COUNTY OF ALBEMARLE

MEMORANDUM

TO: Board of Supervisors and Planning Commission

FROM: Steven A. Allshouse, Manager of Economic Analysis and Forecasting

DATE: June 22, 2015

RE: **PRELIMINARY RECALCULATION OF PER-UNIT CASH PROFFER AMOUNTS, BY DWELLING UNIT TYPE.**

Background

At its September 3, 2014 meeting the Board of Supervisors (BOS) requested that the Fiscal Impact Advisory Committee (FIAC) update the County's maximum per-unit cash proffer amount, by dwelling unit type. At its February 25, 2015 meeting the FIAC agreed that staff should recalculate the County's per-unit proffer amounts, by dwelling unit type, using the same methodology that the County used in 2007, but incorporating into that model updated financial, economic, and demographic information. The Committee's intent was that this exercise would provide a *departure point* of analysis for generating an updated set of recommended proffer figures. This memorandum briefly outlines the methodology behind the recalculation, the resulting per-unit cash proffer dollar values, and proposes additional future work that the Committee should undertake.

Methodology

The task facing staff involved the estimation of capital costs, and offsetting revenues, associated with an average new dwelling unit, for each of four dwelling unit types. The Committee directed staff to run two separate scenarios, the first to include capital costs funded in the County's Capital Improvements Program (CIP) only, and a second scenario to include CIP costs plus the capital costs identified in the County's Capital Needs Assessment (CNA) program. After determining capital costs, staff then estimated the revenues, generated by each type of dwelling unit, which would help offset these capital costs. The difference between capital costs and offsetting revenues rendered net cost figures. These net cost figures equal the maximum dollar values that Albemarle should expect in proffered cash amounts per dwelling unit, by dwelling unit type. Note that the proffer amounts calculated in this memorandum reflect the net costs generated by *growth-related* capital projects in the following categories: Public safety facilities, park facilities, libraries, schools, and transportation projects. Note also, that, under current Virginia law, costs associated with *maintenance and replacement* capital projects *cannot* be included in the calculation.

Staff utilized an average cost approach in calculating the proffer dollar amounts. In an average cost approach, the dollar expenditure for a particular type of capital project identified in the County's CIP and CNA is assumed to vary with changes in an associated "demand base" such as

population, school enrollments, and vehicle trips. The relevant capital cost per person, pupil, or vehicle trip is then calculated. The dollar cost per each type of demand unit then is multiplied by the relevant estimated number of demand units in the average new dwelling unit. The sum of these costs equals the *gross* capital cost per new dwelling unit. Note that different types of dwelling units (single family detached, single family attached/townhouse, and multifamily) can have different total costs, since each category of dwelling units contains a different number of demand units. On the revenue side, a similar type of calculation is performed, involving various streams such as real property tax, personal property tax, consumer utility tax, etc. This exercise results in a total revenue figure per each type of new dwelling unit. As mentioned previously, the net capital cost of an average new dwelling unit, by dwelling unit type, equals the gross capital cost per dwelling unit minus the revenues associated with that average new dwelling unit.

Results

The recalculated per-unit proffer amounts, based on the FY 15 through FY 24 CIP+CNA capital program are as follows:

Single Family Detached (SFD): $4,918
Single Family Attached/Townhouse (SFA/TH): $3,845
Multifamily (MF): $5,262

The recalculated amounts, based on the FY 15 through FY 19 CIP alone are as follows:

Single Family Detached (SFD): $487
Single Family Attached/Townhouse (SFA/TH): $1,477
Multifamily (MF): $2,144

Discussion

The figures shown above represent the maximum cash proffer amounts that the BOS could expect per new dwelling unit and, in both cases, are substantially below the corresponding values currently expected by the Board:

Single Family Detached (SFD): $20,986.76
Single Family Attached/Townhouse (SFA/TH): $14,270.99
Multifamily (MF): $14,870.61

These last numbers are based on the proffer amounts that the Fiscal Impact Advisory Committee generated originally in 2007 and which subsequently have been adjusted each year for inflation. *The differences between the recalculated numbers shown in this memorandum and the currently-expected figures reflect primarily a change in state law. The current CIP and CNA capital* *programs consist, for the most part, of maintenance and replacement projects and, as mentioned previously, state law now forbids the use of maintenance and replacement costs in the calculation of cash proffer amounts. In 2007 state law did not constrain the County in such a manner, and*

the resulting per-unit proffer values that the FIAC calculated in 2007 were much higher than are the figures shown in the current calculation.

The take-away from these calculations is that under the current model, as the County's growth-related *capital budgets grow, so too do the dollar values of the proffers per unit. The decline in the recalculated proffer amount is a direct function and result of the decline in the dollar value of the County's* growth-related *capital budgets between 2007 and 2015.*

Future Tasks

The existing cash proffer model has a number of missing pieces, or other issues, that concern the Committee and should be addressed:

- The County's cash proffer model does not contain any economic multipliers. In this situation, the current model assumes that, say, a dollar's worth of real property tax revenue generated by new residential development results in only one dollar of additional economic activity in Albemarle. In reality, this dollar might end up generating more than just one dollar's worth of economic activity as it circulates through the County's economy;

- In a similar vein, the current model does not take into account potential non-residential development that might be generated by residential development. Residential development, for example, might induce additional commercial space to service the needs of new residents;

- The existing model estimates the net capital costs associated with only five types of capital projects, mentioned previously. The net capital costs of additional types of capital projects, e.g., jails, landfills, stormwater, etc., should be estimated as well; and

- Certain projections made by the model, e.g., population and pupil increases resulting from new residential development, have not been back-tested to determine the historical accuracy of these projections.

In order to improve the County's cash proffer calculation methodology, the Committee will continue to address the above issues. As one strategy to that end, FIAC will examine in detail the cash proffer models currently used by other jurisdictions around the state (a task that was done last in 2006), as well as other fiscal impact models that might be relevant to the future recalculation of Albemarle's per-unit cash proffer amounts. This effort reflects the responsibilities section of the Committee's charter:

- Ensure that all fiscal impact analytical tools in use by the County are appropriate to the needs of the County, and are the very best tools available; and

- Review the suitability of alternate tools of fiscal impact analysis for potential use by the County.

Staff requests that the Board establish a specific time frame for the Committee to complete its review of models, and that, in establishing this schedule, the Board take into consideration other competing assignments that the Board would like staff to undertake in the near term.

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