

April 30, 2007

Dear Friend:

On behalf of the Riverside Building Industry Association (BIA) and its 750 homebuilders and affiliate members, I am writing to share with you our concerns and provide recommendations designed to help preserve the region's economic vitality, public services and resident quality of life. As the economy changes, we must again plan prudently to protect our future. Riverside County is one of the best places in America to live, work and raise a family. This is because local elected officials, BIA members and other stakeholders have worked together to plan quality communities. These recommendations, which are consistent with long-held Association positions, serve as the foundation for a new outreach initiative we are launching that will highlight the strong partnerships between BIA and local elected officials and be a positive proactive influence in the community.

They include:

- **Investing existing funds to meet the region's transportation infrastructure needs**
- **Protecting Riverside's "Model for America" open space and environmental protection plan**
- **Cataloging and analyzing the current fee structure and mitigation measures to protect homebuyers and the industry**
- **Promoting efficient water quality and conservation measures that protect our natural resources and promote homeownership**

Housing: A Foundation for Riverside's Prosperity

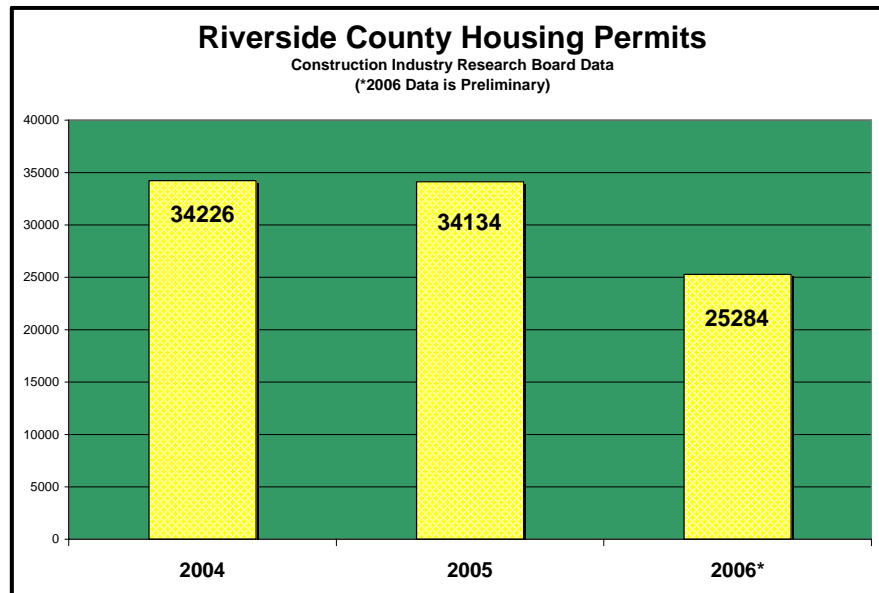
New housing and related industries have provided billions in economic benefit to the region: jobs, housing, developer fees and property taxes. Years of double digit housing value appreciation sustained a system that delivered tremendous benefits to local government.

As the market boomed, elected officials increased fees and enacted new assessments to the point where the price of a new home in Western Riverside County (Banning, Beaumont, Calimesa, Canyon Lake, Corona, Hemet, Lake Elsinore, Moreno Valley, Murietta, Norco, Perris, City of Riverside, unincorporated Riverside County, San Jacinto and Temecula) includes fees totaling more than \$60,000 in indirect mitigation costs for public facilities including roads, schools, parks, fire stations, libraries, open-space/environmental protection and other uses. These fees, totaling more than \$1 billion in revenue to local governments over the last three years (2004 was the peak year in terms of new permits), are in addition to the improvements required by local governments as new communities are built. Riverside homebuilders directly and indirectly support hundreds of thousands of jobs, and according to the Construction Industry Research Board, housing permit valuation for Riverside in 2006 is more than \$5 billion – the highest in Southern California. However, this is \$1.8 billion less than 2005 and \$1.5 billion less than 2004. For local governments, this is an unmistakable signal.

The Market Has Changed

As you know, California's housing market has stabilized from the recent years of skyrocketing home values and annual double digit appreciation. This correction will have a major impact on the economy, government and residents if we don't acknowledge current conditions and take corrective action.

