



CONNECTICUT ASSOCIATION OF  
**REALTORS**<sup>®</sup> INC.

## OVER TAXATION (In General and of Real Estate in Particular)

### ISSUE:

It's imperative that the State of Connecticut wipe out its \$3.2 billion projected budget deficit for FY 2012 and \$3.0 billion shortfall for FY 2013. This fiscal crisis undermines business confidence. Unsustainable expansion in the size of government has driven relentless tax and fee increases of the past several years, especially in the real estate sector.

Governor Malloy has boldly proposed a two-year budget plan that seeks to close these gaps without gimmicks. For FY 2012, he recommends a combination of \$1,500,000,000 in state tax hikes, \$85,000,000 in municipal tax increases, \$1,000,000,000 in State employee concessions, and \$760,000,000 in other spending reductions. ***Unfortunately deeper cuts in spending are necessary to avoid such large tax increases to allow the real estate market to recover, and to keep our economy competitive.***

### CAR POSITION:

Before even contemplating tax and fee increases, cuts in government expenditures must be clear, credible, and deeper than the Governor proposes. REALTORS<sup>®</sup> favor the following five budget principles:

1. Reduce spending first.
2. In making cuts, all stakeholders must share the pain to the extent that it is economically and socially responsible.
3. Restrain bonding, recognizing per capita debt is extremely high and interest payments consume a large share of State spending.
4. Use a broad-based approach in selecting new or expanded revenue sources, but only after reducing spending to the level for most efficient performance of core government functions. REALTORS<sup>®</sup> accepted a temporary increase in our license fees as part of an overall adjustment in all occupational fees.
5. There should be no added taxation on the real estate transaction, particularly when the Federal government is relying on the housing sector to lead an economic recovery with measures like the first-time buyer's tax credit.

### JUSTIFICATION:

There are positive features in the Governor's proposed budget. His "First Five" Initiative calls for tax breaks and incentives for the first five companies bringing 200 full-time jobs to our State. On the other hand, the "housing-jobs" connection is hampered by tax proposals that drive up the cost of homeownership and stunt sales.

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We oppose three antihousing provisions in Senate Bill 1007, the Governor's revenue package. One would make the temporary increase in the town conveyance tax permanent. Even worse, the bill authorizes every town (with the exception of 18 targeted investment communities\*) to DOUBLE the municipal conveyance tax rate meaning the original historical rate of 0.11% would never return as scheduled, and towns would be prompted to increase the levy from current 0.25% to 0.50%.

Together these provisions add almost \$1,000 to the closing costs of a typical home sale.

Of the \$85 million in "revenue diversification" enhancements to municipalities, fully \$53 million is taken out of increased real estate taxes!

Existing homeowners will see an increase in housing "carrying costs" due to Governor's proposal to do away with the \$500 middle class property tax credit. This provision alone will cost CT property owners \$365 million per year!

Despite some expenditure cuts, Governor Malloy's budget continues to grow government spending. REALTOR<sup>®</sup> Budget Principle No.1 calls for an actual reduction in the bottom line. Principle No. 4 says that spending should be reduced to the level for most efficient performance of "core government functions."

Also, the REALTOR<sup>®</sup> Association has advocated modest reforms to reduce pressure for municipal tax increases (and therefore State aid to towns) by modifying the prevailing wage law and binding arbitration process.

Legislators should scrutinize efficiency studies already completed (e.g., Commission on Agency Outcomes, and the MORE Commission) and ask searching questions as to what are core government functions and what are not.

Finally, "shared sacrifice" is something REALTORS<sup>®</sup> favor for deficit reduction, but taking a disproportionate share is not.

Real estate and occupational license fees were hiked in 2009 at a time when many citizens escaped tax and fee hikes. "Temporary" town conveyance tax increases on property sellers have been extended repeatedly past their original 2004 sunset date, providing hundreds of millions in bonus dollars to town halls. Surtax on deed and other recording fees were imposed in 2005 and again in 2009.

\*These 18 communities already have a higher town conveyance tax rate.

