



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

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*Your Home
Is Our
Business*

March 22, 2017

To: Senators Logan and Cassano, and Representative Lamar, Co-Chairs
Representative Zawistowski, Ranking Member
Members of the Planning & Development Committee

From: Bill Ethier, CAE, Chief Executive Officer

Re: **Support SB 1036, AAC the Assessment of Municipal Taxes on Certain Residential Dwellings**

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.

We strongly support SB 1036 to reestablish a limited exemption from higher property tax assessments for 1-4 family homes under construction. This bill would allow higher assessments to occur upon the earliest of any of 3 triggers: A) a C.O. is issued, B) the home is first used as a residence, or C) a deed transfers to the first buyer.

This bill is about basic fairness and removes a major cost driver for new home construction and a significant disincentive to start new home construction. It will:

1. have **minimal revenue impact on municipalities**, especially relative to entire municipal budgets, because most of the "under-construction" assessment dollars municipalities receive are from commercial construction. In the past, assessors have admitted that the largest amount of property tax resources derived from buildings under construction come from commercial construction, which the bill does not impact.;
2. **have a positive financial impact on local budgets**. By removing the current disincentive to start construction on homes, more homes will be started and some of those (or all of them in a strong housing market) will be sold in the same tax year and be put on the tax rolls to produce more revenue for towns and cities. Thus, this exemption is a small short-term investment that will pay significant long-term dividends in grand list growth.;
3. **tie the collection of higher assessments and taxes to municipal services provided for people actually living in homes**, i.e., nobody is living in these homes under construction or waiting to be sold;

4. **remove a punishing tax on home builders** that is particularly harsh in a down housing market. This issue should not be a concern for towns or builders in a strong housing market because homes are built and sold more quickly.;
5. **remove a strong disincentive to undertake new home projects** in a down housing market. Since 2012, the law – see below – allowing higher taxes on homes under construction exacerbates a down market because it depresses housing starts, just what we should not want to do; and
6. **continue a town’s ability to capture retroactively the increased value of a home back to the date of a certificate of occupancy, when it’s first used for its intended purpose, or when it transfers to a buyer at a closing, whichever occurs first.** See existing law in lines 4-15 of SB 1036, not touched by the bill.

This proposal addresses the severe burden on residential developers who face substantially decreased absorption rates for selling homes in a down market. That is, they must carry completed yet unsold homes (i.e., a home builder’s inventory) for extended periods in our depressed housing market.

PA 12-157 allowed municipalities to tax homes and other buildings under construction by adding, among other things, subparagraph (a)(2) to section 12-53a (see lines 16 – 19 of SB 1036). Prior to the 2012 law, the law was unclear. Many towns did not raise assessments on homes during construction, although they did on larger commercial construction. The law was a response to a tax appeal case, Kasica v Columbia, which said the town could not tax the home involved there until it was completed. We proposed legislation to codify the case, but it got turned around to overturn it.

Then, in 2014, we sought legislation to overturn the 2012 statute by creating a limited property tax exemption, as SB 1036 would do. **This committee passed a bill similar to SB 1036 unanimously (19-0)**, but the bill was not called on the House floor. **Please help to see it through both chambers this time.**

The 2012 law is a contributing reason why 1&2 family home permits issued in CT in 2016 were the lowest in at least thirty-seven years (see the permit chart at the end of this testimony). It’s a contributing reason why the national housing recovery has not reached into CT.

Higher tax assessments on homes under construction (or even completed homes) prior to issuance of a C.O., occupancy as a residence or deed transfer are a big financial hit to a small business that has no income until a home sale closes and transfers to a buyer.

Municipalities have very limited expenses for these homes under construction or waiting to be sold. They provide only very limited municipal services because there are no people in these homes to serve. The proposal preserves the ability to tax the value of the underlying property, without the construction.

In 2012 and 2014 when we sought this limited exemption on homes under construction, claims by tax assessors and municipalities that the exemption is confusing and unworkable

do not make sense. We do not know at this writing if these advocates will make the same arguments this year. In case they do, we offer the following:

- **A new exemption alone should not be confusing or unworkable.** There are well over 70 exemptions and/or credits to property tax assessments already.
- **Tax assessors are already required to prorate assessments under existing law – this should not be confusing or unworkable.** See existing law at lines 4 – 15 in SB 1036, which requires assessments be prorated in a tax year depending on when a new home is subject to the tax under the bill, i.e., the earlier of issuance of a C.O., occupancy or transfer.
- Assessors claimed somebody could purchase a home and live tax free for a year. **That’s impossible under SB 1036’s language.** The home is subject to a higher tax when a C.O. is issued, or it’s actually occupied as a residence, or when a deed transfers to a buyer, whichever occurs first. And, since the language effectively requires the tax to be prorated, any new homeowner would be required to pay full property tax from day 1 of ownership or occupancy.
- Assessors claimed that this new exemption is unfair to existing homeowners, and particularly to elderly homeowners, who may need to sell their homes but will be at a disadvantage because new home builders can discount their prices when they no longer have to pay a higher tax for homes under construction. **This argument ignores the fact that new homes have significantly higher cost drivers that puts them at a competitive disadvantage relative to existing homes.** The argument also confuses and conflates tax assessments and what taxes are paid with fair market values for sales purposes – i.e., a builder’s sales price is driven by the market, not just by the builder’s costs.