When the market slows, the per-unit fee burden becomes an anchor that weighs down consumers and the industry and threatens local government. New single-family housing permits have dropped precipitously throughout Western Riverside County by almost 34 percent from 2005 to 2006. Countywide, housing permits (single and multi-family) have decreased from 2005 to 2006 by 8,850 (25 percent), therefore, costs local governments more than \$354 million in unrealized revenues (average of \$40,000 in fees per permit). Early data for 2007 shows the problem is getting worse as permits are down an additional 50 percent, projecting a local government loss of more than \$505 million this year.



Similarly, according to the Riverside Press Enterprise (Sag in housing hurts revenue in region's cities – March 21, 2007), housing prices have leveled off for the first time in more than a decade. Similarly, the cost of land is also stabilizing. Equally concerning is the recent spike in default and foreclosure rates due to the subprime mortgages. According to DataQuick information systems, Mortgage defaults increased by 150 percent, in San Bernardino and Riverside counties during the fourth quarter of 2006. The Riverside default rate reached its highest level since 1998.

The trends are partly due to the cyclical nature of the housing market, however they are also exacerbated by land-use policy decisions. Fees and other regulatory hurdles – combined with higher inventories and price stabilization – have slowed the market to the point where jobs are being lost, impacting local families. Fewer permits means decreased economic benefit to the region both in terms of property tax revenue and direct income to local governments through fees and sales taxes. Increased regulatory costs and bureaucratic hurdles will decrease the production of well-planned communities and reduce revenues for local governments. But instead of recognizing this fact, some local governments continue to recommend increases and new fees.

Quality Planning Today Can Protect Riverside's Future

Riverside BIA members believe quality planning is crucial to the quality of life for current and future residents. Current market conditions and future projections of 14,500 new housing units in 2007 and 17,000 units in 2008 (according to Metrostudy) in Western Riverside County are important and must be accounted for as public officials and local community leaders plan for the future.

For example, we are proud to have worked closely with you and all local government leaders to help create the Riverside County Integrated Project; Community and Environmental Transportation Acceptability Process, Supervisor Marion Ashley's Ordinance 859 water conservation initiative and the Multi-Species Habitat Conservation Plan. Similarly, homebuilders are leading the way to construct environmentally friendly and energy efficient homes. We have proven, right here in Riverside County, that when public-private partnerships are strong and based on mutual benefit, local governments can provide the services and standard of living residents deserve.

Now, as the economy has changed, Riverside BIA is once again looking to play a leadership role to help local municipalities meet current and future needs. Therefore, we are offering the following proposed 2007-2008 "Planning for Our Future" recommendations which would meet local infrastructure needs, increase homeownership opportunities for residents and protect an industry which, according to the Rose Institute of State and Local Government at Claremont McKenna College, is "the gift that keeps on giving. In Riverside County, it (new housing) generates higher property taxes from the time these properties are first sold and contributes still more as these newer properties appreciate and change hands." (An Analysis of the Fiscal Impact of New Single Family Residential Housing Construction on Municipal Governments in Riverside County – November 2006)

2007 "Planning for Our Future" Recommendations

Taking into account the changed market conditions and ongoing efforts by local governments and homebuilders to meet community needs, therefore, are policies that will protect Riverside's current and future prosperity:



Invest to meet the region's transportation infrastructure needs. As you know homebuilders have invested \$400 million Transportation Uniform Mitigation Fees (TUMF) and billions overall when adding local road impact fees to help relieve traffic congestion in over the last three years. Combining these dollars with a cooperative

push to maximize Proposition 1B state funding – as well as supporting local government efforts to secure additional local transportation funds - and then focusing on building the intended roads and transit systems would be a tremendous improvement.

Protect Riverside's "Model for America" Open Space and Environmental Protection Plan. After a five-year planning process, the Western Riverside County Multiple Species Habitat Conservation Plan is today the nation's most aggressive habitat protection effort. It created the largest conservation plan to date, protecting more than 146 species, 153,000 acres of privately held land and 380,000 acres of publicly held land. A 25-year endeavor, the Multiple Species Habitat Conservation Plan is already 25 percent of the way toward achieving its goal – in only two years, 38,000 acres of privately held land already has been set aside permanently for preservation. This plan is also crucial as Riverside seeks to implement its

traffic congestion relief plans. Its flexibility protects local control with respect to land-use planning, and it also streamlines the process to locate and construct new roadways. Sadly, a vocal minority of activists, all of whom were unwilling to participate in the collaborative process that delivered the plan, is now trying to destroy our progress, which will only make the region's transportation problems worse.

