

**MAYORS AND CHAIRS**

**Thomas Jefferson Planning District Commission**

**June 27, 2008  
Charlottesville, Virginia**

**SENATE BILL 768  
BRIEFING MATERIALS**

**HOME BUILDERS ASSOCIATION OF VIRGINIA**

## GUIDING PRINCIPLES

### The HBAV Subcommittee on Public Infrastructure Funding

As amended, September 12, 2007

1. **The proffer system is out of control. It lacks accountability and is excessive and unreasonable in many areas of the Commonwealth.**

In the past 20 years, the proffer system in Virginia has devolved *from a system* that was created to allow property owners to "volunteer" to construct public facilities (primarily roads) or contribute small amounts of cash for road improvements to facilitate the orderly development of land in a few high growth localities, *to a system* of an "implied expectation" of a significant and excessive cash contribution in conjunction with virtually every application for a rezoning in virtually every modest growth area of the Commonwealth. (See Attached) And, the demand requirements of the current one-sided proffer negotiation system rarely results, if ever, in an assurance by a locality that the proffers (cash) contributed will result in the timely improvement to public infrastructure necessitated by or directly attributable to a new development. In other words, there is no accountability built into the current out of control proffer system.

In 2007, the state legislature, at the urging of the governor, layered road impact fees on top of the out of control proffer system for 62 localities throughout Virginia.

2. **The cost of new and existing homes is too high; partly because of the out of control proffer system.**

According to the National Association of Realtors, the average cost of existing housing in Northern Virginia-Fredericksburg area is \$427,800; in the Richmond area it is \$223,200. In the Northern Virginia area, the proffer system is adding almost \$50,000 to the cost every new and existing home; in the Fredericksburg area, the proffer system is adding almost \$40,000 to the cost of each new and existing home and; in the Richmond area the proffer expectation adds in excess of \$15,000 to the cost of each home (See Same Attachment). All residential real estate experts link the cost of existing housing to the cost of new housing. These cost do not include local permit fees or local water and sewer connection fees that often exceed \$10,000 per home in many areas of the Commonwealth.

3. **The out of control proffer system is affecting the ability of hard-working Virginians to live in safe, decent and affordable housing.**

According to highly-regarded Virginia Economist Christine Chmura, in November of 2006 at a presentation to the House Appropriations Committee and Senate Finance Committee, only 1 in 5 households could afford a median-priced home in Northern Virginia; only 1 in 3 households in the Hampton Roads area could afford a median-priced home and less than 1 in 2 households in the Richmond area could afford a median-priced

home. Ms. Chmura also shared that the average household income has not kept pace with the cost of median-priced home in those areas of the state that have experienced population growth and job growth in recent years. Remember, residential real estate experts link the cost of existing housing to the cost of the construction of new housing.

**4. There is a need to repeal or reform the current proffer system.**

The current proffer system is rapidly expanding throughout Virginia and, it is so flawed, it must be fixed. The expectation of a significant cash contribution in conjunction with most every residential and commercial rezoning by localities has exceeded and will continue to exceed, the ability of the marketplace to absorb such a high cost. And, there is very little, if any, local political support for an adequate supply of affordable housing in the modest and high growth localities across Virginia. The current and future political appetite for proffers for basic public infrastructure will likely expand in the future, not retract. And, we can say with certainty, there is no end in sight to the level they might ascend. Partially due to the out of control proffer system; a housing slump has developed in Virginia. The product has gotten too expensive for the average household income in many parts of Virginia. As a result, applications for building permits are down 49% in Northern Virginia and down by almost 40% in every other region of the state. Consequently, state revenues linked to housing are declining at a rapid pace, and will impact the ability of the Commonwealth to deliver core state services in FY 2008 and FY 2009. Proffer reform or repeal will hasten a housing recovery in Virginia and help restore growth in state revenues sooner rather than later.

**5. We recognize that business expansion and resultant population growth contribute to increased demands on public infrastructure; that new housing follows that expansion and growth; and, therefore, all home purchasers have some additional responsibility to contribute to capital improvements made necessary by such expansion and growth.**

While business expansion and population growth (not new housing) create demand for new public infrastructure, the marketplace will allow new home-buyers and the purchasers of existing housing to pay a fair and reasonable portion of the cost of new public infrastructure without significantly impacting the cost of housing or housing affordability. However, the overwhelming majority of the cost of new public infrastructure should be the responsibility of the public at-large. New home buyers and newcomers that purchaser existing housing are never the "only" users of new roads and new schools, and should "only" have to bear a fair portion of such costs.

**6. There is an immediate need to establish a method to fund these capital improvements made necessary by this increased demand for public infrastructure, which must be founded on principles of fairness and accountability.**

The housing industry is in a downward spiral; partly because of the cost associated with the out of control proffer system, which has a limited application (new rezonings only), but broad marketplace or housing cost impact. As a consequence, fewer and fewer Virginians can afford to purchase a home, and the state budget faces a \$641 million

budget shortfall for Fiscal Years 2007 and 2008, and many local government budgets are facing housing-related revenue shortfalls.

A more equitable, predictable and fair system that is more structured; has more certainty or defined cost and; is more broadly applied is now needed. Such a system will allow all purchasers of new and existing housing to pay a fair portion of the cost of public infrastructure created by business expansion and population growth, without significantly impacting the cost of new housing and housing affordability.