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CC: Delegate Athey, Chair
Joint Subcommittee Studying Development & Land Use Tools in Virginia's Localities

THE PROBLEM OF DEPENDENCE ON REAL ESTATE TAXES IN GREENE COUNTY

Real estate taxes are currently the main source of local revenue for Greene and other small counties. This source of local revenue is dwindling due to the sluggish housing market and unpredictable economic conditions. And, local ability to change real estate tax revenue to meet fiscal needs is slow, as tax rates are only set once a year and collections based on new rates occur several months or most of a year later. No change can be made during the year if county revenues or state revenue allocations fall short of anticipated amounts.

For the taxpayer, major problems include that ability to pay is not closely related to value of property because increases in assessment often occur while the taxpayer's income remains the same or declines, and even though the taxpayer has made no changes to the property. This has been the case in Greene and other counties. Also, a taxpayer cannot choose any action to reduce the tax other than selling their home, which they may have lived in for a lifetime. (User taxes are more flexible on the payer, as they can to some extent elect to buy less expensive items or use less.)

Greene has a large number of approved homes and businesses awaiting construction when market conditions improve. Development that was approved long ago but delayed has now reached preliminary plat approval since installation of a water and sewer system in Ruckersville has made it practical. When these houses are constructed, new classroom space will be needed, which is very expensive. Both homes and businesses will need road improvements, plus new equipment for fire and rescue, courts and sheriff, etc. Ongoing operating expenses for all of this will also need to be paid.

Greene's homeowners cannot continue to pick up the slack when the state retreats from its annual financial obligations, or its obligation to provide adequate legislative authority to meet the very real conditions and challenges of growth. Greene's leadership has tried to address growth costs partially by enacting a proffer system to help pay for infrastructure additions that will be required, but a great deal of the approved development is not covered by the proffer system as approval was given in some cases years before the proffer system was adopted.

POSSIBLE SOLUTIONS

1. **Growth impacts should be paid by developers.** Adding the cost of new infrastructure requirements on existing real estate taxpayers is untenable. **An impact fee system similar to SB768 but with a long phase in period to run in conjunction with the current proffer systems should be passed this year.** This impact fee system should be either tied to the County's Capital Improvements Plan, or even better, be based on state average costs for new schools seats, roads, parks, fire & rescue capability etc, with a local index applied based on state statistical information. It would take a decade or so for the local jurisdictions to get such an impact fee system adopted and running, so the localities should be able to offset collections on their proffer system against those on the impact fee system – result is that they would collect the higher of the two until the proffer system is phased out in the long term. **The impact fees should be assessed at the time the building permit or occupancy permit is issued** regardless of when zoning, concept plan filing, or other activity took place.

The Virginia Joint Subcommittee Studying Development & Land Use Tools met just a few days ago, and commented on the need to proceed with general impact fee legislation, but indicating that action might not be taken until 2010. For Greene, much delay of this legislation may have a catastrophic financial effect, as it has about 3,800 approved housing units awaiting construction when market conditions improve. This is an increase of about 50% on the existing tax base of about 7,200 units. It is totally unrealistic to think that real estate taxes can pay for all the new school seats, roads, etc that the new units will require, offset by a small amount of proffers that will be collected from the most recently approved new developments. If developers around the state raise prices for new housing to cover impact fees, so be it. Adding this cost to new home buyers' mortgages to be amortized over 30 years leaves the new home buyer the option to buy a property costing less, to keep the net monthly cost down. Passing the infrastructure cost onto the existing homeowner tax base to be paid out of real estate taxes over which they have no control and no way out, is far more unfair. In actual fact, if impact fees became part of the cost of new home building, it would be likely that there would be some division of the cost between builder profits and selling price of home. The builders' lobby that sponsored SB768 provided an impact fee of \$7,500 per new home in lower cost areas. For Greene's 3,800 new units that are coming any time, this amounts to \$28.5 million dollars in estimated infrastructure costs that Greene homeowners can ill afford to have added to their real estate taxes. **We need general impact fee authority with easy adopt templates from the state, sooner rather than later. For a small county like Greene, a complicated system that would require a full time staffer or two to implement and manage ongoing, would be no help at all – we can't afford the additional staffer. SIMPLICITY IS VITAL.**

2. **For local programs not mandated by the state, and for which counties have complete control of budget, counties should be given greater latitude on taxing authority so they can reduce the amount of their revenues dependent on homeowner real estate taxes. One such possible option would be having additional user taxes that counties can enact.** For example, in Greene County, a referendum to institute a meals tax, which is one of a few other options open to counties, was passed by a pretty wide margin, as the voters felt it would allow some revenue to be collected on an item over which users had some control over the how much they spent. Also, some "passer-by" money could help fund county operations for sheriff, rescue, and other items used by people passing through. The same logic applies to the current request by the county to allow the increased lodging tax for Greene, which can be used to fund Tourism Council operations.

Some examples of additional authorization that could be provided to counties include an optional local half-a-percent sales tax that could be added to the current local sales tax share. Another would be to legislate authorization for a "piggy-back" local income tax, such as is used in Maryland and various other states. **The state needs to research local taxing options that would be fairer to the taxpayers to take the pressure off real estate taxes, and provide the legislative authority for localities to use those options.**

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