Catalog and analyze the current fee structure and mitigation measures to protect homebuyers and the industry. As has been clearly demonstrated in this letter – and substantiated in the attached copy of the Rose Institute study – homebuilders and new homebuyers have invested hundreds of millions of dollars to fund local services and provide amenities that benefit all residents. Instead of increasing fees on a decreasing supply of new housing and forcing new homebuyers to pay a disproportionate share of the cost of public services, we should seek ways to equitably distribute costs for societal needs evenly. The truth is that this region will continue to grow no matter what we do, so it is in our collective interest to plan for growth. This requires a diverse mix of housing opportunities from entry-level high density housing to move-up and custom homes. This will ensure that more Inland Empire residents can become homeowners and local governments can continue to benefit from the direct and economic proceeds. This is especially important considering the fact that the market has softened and many within our industry are struggling. Increasing housing costs will exacerbate the current problems while at the same time hurting housing affordability.

Promote Efficient Water Quality and Conservation Measures that Protect our Natural Resource and Promote Homeownership. Water is vital to current and future residents and businesses. Local government and homebuilders in Riverside have forged an effective and comprehensive approach to ensure that we have the water resources necessary to sustain our population and accommodate growth. The cornerstone of this approach is the building industry's support of comprehensive water conservation programs that encourage incentives for demand side management and support and advocacy of incentives for water recycling and reuse programs including those programs that promote storm water infiltration and groundwater recharge.

Working Together, Planning for Our Future, We Can Succeed

The Riverside BIA values its strong relationships with local elected officials in city and county government as well as through the Western Riverside Regional Council of Governments, and we believe that a cooperative approach is the key to long term success. Homebuilders are dedicated to planning, community involvement and the production of the very best communities that benefit current and future residents.

We respectfully request the opportunity to work with you and your staff to support Riverside BIA's recommendations so that we may continue to work together and support the Inland Empire's overall prosperity.

Thank you for your consideration of our position and your continued support for quality planning and homeownership.

