as these are, first and foremost, a housing policy tool aimed at managing a community's growth and only secondarily a method by which to pay for new roads. This realization, and the supporting history, is missing from the city's final report as well as public discourse on this topic.

A Capital Recovery fee is a popular rebrand utilized by municipalities and their consultants to divert from the term "impact fee" which has a long and varied history. Modern impact fees proliferated after the passage of Proposition 13 in California in 1979, which saw a dramatic

[1] *Brownsville Roadway Capital Recovery Fee Final Report*, Freese and Nichols, August 10, 2023.

reduction in property taxes, forcing municipalities to play a painful game of fiscal twister wherein they had to meet an expanding need for services without the requisite tax revenue.[2]

But, impact fees were more than additional revenue. They were also explicitly designed to manage growth to prevent the construction of affordable housing and homes with a dollar value below a certain point as they were "net drains on municipal budgets."[3] In essence, impact fees were the proverbial switchblade of gentrification, acting as a multiplier meant to change the nature of new single-family construction to a distinctly affluent phenomenon. In this way, city's got increased bang for their impact buck, with higher valued properties being built that netted higher taxable dollars but the result was more affluent homes being built for more affluent newcomers, with existing low-income residents being squeezed out.

Studies going back decades on this matter make clear, impact fees do what they were designed to do: they raise the cost of housing not only through the added cost of the fee itself but through the rippling effect on the city's housing market moving forward in what's called an amenity spiral (nicer roads and nicer facilities increase property values which changes the income levels of the population).[4] Our city is already one of the least affordable in Texas when taking income into account. It is also identified as a center of significant underproduction in housing units in a study by Up For Growth in both 2022 and 2023.[5]

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[2] For Impact Fee's original design as Housing Policy Tool See Bluffstone et al, *Housing, Sprawl, and the Use of Development Impact Fees: The Case of the Inland Empire* in Journal of Contemporary Economic Policy, Volume 26, No.3, July 2008.

[3] Ibid, pg. 444.

[4] For original discussion of amenity spiral see Jan K. Breckner, *Growth Controls and Land Values in an Open City* in the Journal of Land Economics, Vol. 66, No. 3, August 1990. For Growth management as Housing Policy See Ewing et al *Growth management Effectiveness: A Literature Review* in Journal of Planning Literature, February 2022.

[5] For literature review on impact fees and their impact on housing prices See Gregory Burge, *Impact Fees in Relation to Housing Prices and Affordable Housing Supply*: https://www.researchgate.net/publication/265228760_Impact_Fees_in_Relation_to_Housing_Prices_and_Affordable_Housing_Supply. For Affordability Data See Texas A&M Real Estate Center, *Quarterly Housing Report: Brownsville-Harlingen Metro*, Third Quarter 2023; For Underproduction See Norena Limon, "Housing Underproduction: A Risk to Latino Homeownership and the U.S. Economy" in *Housing Underproduction in the United States*, Up for Growth, 2022.

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Again: impact fees are a tool of housing policy AND not simply a way to pay for roads. If the city wants to wield such a tool, it should be a careful and precise scalpel and not a hammer to the heart of homeownership for a majority of Brownsville residents. To achieve this, the city should engage community partners to develop an official housing plan that prioritizes affordability as well as underproduction. One example how such a plan could offset the negative impacts of an impact fee is the city could engage in a strategic reconsideration of how it currently uses federal funds designed to address housing: CDBG (Community Development Block Grants) funds for example, are intended for housing but the city uses much of these dollars on roads. It is reasonable that, as part of a capital recovery fee plan, CDBG expenses can be returned to their intended purpose. This newfound intentionality, where the city wields the tools at its disposal for their intended purpose, and with an awareness of what that purpose is, would provide an increased quality of life for all of Brownsville's citizens and not just wealthy newcomers. We look forward to engagement with the City of Brownsville in this regard.

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