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## FOSTERING SMART GROWTH

### ISSUE:

Smart growth means providing for the diverse needs of our communities through coordinated development and conservation, leading to an enhanced quality of life. Connecticut's ability to recover from the recession demands that we invest in smart growth policies that protect the environment and address housing and economic development.

### CAR POSITION:

Support S.B. 1020: AAC Water Resources and Economic Development

Support H.B. 6526: AAC Brownfield Remediation and Development as an Economic Driver

Oppose H.B. 5479: Modifying the Affordable Housing Appeals Act

### JUSTIFICATION:

The three bills we have focused on are symbolic of the need for providing balance in using our land resources wisely.

S.B. 1020 addresses the protracted controversy over stream flow regulations proposed by the Department of Environmental Protection. Those regulations have been opposed by CAR and a large coalition of groups because of concerns that a complicated system of forced water discharges (into streams) placed on water companies and other users is overly-costly and fails to assure sufficient water supplies for public health, agriculture, public safety, and economic development. S.B. 1020 requires the Department of Environmental Protection Commissioner to adopt the regulations in concurrence with several other State Commissioners (including Economic and Community Development) and to build-in protections for "safe yield" to ensure communities have sufficient water supply for multiple needs.

H.B. 6526 continues the State's efforts to clean-up and revitalize underused and abandoned properties that can add to a town's grand list. It seeks to move brownfields and contaminated properties through the Department of Environmental Protection regulatory process more efficiently and effectively. The bill does a number of things, including easing the "Transfer Act" requirements on buyers and sellers, especially when they are not "responsible parties" to pollution. It creates a new program limited to 20 properties a year that would be fast-tracked for economic development if they

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meet several standards, including supporting transit oriented development and consistency with regional planning objectives.

House Bill 5479 adds unnecessary and redundant new requirements for judges hearing appeals under the Affordable Housing Land Use Appeals Act. We feel they undermine the clear and well-established standards familiar not only to the courts, but also to land use boards, applicants and the Department of Economic and Community Development.

Municipalities which now provide reasonable amounts of affordable housing have nothing to fear from this Act. It does not apply to them but only to towns where there is a relative scarcity of work force housing based on 10% formula. In those towns, housing application denial must be based on evidence in the record that “clearly outweighs” the need for affordable housing and the local agency has the burden of proof of showing that upon appeal. The appeals are classified as “privileged” cases.

CAR opposes changes to the current law. The affordable Housing Appeals Act, (section 8-30g), has been one of the best remedies Connecticut legislators ever created to deal with unreasonably restrictive land use practices. It was approved in 1989 with the backing of major business, real estate, and housing advocacy groups, including REALTORS<sup>®</sup>

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## IMPEDIMENTS TO REAL ESTATE SALES AND LEASING ACTIVITY

### ISSUE:

Impediments to Real Estate Sales and Leasing Activity.

### CAR POSITION:

Support H.B 6510 An Act Concerning the Regulation of Private Transfer Fees.  
(Banning Private Transfer Fees)

Oppose S.B. 1049 An Act Requiring Concerning Property Owners to Provide Notice of Bed Bug Infestations. (Requiring Bed Bug Infestation History Documentation When Selling or Renting Condos, Co-ops and Apartments.)

Oppose SB 1203 An Act Concerning Water Protection (Repealing restrictions on the authority of local health directors to order private well water testing for radon and volatile organic chemicals and limiting the persons who may take water samples.)

### JUSTIFICATION:

The real estate industry is one of the last remaining industries in Connecticut that cannot be out-sourced overseas or to another state. According to data assembled by NAR, every real estate sale of an existing CT home generates \$48,494 in collateral economic activity. The economic health of the state therefore depends on an active real estate sales and construction market.

Unfortunately, there are proposals in the legislature each year that would force buyers to spend money on tests, products, and services that buyers have repeatedly demonstrated to the marketplace that they do not want or which stigmatize properties for one reason or another. Unfortunately, with one exception this session is no different, and while some of the proposals listed may not go forward in the legislature or have been killed in committee, the fact is that the Association and its members need to be constantly vigilant for proposals that further damage the market.

