September 16, 2015

To: Chairman Bill Dyson, Chairman Bill Nickerson and Members of the State Tax Panel

From: Bill Ethier, CAE, Chief Executive Officer

Re: Two Recommendations for Tax Changes

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 membership includes 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 70% to 80% of all new homes and apartments in the state each year and engage in countless home remodeling projects.

Thank you for the opportunity to provide comments on taxes in Connecticut. As background, attached for your consideration is the testimony we provided to the Finance Committee’s Republican hearing on May 11, 2015.

Importantly, our May 11 testimony contains information on the history of building permits issued in Connecticut through 2014 and the tremendous financial benefit to state and local governments (i.e., tax revenues) from home construction activity. In 2015, building permits from January through July show a continuing disturbing trend toward multifamily construction and away from single family home construction.¹ It’s disturbing because on a per unit basis, more jobs and economic activity derive from single family construction than from multifamily construction. It also signifies reluctance among buyers to pursue a single family home purchase, indicating weakness in the economy and job market. As we said in our May 11 testimony, housing is and has been for a very long time a bellwether for the nation’s and state’s economy.

This leads us to the following two recommendations that we urge you to include in your final report:

¹ In July, for example, of the total 633 permits issued across the state, only 30.1% were for single family homes, whereas in a normal market, 70% to 80% of all units would be single family homes. And, July’s permits were concentrated in only a few municipalities (i.e., New Haven with 232 permits, Bridgeport with 99, and Norwalk with 70). The next highest total for July was Milford with 19 permits. This leaves most of the rest of the state with very slow or no growth in home building activity. The anemic rate of housing permits and their concentration in a few urban areas and on multifamily structures are all indicators of a still severely struggling home building industry.

Vision: “Building CT’s Economy, Communities & Better Lives One Home at a Time.”
Mission: “Using Effective Advocacy & New Knowledge to Solve our Member’s Problems.”
1. Remove the Huge Property Tax Disincentive to Start Home Construction by Limiting Increased Tax Assessments on Unsold Inventory of 1 to 4 Family Homes.

Background: This issue was first raised in 2011 in the wake of a tax appeal case, Kasica v. Columbia, in which the trial court ruled tax assessors cannot raise the valuation of homes or buildings under construction until a Certificate of Occupancy (C.O.) is issued. Over our opposition, the legislature then overturned the case, and in doing so created a rule that unfairly taxes home builders while unjustly enriching municipal coffers.

Problem: Prior to the prolonged adverse housing environment, which continues to this day, the law and practice of increasing property tax assessments as soon as construction began had not been an issue because homes were built, sold and transferred well within a single year. Now, housing developers face substantially decreased absorption rates for selling homes and must carry completed yet unsold homes for extended periods in this economic downturn. It takes longer now to construct a home as well because skilled construction labor has evaporated (construction workers have either left the state or gone into other jobs). Also, through no fault of their own, builders experience lost buyers because of the buyer’s loss of a job, difficulty in obtaining financing, or the inability of the buyer to sell their existing home. Thus, when tax assessors raise the valuation of homes under construction – or even of completed yet unsold homes – builders face greatly higher tax bills for unoccupied homes. The prospect of having to pay $10,000 or more in annual taxes and for possibly multiple years while waiting to sell their new home, destroying the small margins builders receive today, is a major disincentive to start construction.

This results in many jobs not created and much other tax revenues not realized.\(^2\) The reasons to support our fix to this problem are summarized below:

- Higher tax assessments on homes under construction (or even completed homes) prior to issuance of a C.O. or the home’s use or transfer to a buyer are big financial hits to a small business that has no income while being forced to hold his or her inventory.
- Taxing a builder’s inventory of unsold homes is like taxing an auto dealer for all the unsold cars and trucks on the dealer’s lot, or taxing a retailer’s unsold merchandise as its own business equipment. Why are home builders singled out for taxing unsold inventory?
- Higher assessments are unnecessary and become a municipal windfall because municipalities have minimal expenses for these homes under construction. These homes are waiting to be sold and there are no people in these homes to serve.

