



June 13, 2006

HBAR Statement Regarding the Proposed Cash Proffer Increase in Hanover 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 Hanover 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 Hanover County and other localities with an eye towards suggested changes.

With that stated, we do take issue with the proposed cash proffer increase of almost \$3,000 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 Hanover 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.

It is also important to remember that the proposal before you does more than increase the cash proffer for new lots coming into the system; it also increases the cash proffer amount for lots that have already been zoned. Accordingly, the action you take could have an immediate effect on the cost of housing.

Raising the cash proffer amount now would increase the cost of housing for families in Hanover County at a time when Hanover County and other localities in the Richmond

metro area are struggling with the issue of affordable workforce housing. The situation is especially acute in Hanover County. For the year ending March 31, 2006, Hanover County had the largest growth in average new home sales prices (23%) and the second highest average new home sales price (\$387,483) in the Richmond metro area versus the previous 12 month period, according to data compiled by Integra Realty Resources. By increasing what is basically a tax on new homes, this trend will only get worse.

In addition to raising the cost of workforce housing, increasing the cash proffer amount now would exacerbate growth into Hanover County's rural areas. By making development in the Suburban Service Area more expensive through higher cash proffers, in addition to recent increases in water and sewer tap fees, you are pushing development onto by-right, well-and-septic lots in the rural sections of Hanover County. As an association that supports smart growth policies, we are concerned that this pattern of pushing development away from the Suburban Service Area will contribute to strained transportation networks and unnecessary increases in other infrastructure costs.

In addition to being bad for Hanover County and its citizens, an increase in the cash proffer would also be bad for the housing industry. Right now, our members are reporting that the market is beginning to level off. We are reaching the point where the housing market will not be able to support the price increases necessitated by things such as cash proffer increases, water and sewer tap fee increases, erosion and sediment control fee increases and stormwater management fee increases. With the looming uncertainty on which direction the economy (and thus the housing market) will take, now is one of the worst possible times to increase the cost of 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, many 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.

In response to questions about the number of new home purchasers who are current residents, we have been working to ascertain a more specific figure than the term "many." In researching this issue, we found that Census data is only helpful on the level of Metropolitan Statistical Areas (MSAs). Because of that, we have undertaken a survey of our members who build in the Richmond-metro area to obtain locality-specific data, based on 2005 sales. While we are still collecting that data, preliminary indications suggest that on average, across the Richmond area, about half of new home buyers are current residents of the locality where they purchase a new home. As soon as more

complete information becomes available, including specific county-by-county breakdowns, we will be sure to share it with you.

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 Hanover 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 Hanover County and bad for the housing industry, and we urge you to vote against this increase.

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