



**HOME BUILDERS & REMODELERS ASSOCIATION
OF CONNECTICUT, INC.**

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*Your Home
Is Our
Business*

May 11, 2015

To: Senator Scott L. Frantz and Representative Christopher Davis, Ranking Members, and
Republican Members of the Finance, Revenue & Bonding Committee

From: Bill Ethier, CAE, Chief Executive Officer¹

Thank you for this opportunity to express our opposition to the recent tax package passed by
the Finance Committee.

CT enjoys a high quality of life for those who can afford it; access to beautiful open spaces and
shoreline; the benefits of being situated in between two world-class cities; excellent health care
and higher education institutions; and ready access to investment capital. **Yet, we lag severely
in too many categories that are critical for creating opportunities for a better life for all.**

While we should all celebrate what's good in CT, we need to all come together and work hard
to fix what's wrong in this state:

- CT ranks #2 in the percentage of people who would move out of the state if they had
the opportunity, dissatisfied with the high cost of living. When measuring the likelihood
of moving out in the coming year, CT is tied for 8th place. Both rankings are at the bad
end of the spectrum. *Gallop 50-state poll released last year.*
- According to one report, in 2013, CT did rank #1 in people moving out of the state. In
2012, CT ranked #7. We're moving in the wrong direction. *Atlas Van Lines Annual
Report.*
- CT dropped three spots to #36 for the best states for business, according to a *Forbes
annual survey*. Analyzing 36 data points across six main areas, CT's high cost of doing
business, regulatory burdens and the state's sluggish economic recovery all contribute to
the fall in ranking.
- CT ranks #39 in 2013 for growth in gross domestic product (GDP). *U.S. Bureau of Economic
Analysis.*
- In CNBC's ranking of Top States for Business, CT ranks #46 in 2014, dropping one spot
from #45 in 2013. Again, the wrong direction.

¹ The HBRA of Connecticut is a professional trade association with about eight hundred (800) member
firms statewide employing tens of thousands of CT's citizens. Our members, all small businesses, are
residential and commercial builders, land developers, remodelers, general contractors, subcontractors,
suppliers and those businesses and professionals that provide services to our diverse industry and to
consumers. We build between 70% to 80% of all new homes and apartments in the state each year and
engage in countless home remodeling projects.

- CT ranks #44 in job growth over the 12 months through Jan 2014. *Arizona State University's W.P. Carey School of Business.*
- CT ranks #47 for the Best and Worst States for Taxes. When adjusted for cost of living, CT falls to #50. *Wallet Hub's measure on income, real estate, vehicles, sales, fuel, food and alcohol taxes.*

The anemic rate of housing permits issued in CT is another factual reflection of the poor state of CT's economy. See the attached chart on the history of housing permits in CT, from 1980 to the present. The real estate market in the 1980s was on fire, perhaps at unsustainable levels. The national economic crash of the late 1980s, harshly experienced here in CT, was followed by a steady recovery and relatively stable growth throughout the 1990s and into the mid 2000's.

For a long time, our "normal" production of new homes in CT hovered near 10,000 annual permits when, again, the national bubble burst. Permit declines began in 2006, and then the financial crisis descended on everyone in 2007 and 2008. Unlike the national housing market, which since 2010 has experienced significant growth, CT's housing market has been struggling to recover for eight years running. And, just last week, 2014 annual permits issued in CT were announced and show that 2014 housing permits declined in both total housing units and in 1&2 family homes from 2013 numbers. We're headed in the wrong direction.

Please also see attached the economic benefits that home construction brings to the state and our municipalities. Housing is and has been for a very long time a bellwether for the nation's and the state's economy. We need to recover for the state to do so. We can help turn things around. But, we need government to recognize that CT's business regulations, our land use approval processes and our tax and fee policies severely constrain new home production.

The answer to CT's economic problems, CT's disturbing rankings above and CT's sluggish home construction market should not be to adopt and raise more taxes. This is not a strategy that will bring us back. Legislators must focus on improving CT's economic and business competitiveness. We must improve the rankings that plague CT in order to have a society that allows everyone to experience their American dream. Our society can once again afford everyone a reasonable chance of seizing an opportunity for economic security for themselves and their families – if policy makers stop beating us down. Continuing a dependence on the redistribution of wealth with the fool's hope of creating equal outcomes for all, versus the creation of equal opportunities for all, will not work. It never has.

