



August 14, 2006

## **HBAR Statement Regarding the Proposed Cash Proffer Increase in Powhatan County**

As has been stated in the past, the Home Building Association of Richmond is opposed to the cash proffer system as a means of raising infrastructure revenue. While we question whether Powhatan County's proffer methodology truly reflects housing's contribution to the local economy and local tax coffers, we nonetheless have not taken issue with the methodology to this point. Over the course of the coming year, however, we do plan to examine the proffer methodologies of Powhatan County and other localities with an eye towards suggested changes.

With that stated, we do take issue with the proposed cash proffer increase of just over \$5,000 that is before you. While the methodology may yield the figure before you, you are not compelled to raise the maximum proffer to that amount. Given the current economic and housing climate we would urge not to do so. There is never a good time for a cash proffer increase, but now is one of the worst possible times for Powhatan County and for the housing industry.

It is important to be clear and specific about what a cash proffer actually is. In economic terms, a cash proffer is nothing more than a tax on new homes. As such, it makes new homes more expensive, and even though it is paid by builder, it gets passed to the buyer in the cost of the new home. Because it is a building cost, it is usually reflected in the final price at an amount greater than the actual proffer amount because of carrying costs on the part of the builder.

Raising the cash proffer amount now would increase the cost of housing for families in Powhatan County at a time when Powhatan County and other localities in the Richmond metro area are struggling with the issue of affordable workforce housing.

In addition to the reasons we oppose this specific increase, we maintain our objections to the cash proffer system in general. Public infrastructure improvements benefit the entire community, and as a result, they should be funded through broad-based revenue sources such as real and personal property taxes as opposed to expecting one sector of the economy to pay for public infrastructure.

Moreover, as we have pointed out in the past, cash proffers affect current residents in two main ways. First, they drive up the cost of housing, which raises assessments and leads to higher tax bills for all citizens. Second, some of the families who purchase new homes are already living in the area. They already have children in the schools. They already travel on our highways. And, they have already been paying property taxes to support the area's infrastructure. These families should not be singled out for extra taxation.

Each year, when the cash proffer issue is discussed, the dialogue invariably turns to the question of alternatives. We submit that there is no easy answer. If there were, we would have all found it before now. That said, and in addition to more traditional broad-based revenue sources such as real and personal property taxes, we would commend to you the concept of Community Development Authorities (CDAs). Whether they are financed through tax increment or special assessment mechanisms, CDAs offer an alternative that is more broad-based and less harmful to housing affordability.

In addition, the housing industry has supported efforts on the state level to allocate more funding for local transportation projects, and we have supported efforts to equalize taxing authority between cities and counties so that localities like Powhatan County would have more alternatives to the cash proffer system.

A robust supply of well-built, affordable housing is vital to any locality's economic growth. As you consider the cash proffer increase before you, the Home Building Association of Richmond urges you to consider how increasing the cash proffer will be bad for Powhatan County and bad for the housing industry, and we urge you to vote against this increase.

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Contact:  
Tyler H. Craddock  
Director of Public & Government Affairs  
Home Building Association of Richmond  
400 N. Ridge Rd.  
Richmond, VA 23229  
Phone: 804-282-0400 ext. 5  
Fax: 804-282-9866  
Mobile: 804-920-2900  
[tcraddock@hbar.org](mailto:tcraddock@hbar.org)