

**Fiscal Impact Analysis**  
**Proposed Avendale Development**

Rezoning #PLN2006-00781  
Comprehensive Plan Amendment #PLN2006-00438  
(Brentsville Magisterial District)

Prepared for the Public Hearing, January 12, 2010

## **Background**

The proposed Avendale development would impose significant, negative fiscal and economic impacts on Prince William County, as the following analysis demonstrates. The Planning Commission recommended denial of the Avendale Comprehensive Plan Amendment and Rezoning. The Prince William County Board of Supervisors should do likewise.

Fiscal impacts fall into two categories; capital costs and operating expenses. Capital costs are generally one-time-only costs and include, among other things, the building of schools, roads, parks, etc. Operating expenses are such items as hiring teachers and maintaining roads and parks. They are recurring and usually perpetual.

Developers are requested to proffer amounts to mitigate the capital costs and Level of Service (LOS) impacts of their projects. Proffers pay for none of the operating expenses. Operating expenses are covered in the County's annual General Fund Budgets. Minimal overlap exists. Mainly, the overlap occurs when capital projects are financed with debt.<sup>1</sup> The annual debt service expense is included in the annual General Fund Budgets. Prince William County last calculated and published requested proffer amounts in 2006.

Real estate taxes provide the majority of the financial resources to finance the annual General Fund Budgets. When real estate, such as residential units, does not pay enough tax to fund the public services it consumes, the deficits must be covered by taxes from other sources or by reductions in the levels and quality of those services provided to the entire community.

The official County staff reports on the Avendale Comprehensive Plan Amendment and Rezoning proposals do not address the development's fiscal or economic impacts on Prince William County. This shortcoming is another example of the poor quality analysis from the Planning Office in recent years, and that office's bias toward favoring the interests of the development sector over those of Prince William County citizens, businesses and taxpayers. The purpose of this report is to provide that analysis.

The Avendale property consists of approximately 179 acres in the Rural Crescent. The requested Comprehensive Plan Amendment would convert 125 acres of the property from AE (Agricultural and Estate) to SRL (Suburban Residential Low) upon Board approval. The formal proposal requests approval of 295 homes. This analysis is based on the 295 number.

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<sup>1</sup> In this analysis, no overlap, or double-counting of costs, exists. The methodology Prince William County employs to calculate proffer amounts incorrectly includes a credit for future debt service. This credit was included in the calculation methodology at the insistence of supporters of the development industry and approved by then-County Executive Craig Gerhart. The fallacious argument advanced at the time in support of the credit was that new development should not help pay existing debt service. This is tantamount to asserting that residents of new development will not use existing public services such as roads, schools, parks and libraries financed with debt. By also looking at the impact of development on the annual General Fund Budget, which includes the cost of debt service, this error in proffer methodology is rectified.

However, opponents of the Avendale development expect that if the Board of County Supervisors approves this Comprehensive Plan Amendment and Rezoning for 295 homes, the applicants will submit a future request for more units on the same property. 125 acres could yield 500 single-family homes. As SRL, the whole 179 acres could potentially yield 716 units. If such a change occurred, the negative fiscal and economic impacts described in this report would increase proportionately.

**Proffers (Capital Costs)**

The developers of Avendale propose to mitigate the LOS impacts of their project with the proffers in the following table.

	<b>Proffered Cash</b>	<b>Recommended Monetary Contribution (2006 values) for 295 Single-Family Homes</b>
Environment	9,397.50	9,397.50
Fire and Rescue	222,135.00	220,995.00
Housing	73,750.00	295,000.00
Libraries	179,950.00	179,950.00
Parks and Open Space	0	1,171,740.00
Schools	0	4,266,290.00
Transportation	0	5,288,170.00
<b>Total</b>	<b>\$485,232.50</b>	<b>\$11,431,542.50</b>

The requested monetary proffer for Schools in 2006 was \$14,462 per single-family home. Avendale’s rezoning calls for 295 single-family homes for a total proffer of \$4,266,290. The developer is proposing a proffer of that amount in land rather than cash. Miraculously, the market value of the land is exactly the value of the requested proffers.

The same holds true for the Parks and Open Space proffer. The requested amount in 2006 was \$3,972 per single-family home, or \$1,171,740 for the 295 units in the rezoning. Again, the developer proposes to meet the requested proffer not with cash but with land that miraculously has a market value equal to the amount of the requested cash.

The requested monetary contribution for Transportation in 2006 was \$17,926 per single-family home, or \$5,288,170 for the 295 units in the rezoning. The developer proposes to proffer a combination of land and a realignment of Vint Hill Road, but no cash.

