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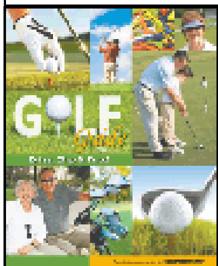

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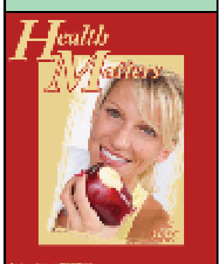

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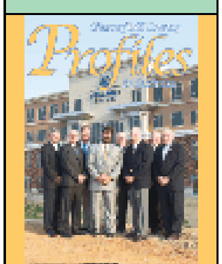

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Real Estate Classifieds
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Real Estate Sales
News
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Front Page
News

Higher proffers hurt Chesterfield County

co mmentary

By Warren Wakeland Director of Public and Government Affairs Home Building Association of Richmond

The Chesterfield County Board of Supervisors voted 3-2 on June 24 to increase the county's cash proffer on new homes by 4.9 percent from $18,080 to $18,966.

Some believe this was a good decision, since they view new residential development as the root cause of Chesterfield's current problems. The reality is that the cash proffer system provides a serious impediment to the county's overall growth and it, not new homes, is a main cause of Chesterfield's current problems.

A key question is what does new residential development do for the county?

According to Bank of America Home Loans, which tracks new home sales in Chesterfield County, there were 1,155 new homes sold last year with an average sale price of $404,026. At a property tax rate of 95 cents per $100 of assessed value, the average new home should have paid $3,838 in property taxes, and $4,421,380 in new real estate property taxes should have been collected.

The county projected a spending increase of $16,040,000, or 2.2 percent, in the FY09 budget from the previous year. This means new real estate property taxes, in the industry's slowest sales year on record, accounted for at least 27.5 percent of the extra money available for county services in FY09. The amount of revenue new homes generate is higher when you factor in the jobs the industry provides, the jobs each new home's residents hold and the tax revenue they

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Another key question is what do cash proffers do for the county?

The county projects that over the next five years of the FY10-15 capital improvement program (CIP) it will collect $31 million in cash proffers, or $6.2 million per year. The total cost in the current CIP for transportation, schools, parks and recreation, public safety and libraries - the five areas for which cash proffer money is used - is $508,919,500.

This means the county expects the cash proffer to provide about six cents for every dollar needed for its proffer-related CIP projects.

In generating this 6 cents per dollar, the price of all homes will artificially increase by almost $19,000 this year. Yes, all homes. Real estate agents say when pricing a home for sale, they look at prices for all comparable homes, new and existing, proffered or not, and price the home accordingly. The proffer is built into the new home price, so it gets built into the existing home price.

What does the cash proffer do for the county's economic development efforts?

Chesterfield and Henrico counties have battled each other for years to bring business to their counties. One good way to quantify a county's economic development success is to look at its residential-to-commercial tax balance. A county successful in business recruitment will generate about 70 percent of its real estate tax revenue from residential sources and about 30 percent from commercial sources.

Henrico's residential-to-commercial tax balance is 69-31. Chesterfield's is 80-20. Henrico does not charge a cash proffer, and according to employees with Chesterfield's Office of Economic Development, it's one reason why Chesterfield's economic development efforts struggle.

A study released in August 2007 by Duncan Associates, one of the leading land planning firms in America, shows what other localities charge in impact fees. Impact fees are like cash proffers except the proffer, by law if not in practice, is a voluntary payment while the impact fee is mandatory.

The study shows the total average of the five uses for which Chesterfield charges the cash proffer, charged separately, was $10,623. The highest average total impact fee in America in 2007 was in California, at $18,535. The second-highest impact fee was in Florida, at $8,657.

In 2007, Chesterfield's cash proffer was $15,600.

Chesterfield's cash proffer provides little revenue to help the county meet its CIP needs. It artificially increases the price of all homes, which causes artificially inflated real estate tax values and higher property taxes than residents should pay. It discourages businesses considering the county as a possible location.

The cash proffer is a significant reason why the county had to cut more than $50 million from its FY10 budget. It is a huge reason why there is no new affordable housing in the county. A nationwide study shows it is one of the highest taxes charged on new homebuyers in America.

Chesterfield's cash proffer has increased more than 20 percent in the last two years, and more than two-thirds fewer residential building permits were issued in that same time. This is not a coincidence. The cash proffer is a huge factor in driving development, the jobs that come with development, and much of the millions in new tax revenue the county generates from development, out of the county.

The cash proffer isn't hurting Chesterfield County. It is ruining Chesterfield County.