Sincerely,



Lou Ochoa
President

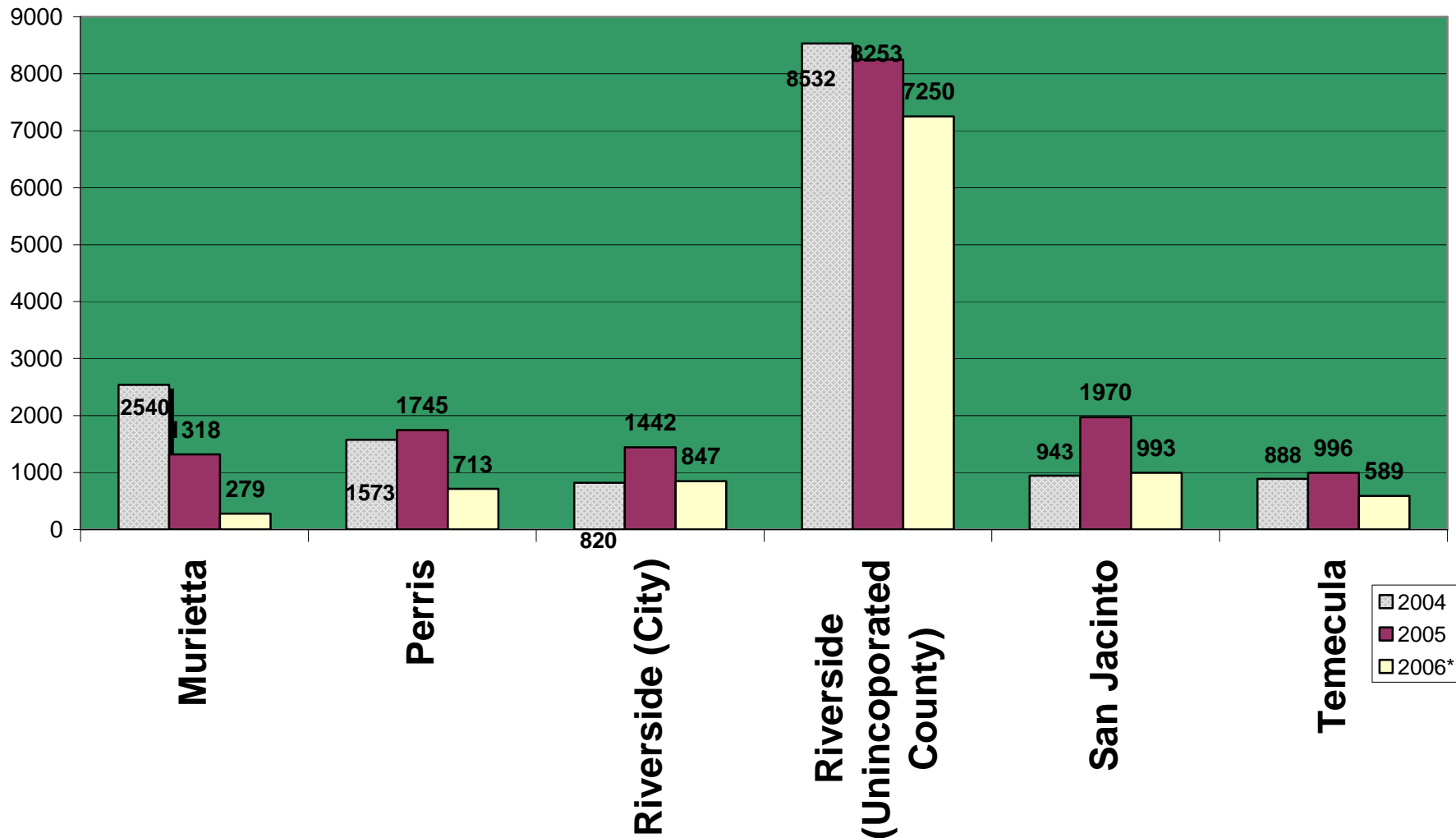


Borre Winckel
Executive Officer

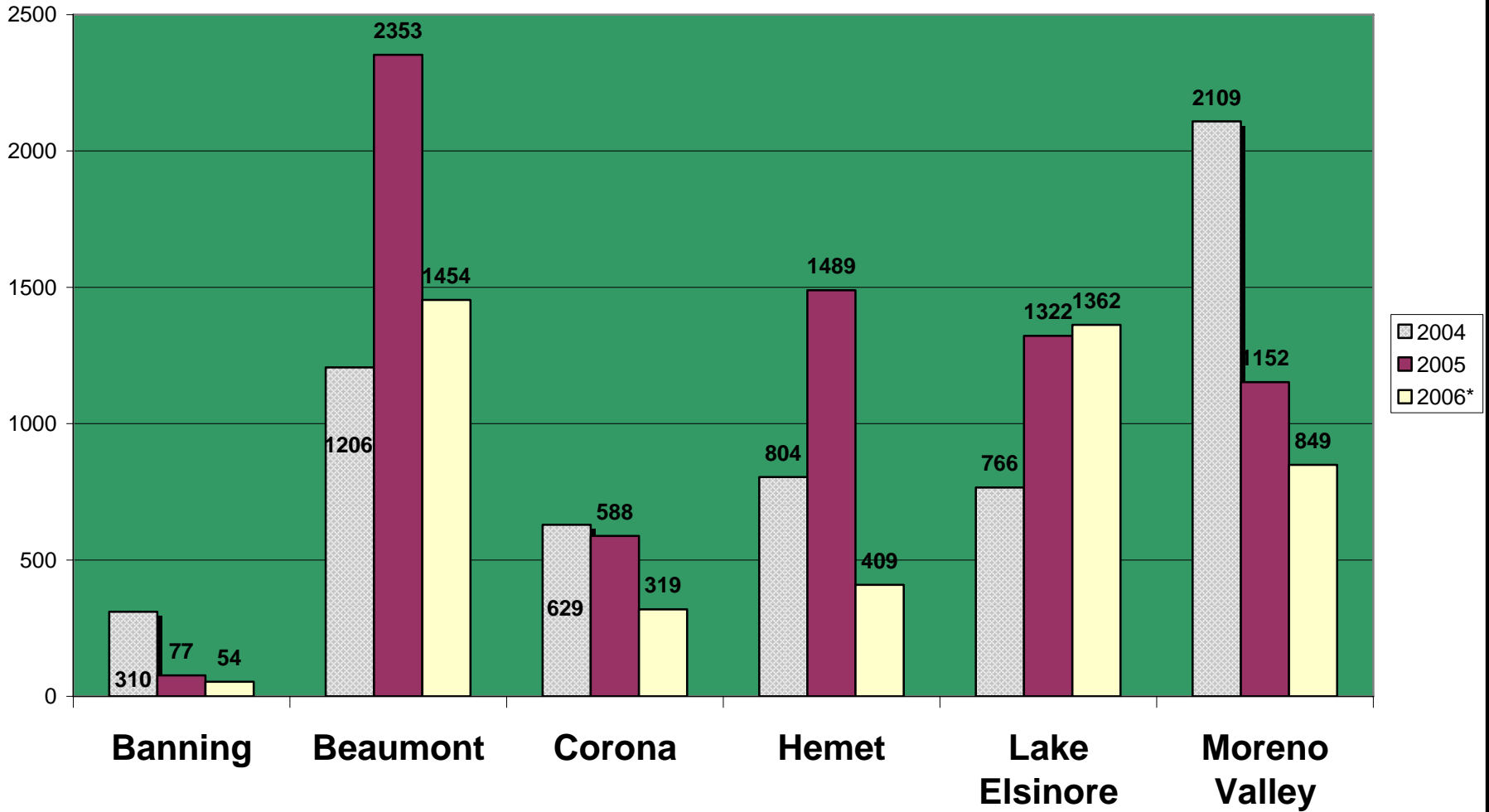
Enclosures: CIRB Charts for All Cities, Riverside Press Enterprise Article

