

NEAL COMMUNITIES

Where You Live Matters

To: Dr. Robert McClure
Sal Nuzzo

From: Pat Neal

Date: January 18, 2018

RE: **Some costly things that happened to housing in Florida since January 1, 2018**

As follows are some unrelated **examples** of new costs imposed by local or state government:

1. January 1, 2018: We had two major changes in the Florida Building Code **Electrical Changes**

i. Ground Fault Circuit Interrupter (GFCI): A GFCI is now required at any place where there is a duplicate outlet near a water source. It is a device that shuts off the electrical power when it detects that current is flowing in an unintended path.

ii. Arc Faults(AFCI) : Are now required for essentially the whole home. Thus causing dual function AFCI/GFCI combination circuit breakers in many cases.. AFCI protects against fires caused by **arcing** faults.

The cost is about \$400 per home.

b. 1 foot freeboard above Flood Insurance Rating Map:

Traditionally, and in most jurisdictions, we build the lowest floor of a residence at the 100 year flood level as established by FEMA in the Flood Insurance Rating Map.

As of January 1, 2018, all areas adjacent or near a coastal floodplain have **to increase their floor level by one foot freeboard** (I suppose to account for Global Warming and the rising of the ocean over the next 100 years!).

Anyway, this extra foot (if spread around the building pad of 4,000 square feet and 3,000 square feet of curtilage, is 260 additional cubic yards of fill at \$10 per cubic yard for load, truck, spill, spread, compact, grade is an additional \$2,600 per home.

2. City of Venice interpretation of Fire Code: Jack Stevenson, the Fire Marshall of the City of Venice will no longer permit a Baker Tank (an on-site tank of water to provide 4,000 gallons of water for fire-fighting for a model home park under construction).

This is a home under construction when we introduce combustible materials in the home.

In other words, we have always (for the last 4 years) had a Baker Tank for every home under construction prior to the time there is a completed potable water system to provide water to put out the fire if the trusses caught fire by themselves in a house under construction or anyone would be hurt.

In 14,000 homes which I have built, I have never had a fire in a house under construction.

Anyway, this change introduces the additional cost of building a separate potable water fire line to the model homes while under construction.

According to Fire Marshall Stevenson, the line has to be **a certified potable water supply** that requires **a bacterial test, certification by the State Department of Health**, approval by the City Council, and **certification of the system before we start construction** of the home (typically we start construction of the homes when we start construction on the subdivision).

So there are three costs for building a model home or speculative homes prior to the certification of the subdivision:

- The fire road for access by fire trucks (\$70,000)
- The new water loop and certification and City Council approval (\$12,000)
- The 60 day delay for state certification (\$18,000,000 at 20% for 60 days, \$600,000)
- This is \$682,000 of additional expense which provides no public health safety or welfare for a 183 home subdivision (to make that as low as possible dividing by all the homes, a total of \$3,727 per home)

You may ask why I computed the total value of the subdivision improvements and land at 20%.

It is we all have a hurdle rate of some kind (usually in the high teens or 20% for Neal). So extending the time of construction before we can sell homes by 60 days has this additional \$600,000 cost (plus the fire road and the loop certification).

The 60 days is employed because it takes us 60 days of extra time to build the potable loop, get the bacterial test, state certification, and City Council approval.

Crazy and expensive to the consumer.

This was subsequently resolved by the Mayor of the City of Venice.

3. State Department of Archives, History, and Records Management: In another subdivision, Woods of Venice, Venice, Florida, we have been asked by the State Department of Archives, History, and Records Management to conduct a Cultural Resources Survey in conjunction with our SWFWMD Permit.

This survey is to determine whether there is any cultural artifacts from the Ancient Calusa Civilization that we need to protect.

The site is an uninteresting, low Pine Flatwood about one half mile west of the Myakka River.

There will be no indigenous Indians campsites on this property.