In particular, the proposed sales tax changes hit our industry very hard. Real estate developers and builders are heavy consumers of many of the services that would be taxed under the proposed Finance Committee package. These include the following: accounting, architectural, engineering, building inspection, geophysical and other surveying and mapping, interior design, marketing consulting, scientific and technical consulting, advertising, marketing research, and other professional, scientific and consulting services. The higher taxes on these

services will raise the cost of real estate development and the homes we produce, hurting home buyers and those wishing to remodel their homes.

The many other taxes and fees that would be raised, in totality, also will depress potential job growth in other sectors. While as an industry we produce numerous jobs, we also depend on healthy job growth from other sectors. Good paying jobs that generate home buyers and more activity that creates economic growth. So, the adverse impact of all the proposed tax changes together does not bode well for potential growth in CT's home building industry – and, thus, CT's economy.

That's why this is so important to us, and distressing, that after eight long, tiring and often brutal years of our housing recession, the spending and tax proposals passed by the Appropriations and Finance Committees destroy our fleeting hope of the turn-around most in our industry desperately seek.

One goal of the Finance Committee's proposed tax plan, i.e., to lower CT's very high property tax burdens, is a worthy goal. However, we have not seen any statutory guarantee of reduced property taxes in our municipalities with the creation of a new municipal sales tax or the planned redistribution of taxes among municipalities. Does anyone seriously believe that municipalities will lower property taxes in the same amount they will receive from the other taxes generated under these proposals? Will they lower property taxes at all, or just spend the extra money? We urge that property tax reduction guarantees be included in statute, and preferably in our Constitution, if property tax restructuring moves forward.

Finally, we categorically reject the notion that we must raise taxes to avoid painful deep cuts to social programs and services that support the neediest among us. In a 19 to 20 billion dollar annual budget, it defies common sense and logic, even if it is politically beneficial to some, to say we cannot find spending cuts in other areas.

We urge all legislators to break from the destructive cycle of unsustainable spending growth and higher taxes to feed the budget beast. Trust in and rely on the private sector to grow our economy. Cut spending and taxes and do so in ways that reduces government regulation and interference in our lives, ensures equal opportunities for all, and captures the magic of a society awash in liberty. This strategy will work.

We are not asking the state to do more with less. We are demanding the state to do less with less.

Thank you for the opportunity to express our views on the most pressing crossroads issue of CT's time.

