



Valley Home Builders Association

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TO: City of Appleton Finance Committee
FROM: Christine Shaefer, IOM, CAE, Executive Vice President
DATE: May 16, 2014
RE: Payment for new residential development infrastructure

Valley Home Builders Association (VHBA), a nonprofit trade organization, appreciates the long relationship we have had with the City of Appleton in our joint efforts to successfully accommodate growth and housing choice within the City. In the early 2000's, VHBA and the City worked together in an effort to get final streets into new subdivisions sooner than was then occurring. The negotiated resolution, placing the burden for financing infrastructure solely with the developer, was a response to the fast pace of growth at that time as well as a desire of both parties to explore ways that may better serve new homeowners in the City.

In the decade since the current policy was put into place, a dramatic economic downturn significantly slowed residential development, caused potential homeowners to become acutely cost-conscious, and severely limited developers' access to funding in general and for high-cost infrastructure in particular. Additionally, an unforeseen consequence of placing infrastructure financing with each developer is the inconsistency in how the costs for these items are charged to the homeowners (who, regardless of the scenario, are the parties who ultimately bear the costs). This inconsistency raises liability concerns for the City, the developer, and the seller, depending on which payment method was selected to provide the final infrastructure. For these reasons, VHBA has come to the unfortunate realization that the current policy is no longer appropriate.

The responsibility for installing and financing final infrastructure (in particular streets, curbs and gutters) in new subdivisions varies by community as do the specific types of materials and work required. Due to the City of Appleton's unwavering commitment to concrete streets, curbs and gutters, the cost of installing the final infrastructure is about double what it is in surrounding communities. This makes the responsibility for financing these items incredibly challenging – placing the burden either on the developer to fund and collect payments from homeowners at the time of installation or directly on the homeowner by including the high cost of these items (which add no value to the appraised or market price of the home) on the homeowner by including the cost in the price of the lot.

VHBA believes there's a better way – for the City, for developers and for the City residents in these new subdivisions. Special assessments by a government body, in this case the City, must be disclosed on official documents and are included in results of title searches; this addresses the liability issues. Special assessments for streets, curbs and gutters are processes that residents understand and can predict, whether they live in a new subdivision or on existing streets that need to be rebuilt; this addresses inflated lot costs or forgotten-about fees from the homeowner to the developer later. **Therefore, VHBA respectfully requests the City of Appleton change its current policy regarding the payment of streets, curbs and gutters in new subdivisions to City-issued special assessments at the time of installation.**

We appreciate your consideration of this matter and look forward to continuing to work cooperatively with you in building quality of life in the City of Appleton. THANK YOU.

MEMO

May 20, 2014

To: Appleton Finance and Municipal Services Committees

From: Robert DeBruin

Re: Special Assessments for New Subdivisions

Pat Hietpas and I are partners in the development of various subdivisions in northeast Wisconsin. We have completed numerous sub-divisions and have developed over 500 lots in the past 20 years. We currently have eight sub-divisions in process. Those sub-divisions include three sub-divisions on the northeast side of Appleton. The lots remaining in these three sub-divisions are as follows:

<u>Sub-Division</u>	<u>Lots Remaining</u>
Emerald Valley	2
Clearwater Creek	21
Kurey Ridge	42

There is additional land in each of the three sub-divisions to develop approximately 800 additional lots. Normally we would be adding additional lots to Emerald Valley and Clearwater Creek sub-divisions. We have not added any additional lots in 2012 or 2013 due to the concrete street assessment policy. We have analyzed the cost and have determined that it is economically not possible to develop lots in the City of Appleton with the current concrete assessment policy.

On September 30, 2013 we sent a detailed cost analysis to Karen Harkness with the City of Appleton. This analysis compared our costs in the various sub-divisions. We are required to report all our costs to the various municipalities for their accounting records. The analysis indicated that the land cost in Appleton was generally equal or slightly less than land cost in other communities. However, development cost in the City of Appleton without concrete streets was approximately \$7,000 to \$10,000 per lot higher. We provided a detailed breakdown of this cost to the City of Appleton. In general the extra cost relates to the City of Appleton's requirement for developments that exceed state standards. Other municipalities require developments in a more standard manner to comply with state requirements. We understand the City of Appleton's requirements to have oversized sewer and storm water treatment in excess of state standards. However, this adds an additional \$7,000 to \$10,000 per lot in cost, which is passed on to any purchaser of the lots. In addition there would be \$7,000 to \$12,000 additional cost for the concrete street assessments. This would place the standard cost of a lot with concrete streets at \$15,000 to \$25,000 in excess of other lots in surrounding communities. Standard selling price for lots in surrounding communities currently is \$35,000 to \$40,000. The

standard selling price for lots in the City of Appleton is \$45,000 to \$55,000, excluding the cost of the concrete streets. Because of the inability to sell lots which include concrete streets we have a restrictive provisions in the land covenants and require purchasers of lots to pay for future street assessments. This is the only method available to create lots in the City of Appleton that are competitive with surrounding communities. The current policy for our sub-divisions in effect circumvents the City assessment policy and creates the issues related to future assessments. Since future concrete streets are not included in any appraisal of the lot and home, including concrete street in the initial sales price of the lot would create a deficit between the purchase price and the appraisal value which could not be financed by the homeowner. The original buyer of the lot understands that all future assessments are their responsibility, including permanent concrete streets and sidewalks. Subsequent purchasers of the lot may not be fully informed of this provision. I believe that when concrete streets are installed in the sub-divisions listed above there will be a great deal of controversy and litigation related to the assessments.

Currently the Village of Little Chute has entered into a Developer Agreement for a sub-division at the corner of French Road and Evergreen Drive in the Appleton School District. This sub-division provides for tax incremental financing (TIF) funding to the developer. This will make the competitive position for the sale of lots in the City of Appleton even more difficult. As surrounding communities provide TIF funding for residential sub-divisions the City of Appleton will be at a competitive disadvantage for new home construction if it elects not to provide TIF funding. All three cost elements discussed above, additional infrastructure cost, concrete street assessments and no TIF incentives, create lots in the City of Appleton not competitively priced. Developers cannot provide the letter of credit required by the City of Appleton for future assessments since no financial institution will provide this letter of credit unless it is supported by an equal amount of cash deposits. Currently the homeowner is in the position of assuming the assessments and the developer needs to provide a letter of credit, which as stated above, is not economically available. In addition the current policy generates significant confusion and future potential conflicts and litigation.

Given all of the above difficulties with the economics and homeowner issues with the current policy, we strongly urge you to implement a policy similar to all surrounding municipalities and have future concrete streets assessed to the homeowner at the time they are installed. As stated above we cannot economically develop and will not develop any future lots until the current assessment policy is changed.

Thank you for your consideration.