Finally, in order to allow municipalities to continue to make higher assessments on larger residential and commercial buildings under construction, the bill should be amended to replace the brackets at lines 16 and 19 with the following new language at the beginning of subsection (2) at line 16, “Except as provided in subdivision (3) of this subsection, partially ...” Then, preface the new language at lines 19 – 30 with “(3)”.

Please support this limited exemption for 1-4 family homes under construction or waiting to be sold.

Thank you for the opportunity to comment on this important legislation.

See Housing Permit Chart and the Benefits of New Housing next page

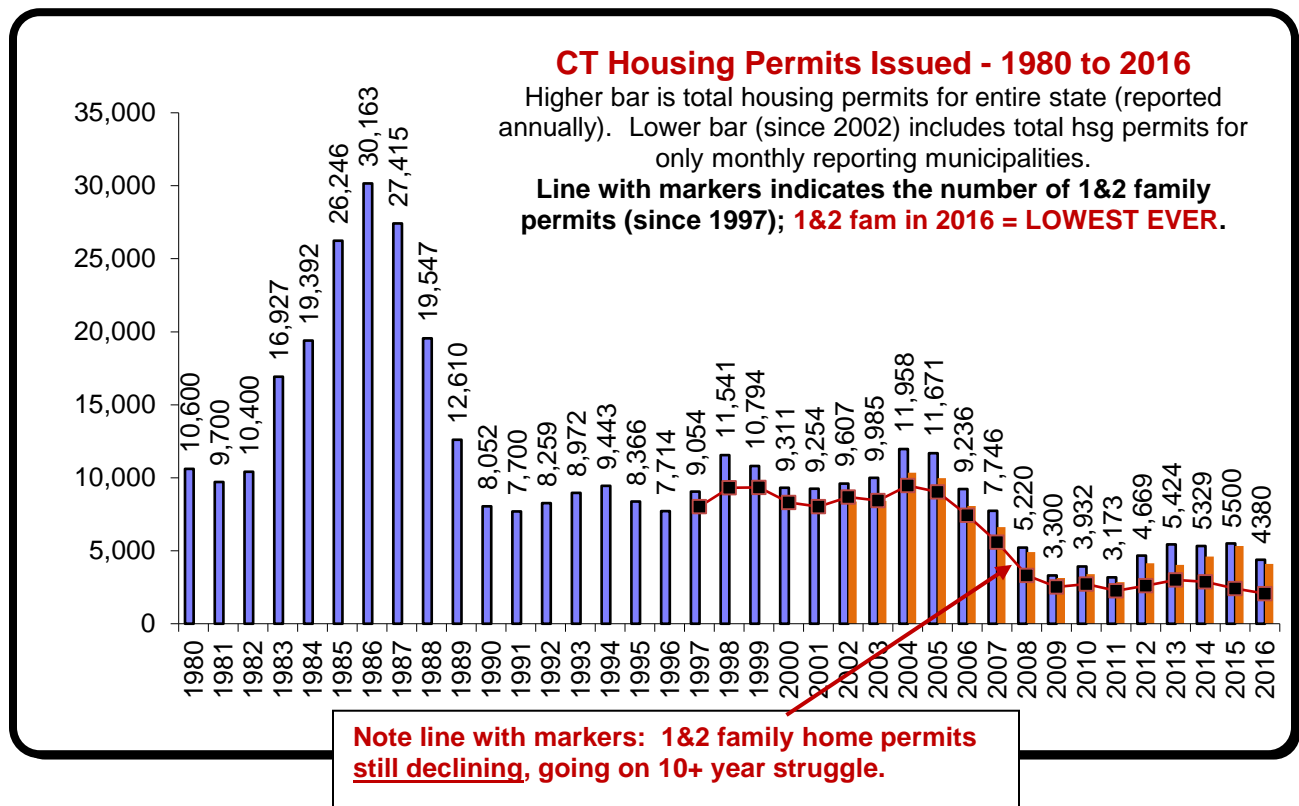
Home Building's Economic Impact in Connecticut!

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 9,500 homes in a year – normal levels - would produce:

- 31,730 new jobs annually, \$2.8 billion in wages annually, and
- \$447 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 and environment 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.

Economic impact data reported in "The Economic Impact of Home Building in Connecticut: Income, Jobs, and Taxes Generated" (NAHB Housing Policy Department, March 2012). Study cited extensively by CT DECD (see The Connecticut Economic Digest, Vol. 17 No. 7 July 2012). Housing permit data in chart reported by DECD, then DOH.