H.B. 6510 would assist the market by banning private transfer fees. These fees are placed in covenants and restrictions for developments and constitute a private conveyance tax on every sale of any of the properties in the development for periods as long as 99 years. The revenue stream generated by these fees is then sold so the revenue stream can be securitized in the same way as it was done with mortgages. Since the fees do not benefit the development, they do nothing more

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than add transfer costs and complications to real estate sales in the particular development and they should be banned. The Association supports H.B. 6510.

S.B. 1049 would require a seller to provide a bed bug infestation history if selling or renting a common interest ownership act property or an apartment. This would stigmatize properties that have been treated or are in proximity to a unit or apartment that had an infestation. Again, this is information that an interested purchaser can request if they wish without the need of a state mandate that would penalize the diligent seller or landlord who has taken steps to remedy an infestation or who closely monitors their property for signs of an infestation. The Association opposes S.B.1049

SB 1203 would abrogate a carefully negotiated compromise between the various segments of the real estate market and the Public Health Department and allow the Department and local health directors to require well water testing for radon and various volatile organic chemicals. Again, whatever the merits of these proposals, these tests are readily available to consumers if they choose to have them performed. Many consumers do not choose to have the tests performed because the tests cost several hundred dollars and there are few laboratories in the state to perform them. In addition, the bill would raise the costs of the tests since the bill would prevent a buyer from taking their own water sample. The Association opposes Section 10 of this bill which would remove reasonable limits on the power of health directors to mandate well tests and opens the door to singling out properties at time-of-transfer for a battery of expensive analyses that may not be warranted and regardless of whether the buyer wants the test or wants to pay the expenses of the testing.

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## SUSTINET

### ISSUE:

SustiNet Health Partnership was established in 2009 by the legislature, creating a board of directors that has spent two years developing recommendations for implementation of the program. However, the Malloy Administration has not called for any Sustinet funding in the proposed budget, and is sending strong signals that they believe the program is too costly to implement.

At the same time, the federal government is moving forward with implementation of health care reform, including funding for states to develop “exchanges” that are to provide individuals and businesses with access to insurance. Sustinet has been envisioned as an insurance option on that exchange, but its future is now in question.

The General Assembly is now considering three proposals to create the “exchanges;” and a fourth bill that would establish pooling or a partnership to allow the negotiation of lower rates.

### CAR POSITION:

Most REALTORS<sup>®</sup> in the U.S. and in Connecticut are self-employed and bear the full cost of their insurance premiums. Because premiums are often even higher for individual coverage, as many as 25 percent of REALTORS<sup>®</sup> do not have insurance.

Our main issue remains getting affordable health insurance for our members who happen to be independent contractors and small business persons.

There are significant costs associated with implementing Sustinet, and all efforts should be made to keep those costs reasonable. However, CAR continues to strongly support Sustinet as the best vehicle to expand coverage for small businesses and independent contractors.

The Office of Fiscal Analysis has not yet analyzed the current bill. Estimates range widely from costing \$1 Billion to saving the State millions. When OFA issues its report the State can act accordingly to preserve the intent of the bill.

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#### **JUSTIFICATION:**

- SustiNet, while still in the formative stages, would be self-insured health insurance administered by the SustiNet Plan Authority, providing affordable coverage for Connecticut residents, including small businesses and self employed.
- The exchange, in and of itself, will not help members, unless it allows for plans that permit individuals to band together to negotiate better rates.
- SustiNet is designed to control the costs of health care, and to help attract federal funds to the state.
- SustiNet will offer an affordable state option to individuals and small businesses that promotes healthy competition.
- Currently, large companies can group their insurance coverage, as can unions. The only way for small businesses to have the same access to more affordable, group-negotiated rates is through the SustiNet plan, or something that allows the same group negotiations.
- Any health care legislation must allow small businesses and independent contractors to benefit from group rate negotiations.

#### **NOTES:**

- There are three legislative proposals to establish the exchange, including outlines for who would be on the board, criteria for how participating insurance coverage would be established, and how the exchange would operate.
- Speaker Donovan has also revived a bill that would establish “pooling” or a “partnership”, with the goal of allowing individuals and groups to benefit from the advantage of group rates.

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