Selected Riverside Area Residential Housing Permits Construction Industry Research Board Data

(*2006 Data is Preliminary)



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THE PRESS-ENTERPRISE

March 25, 2007

Healthy habitat plan

Don't raze a pact that balances conservation, development

By: Borre Winckel

Riverside Press-Enterprise

These days, habitat conservation isn't just for the birds. When most of us think about wildlife conservation, we think of the species it protects or the enjoyment of hiking through the canyons. But rarely do people think of traffic congestion relief and homeownership. In Western Riverside County, it's this commitment to good planning and conservation that's improving our quality of life.

A few people want to restore a costly system in which frivolous lawsuits stop well-planned transportation and housing projects. But without Western Riverside County's habitat conservation plan, environmental compliance for crucial road projects would be nearly impossible, exacerbating traffic jams.

Riverside County is one of the nation's fastest growing regions. People are trading inner-city life for a better life

in our county. To accommodate new families, the Building Industry Association of Riverside County helped create a good planning framework to protect open space and meet the needs of future residents.

The goal is to plan today to meet the needs of the future. As a nonprofit organization dedicated to providing well-planned communities for both new and existing residents, the Building Industry Association believes new housing projects must complement existing communities; meet guidelines regarding water availability; and include roads, parks and schools to accommodate current and future residents.

Prudent Protection

Protecting the environment is part of the overall agenda. In 1999, the Building Industry Association, the Riverside Country Farm Bureau, elected officials, and the

environmental community, including the Endangered Habitats League, began creating a comprehensive plan to balance growth with habitat protection. This rare collaboration resulted in one of the most ambitious conservation plans in America.

After a five-year planning process, the Western Riverside County Multiple Species Habitat Conservation Plan became the nation's most aggressive habitat protection effort. It created the largest conservation plan to date, protecting more than 146 species, 153,000 acres of privately held land and 357,000 acres of publicly held land.

A 25-year endeavor, the Multiple Species Habitat Conservation Plan is already 25 percent of the way toward achieving its goal. In only two years, 36,000 acres of privately held land already have been set aside

permanently for preservation. But it's about more than just wildlife; it's about people, too.

Based on policy set by former President Bill Clinton, the Multiple Species Habitat Conservation Plan provides a comprehensive compliance program with federal endangered species laws, allowing us to build roads and freeways to meet future needs. Without the conservation plan, environmental compliance for necessary transportation projects would be nearly impossible, causing even more traffic congestion. The plan created a balance between protecting the environment and protecting our quality of life.

Sadly, just as we've made great strides to preserve open space, a small group of environmental extremists is waging a misinformation campaign against the Multiple Species Habitat Conservation Plan. A few individuals want to stop progress and restore an unworkable, costly system in which frivolous lawsuits stop well-planned transportation and housing projects.

Not only would a return to this regulatory regime be costly to Riverside County taxpayers, it would be a dramatic step backward. It would move elected officials away from thoughtful planning to a patchwork system without coordination, common sense or benefit to residents.

Historic Achievement

The Multiple Species Habitat Conservation Plan is a historic achievement and a model for America. It proves that a comprehensive approach to land use can protect the environment and our quality of life. Home builders, elected officials and many environmental groups supported the plan when it was adopted because it represented the very best in planning for our communities. We won't walk away from it now.

Borre Winckel is executive director of the Building Industry Association of Riverside County.