Again, in a slightly smaller subdivision, this delay of up to 3 months:

- Study, 4 weeks
- Certification by DAHRM, 30 days
- SWFWMD approval, 30 days
- This adds 120 days to a \$7,600,000 investment if we do all of this before we start construction
- Again, 20% interest rate
- Additional cost \$380,000 divided by 263 homes equals \$1,444.86 per home

This for a study that will reveal nothing.

4. State certified shell for road base: A major expense imposed in December, 2017 was the enhancement of the road base specifications for Manatee County, Florida.

Previously we could use local shell marl or crushed concrete for road base and subgrade.

Manatee County's Public Works Department (available public service) now requires state certified base from Davenport, Florida

A 140 mile round trip on a truck (that is 280 miles round trip times \$1.40 per mile divided by 16 yards per truck load, equals \$24.50 per cubic yard, \$4.08 per square yard at 6 inches thick, plus one half that amount for subgrade (to stabilize under the road base) of an additional \$2.04.

The initial cost of \$6.12 per square yard times approximately 1,764 square feet of road base per lot (assuming a 24 foot street with two 2 foot mountable curbs, and a 72 foot lot length divided by 2 equals (2 sides of the street) times 1.75 for curvature and entry and other unloaded roadway). This is \$1,799.28 per homesite in Manatee County.

There is no benefit to public health, safety, and welfare.

This is caused because the county elected to hire a known fly-by-night contractor who installed poorly milled crushed concrete resulting in a road failure on a county build road three years ago (the result of poor contractor choice and lack of construction engineering and inspection).

The penalty does not apply to the failed road built three years ago, but to all future construction in Manatee County, Florida.

5. Example of what it takes to get to the completion of a subdivision to Final Certificate of Completion (all of these processes): If we devote 10 people to process, this alone is \$610 per home. That is 10 people at \$65,000 plus fringes and benefits (22%) equals \$732,000 divided by 1,200 homes is \$610 per home).

The real issue is **the time**. If we have \$274,000,000 of Work In Process (houses and lots under construction, not including unbuilt land or inventory homes), and the cost is the implied cost of equity for a homebuilder is 20% (\$55,600,000 per year, very similar to our earnings), divided by 250 working days, equals \$222,400 per working day for the cost of process.

Every day at work costs us about \$222,400 (if divided over 31 locations, equals \$7,174 per location) or ~~\$352.45~~ per home per day.

If our average size project is 200 units, every day's delay on one house is about **\$35 per day**.

6. Division of Archives, History, and Records Management: Currently, Neal has 31 land development projects in our base company and Neal Signature Homes.

Every project would receive a comment letter from the Florida Department of Archives, History, and Records Management.

In every project, we pay an archaeological consultant between \$6,000 and \$18,000 to prepare an Archaeological Survey.

Usually they find nothing. Sometimes a lithic chip which is "a shard". This is a chip that has been knocked off of a metamorphic rock during the "construction of an arrowhead".

It is really hard to say if that is what it is or not.
Additional cost per house is \$200 per house.

7. Building permit fees, but no inspection:

- We have added \$1,000 per home at Neal for third party inspectors for our homes
- The reason is that it takes 4, 5, 6 or 7 days for a Manatee County building inspector to arrive at our home for the inspection (adds about 3 weeks to the cost of the home)
- We think every day in a home costs us about \$250 (the three weeks thus \$3,750)
- It is easier and better for us to pay others to do the inspection even though we are paying Manatee County and Sarasota County for a building permit fee
- Manatee County has about \$18,000,000 unspent in their Fee Trust Fund
- In part because none of the public builders use the county's inspection service (the inspections are made by private engineering consultants)

8. What is the point of this memo?: The point is that all of these changes are essentially for the public, health, safety, and welfare, but they are (for the most part):

- Misplaced
- Well in excess of necessary
- Contribute almost nothing to the public, health, safety, and welfare

9. But they do: What they do is add to the cost of homes. The figures cannot necessarily be added together (as one is a statewide condition, one is a decision made by a City of Venice city official, one decision is made by a state employee, and one decision is made by an unrelated county engineer).

But they all result in unnecessary costs primarily borne by people who “just want to have a home”.

For your information.