**Problems with the Avendale Proffers**

- The proffer calculations are based on Prince William County’s 2006 “Policy Guide for Monetary Contributions.” Using these figures assumes that none of the costs have increased since 2006 (four years ago). Therefore, the requested

monetary contributions do not reflect the full capital costs that the Avendale development will create for Prince William County.

- Proffers calculations are based only on new capital costs generated by development and do not reflect any recurring operating expenses.

***For example, the suggested proffer amount for a school reflects the cost of constructing a new school in 2006 but does not include any of its ongoing operating expenses, such as hiring teachers, buying supplies, etc.***

- Of total requested monetary contributions of \$11,431,542.50, the developer is proffering only \$485,232 in cash.
- The proffers do not include the capital costs of police, general government, judicial services, etc. This exclusion means that the Avendale development will not pay for the costs of needed additional police stations, government buildings, etc. to which its increase in County population will contribute. Therefore, the requested monetary contributions do not reflect the full capital costs that the Avendale development will create for Prince William County.
- The Planning Office accepted the developer's stated value of the land proposed to be donated for schools, parks and open space, and transportation with no independent appraisal. ***This action is a gross betrayal of the Planning Office's fiduciary duty to the citizens of Prince William County.***
- Given the opening of Sudley Manor Drive and the reduction of traffic using the Nokesville Road and Linton Hall Road intersection, realigning Vint Hill Road is no longer necessary. Its only purpose would be to facilitate increased density on the Avendale property. There is no broad public benefit in the realignment.
- Even if Vint Hill Road were to be realigned, Prince William County could perform the work cheaper than the developer states in the proffers.

### **Operating Expenses (Annual General Fund Budget)**

The negative impact of Avendale on Prince William County's Annual General Fund Budget will be \$463,000 per year into perpetuity, which will grow with inflation. This analysis draws upon data from the County's Standard Data Set, FY 2010 General Fund Budget and real estate data from the Finance Department, and is calculated according the method in the table below.

The County's cost per capita of providing services in FY 2010 is \$2,143. This cost is offset by some tax revenues paid by citizens; personal property, sales, consumer utility and communications sales taxes. Those taxes are adjusted in the analysis to reflect that they are paid by both residents and consumers. Since residential real estate comprised 75 percent of the real estate tax base in 2009 (most recent year for which data are available),

that proportion is credited toward the costs of providing services to residential development. The remaining costs must be funded from other sources.

If single-family homes were to pay their own way in operating expenses from real estate taxes, at the current tax rate of 1.2120, their assessed value would need to be \$466,468. The Prince William County Finance Department expects the assessed value of newly constructed single-family homes in FY 2011 (starting July 1, 2010) to be \$377,000. Thus, new single-family homes will fall \$129,468 short of the value needed to pay their own way and result in an annual tax revenue deficit of \$1,569 per unit (not adjusted for inflation).

Assuming that Avendale's homes will be typical of new single-family development in Prince William County (i.e., average assessed values of \$377,000), the 295 units would generate a total annual operating (General Fund Budget) deficit, or shortfall, of nearly **\$463,000**.

## Avendale Development Operating Deficit

### From Prince William County Standard Data Set

Population	394,370
Average household size (Single-Family Home)	3.19
Residential Proportion of Tax Base	75%

Number of Units Proposed in Avendale 295

<b>Prince William County FY 2010 General Fund Budget</b>	<b>Per Capita</b>	
General Government	12,155,609	31
Administration	23,629,276	60
Judicial Administration	13,615,387	35
Planning and Development	37,228,616	94
Public Safety	166,468,427	422
Human Services	81,291,432	206
Parks & Library	28,485,481	72
Debt/CIP	60,128,364	152
Non-Departmental	14,434,609	37
Education (transfer to schools)	407,833,705	1,034
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Total General Fund Expenditure	845,270,906	2,143

### Additional Non-Real Estate Revenue from New Units

Personal Property	119,910,000	89,506,764	227
Sales tax	43,430,000	32,418,304	82
Consumer Utility	12,700,000	9,479,909	24
Communications Sales Tax	20,000,000	14,928,991	38
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Residential non-real estate revenue 146,333,968      371

Cost per capita required from real estate taxes 1,772  
 Cost per household required from real estate taxes 5,654

Tax rate 1.2120

Breakeven Value 466,468  
 Average Assessed Value of New Single-Family Home (FY 2011) 337,000  
 Assessed Value Shortfall 129,468  
 Annual Tax Revenue Shortfall per Avendale Unit 1,569  
 Total Tax Annual Shortfall for Avendale Development \$ 462,901

## **Long-Term Economic and Fiscal Impacts**

Avendale's negative impacts on Prince William County extend beyond its immediate negative effect on Levels of Service and the annual General Fund Budget. It would damage further the County's real estate tax base, which is already overly dependent on residential real estate. It would also serve to keep real estate prices down by adding more units to an already glutted, weak market.