\(^2\) Again, see the attached May 11 testimony for the jobs and tax benefits of producing new housing in Connecticut.
• The bulk of the financial benefit to municipalities from increasing assessments on buildings under construction comes from commercial construction projects. After a public hearing held on this issue in 2012, tax assessors agreed with this point.
• If and when the economy and housing do rebound, our exemption would not be an issue for builders or municipalities because, again, homes will be built, sold and transferred much more quickly.
• The limited exemption we propose for one to four family homes under construction solves a huge disincentive on construction and tax burden on home builders without creating any service demands on municipalities.

Under our legislative proposal, tax assessments on a home builder’s 1 to 4 family homes can be raised only when one of the following triggers occur: 1) When the home transfers to a buyer; 2) If the home is used as a residence prior to transfer; or 3) If the home receives a certificate of occupancy, whichever occurs first.

The proposed legislation is as follows:

An Act Clarifying the Real Estate Tax on
One to Four Family Homes Under Construction

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (a) of section 12-53a of the general statutes is repealed and the following is substituted in lieu thereof (Effective upon passage):

(a) Completed new construction of real estate completed after any assessment date shall be liable for the payment of municipal taxes from the date the certificate of occupancy is issued or the date on which such new construction is first used for the purpose for which same was constructed, whichever is the earlier, prorated for the assessment year in which the new construction is completed. Said prorated tax shall be computed on the basis of the rate of tax applicable with respect to such property, including the applicable rate of tax in any tax district in which such property is subject to tax following completion of such new construction, on the date such property becomes liable for such prorated tax in accordance with this section.

Notwithstanding any provision of the general statutes or any special act, municipal charter or home rule ordinance, land, including individual parcels, lots in any approved subdivision, or land that is the subject of any approved site plan, special permit or exception, on which one to four family residential buildings are intended to be constructed, under construction or completed, shall be assessed exclusive of such residential buildings prior to the date on which (1) a certificate of occupancy is issued for such building, (2) such new construction is first used for the purpose it was constructed, or (3) a transfer occurs to the original home buyer, whichever is the earlier.
2. Our second recommendation is to remove the double or triple assessment of the real estate conveyance tax that is imposed on buyers of new homes.

Repealing or reducing the conveyance tax is a sound economic and housing development strategy because the reduced costs of production will spur more housing activity, which in turn will benefit the economy and tax receipts. However, we do not suffer from any delusions that the Connecticut legislature will reverse its broken promises to the real estate community and repeal the “temporary” conveyance tax increase that it adopted, then extended several times and then finally made permanent.

Yet, for new home construction, home buyers must pay the conveyance tax two or three times to purchase their new home. When real estate developers purchase land on which to build a new home community, the conveyance tax is paid. If the developer and builder are separate entities, the developer sells finished lots to a builder, and the conveyance tax is paid again. Then the tax is assessed a third time on the sale of the lot with a finished home to the original home buyer. The first, second and third payments of the tax are all passed onto the buyer, or absorbed by the seller. These additive taxes raise the cost of the new home, create more “sticker shock” for home buyers and create another disincentive to construction activity.

While we do not have legislative language to offer, we propose that a conveyance tax credit be adopted for any amount of a conveyance tax paid within the prior two years from the date of payment of a conveyance tax on the same land. Appropriate formulas for properly apportioning the tax paid on, for example, raw land to each individual lot would have to be created. Thus, new home buyers or sellers (i.e., builders) would be assured of paying the conveyance tax essentially just once.

The adoption of these two recommendations will help produce more activity in the housing and real estate sector of our economy, which in turn will produce more income, sales and other tax revenues for the state and property tax revenues for municipalities plus all the ancillary benefits of a more robust economy.

Housing can lead the way to job growth and economic recovery – if Connecticut would just get out of our way and stop beating us down.

Thank you again for the opportunity to provide comments on taxes in Connecticut and for your consideration of our recommendations.

Attachment (May 11, 2015, testimony to the Finance Committee’s Republican hearing)
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 Officer

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.
- 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.

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* 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](http://www.hbact.org/HomesDoPay).