History of Housing Permits in CT

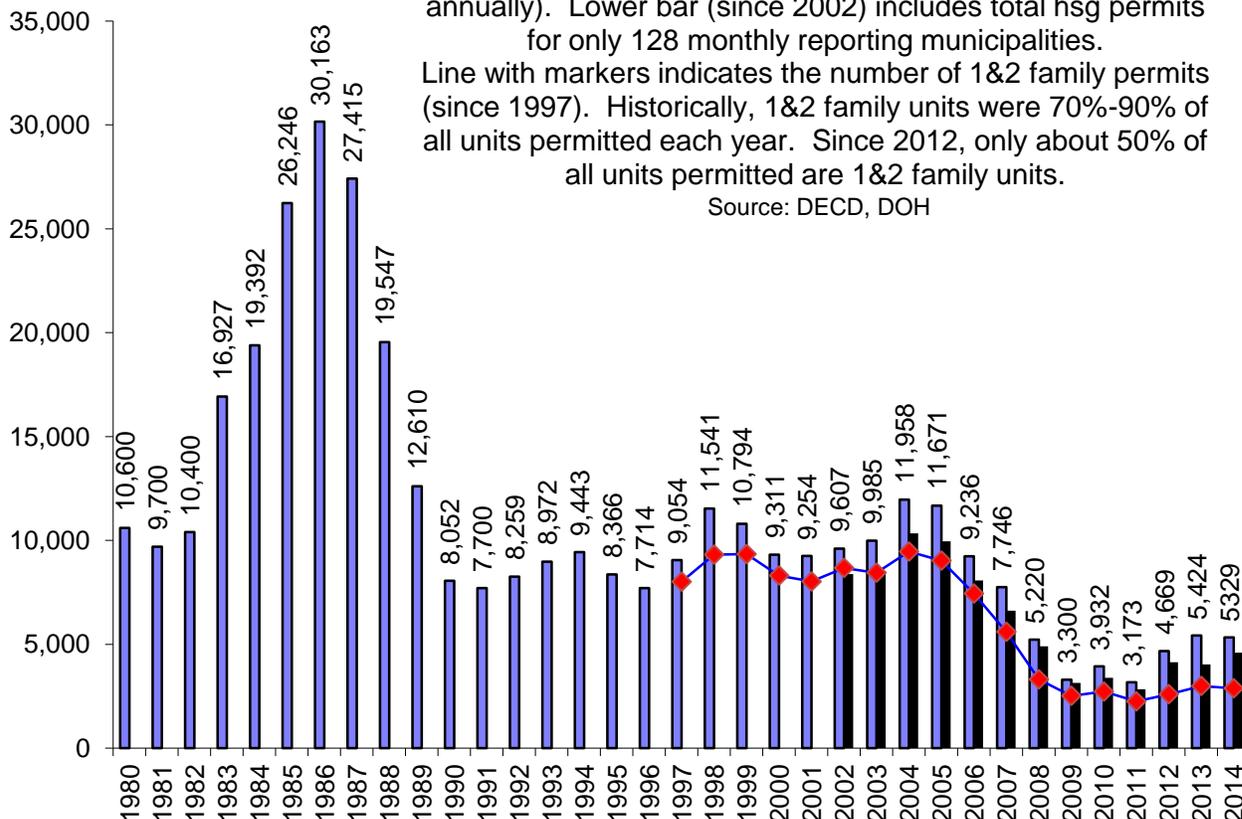
(updated May 4, 2015)

CT Housing Permits Issued - 1980 to 2014

Higher bar is total housing permits for entire state (reported annually). Lower bar (since 2002) includes total hsg permits for only 128 monthly reporting municipalities.

Line with markers indicates the number of 1&2 family permits (since 1997). Historically, 1&2 family units were 70%-90% of all units permitted each year. Since 2012, only about 50% of all units permitted are 1&2 family units.

Source: DECD, DOH



- 2011 was the worst year on record for new housing permits.
- 2009 & 2010 ranked #2 and #3 for all-time worst permit years.
- While 2012 and 2013 saw some improvement in total permits, half were multifamily, leaving single family construction still struggling to recover.
- In 2014, total units and SF home construction were both down from 2013.

We have a long way to go to get back to normal, healthy levels.

The average annual number of new housing permits from 2000-2006 was 10,146 (i.e., before the Great Housing Depression started in 2007). The average annual housing permits from 1990-1999 was 8,990 (which includes the housing recession of the early 1990s). While the 1980s averaged 18,300 annual permits, from 2007-2014, we averaged only 4,849 new housing permits.

We can and must do better!

Home Building's Economic Impact in Connecticut!

Every 100 New Single Family Homes Create:

- 334 new jobs,
- \$29.5 million in wages, and
- \$4.7 million in Taxes, Fees & Charges
paid to State & Local Government in the 1st Year Alone!*

**Construction of 10,000 homes in a year – normal levels -
would produce:**

- 33,400 new jobs annually,
- \$2.95 billion in wages annually, and
- \$470 million in taxes, fees & charges annually.

WE CAN HELP TURN THINGS AROUND!

But we need gov't to recognize that CT's business regulations, land use approval processes and tax & fee policies severely constrain new home production.

* 100 multi-family units create 165 jobs, \$14.5 million in wages and \$2.4 million in taxes & fees in the 1st year alone. In the 2nd year and subsequent years, on average each 100 housing units (both SF and MF) create another 52 jobs, producing annually \$4.3 million in wages and \$1.4 million in taxes & fees for state & local government, due to occupant's economic activity.

For more on how homes more than pay for themselves, go to www.hbact.org/HomesDoPay.