As seen in the General Fund Budget impact analysis above, a single-family home must have an assessed value of \$466,468 or more for its impact on the County's annual budget not to be negative. This amount does not reflect the added capital costs a house generates to maintain Levels of Service in the community. Taxes from residential real estate are rarely sufficient to pay for the costs of public services and infrastructure they incur.

By contrast, commercial and business development almost always generates a surplus of tax revenue in excess of the public service costs they incur. For residents of Prince William County, taxes are kept in check and Levels of Service improved by increasing the percentage of commercial and business real estate in the tax base.

The table below presents the history of Prince William County's real estate tax base from 2000 to 2009. The data are from the PWC Department of Finance, Office of Real Estate Assessments.

<b>Real Estate Tax Base in Prince William County (amounts in millions)</b>			
<b>Year</b>	<b>Residential</b>	<b>Total Tax Base</b>	<b>Percent Residential</b>
2000	12,026	16,393	73%
2001	13,734	18,468	74%
2002	17,265	22,424	77%
2003	21,701	27,161	80%
2004	27,093	33,611	81%
2005	35,545	43,054	83%
2006	47,982	56,970	84%
2007	47,856	57,900	83%
2008	41,806	52,978	79%
2009	29,749	39,854	75%

As the table illustrates, Prince William County is heavily dependent on residential real estate for taxes. In the revenue forecast for the current fiscal year, real estate was expected to generate over 65 percent of the County's total general revenue. Most of that comes from residential real estate.

In addition, because of the housing market collapse and prior overdevelopment in Prince William County, new single-family homes have declined from their highest assessed value in FY 2007 of \$616,954 to an expected value of \$337,000 in FY 2011. Those figures represent a dramatic 45 percent drop in the value of new homes in Prince William County. The average assessed value of all single-family homes in the County declined from \$487,255 in 2006 to \$290,214 in 2009 (as of January 1 in each of those years). All

values cited are from the Prince William County Department of Finance. The County continues to suffer from a weak housing market and foreclosures. No credible market analyst expects substantial improvement for several years.

The Avendale development would be completely residential. As such, it would add to Prince William County's inventory of tax revenue negative real estate, and to its existing, long-term glut of residential real estate.

Finally, Avendale would represent an encroachment of higher density development into the Rural Crescent, including extending sewer into that area. Such a move would convert a currently long-term revenue-positive area into one generating spending deficits. Moreover, it would set a precedent for further revenue-negative encroachment into the rural area of Prince William County.

## **Conclusions**

- The proposed Avendale development does not provide adequate proffers to mitigate its impact on capital costs and Levels of Service in Prince William County.
- Avendale will generate a perpetual, annual operating (General Fund Budget) deficit of nearly \$463,000 (not adjusted for inflation).
- Avendale will worsen the already weak mix of residential and non-residential real estate in Prince William County's tax base.
- Avendale will prolong the time needed for Prince William County's residential real estate market to recover by adding more units to the existing glut of homes.
- Avendale will set a negative precedent of encroachment into the Rural Crescent.

***The Avendale Comprehensive Plan Amendment and Rezoning are not in the best interests of Prince William County residents, businesses and taxpayers. The development is a step in the wrong direction for the County's economy. The Board of County Supervisors should reject these proposals as did the Planning Commission.***



***About the author/analyst:***

Bob Pugh, CFA was a Senior Financial Analyst for the Prince William County Government from 1999 to 2003. During that time he worked extensively on fiscal and economic impact analysis, including serving as the County's liaison with Dr. Steven Fuller of George Mason University on development of a fiscal impact model for the County. His work included analysis of regional economic issues pertaining to Prince William County, analysis of tax burdens, revenue forecasting, proffer calculations and proffer calculation methodology, and projected returns on economic development projects.

Bob has many years of experience as an academic in economics, finance and investments, most recently teaching as member of the Practitioner Faculty in Finance for the Johns Hopkins University's Carey School of Business. He volunteers in many roles in the Prince William County community.

Currently, he owns and manages a financial planning and wealth management firm based in Gainesville, Virginia. He is a past-President of the 1,700-member CFA Society of Washington, DC and serves currently as the CFA Institute's Eastern Region Presidents Council Representative, representing investment professionals in CFA Societies from Maine through Virginia. Bob is a long-time member of both the CFA Institute and the National Association for Business Economics.

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