# HOUSING BUILDS JOBS

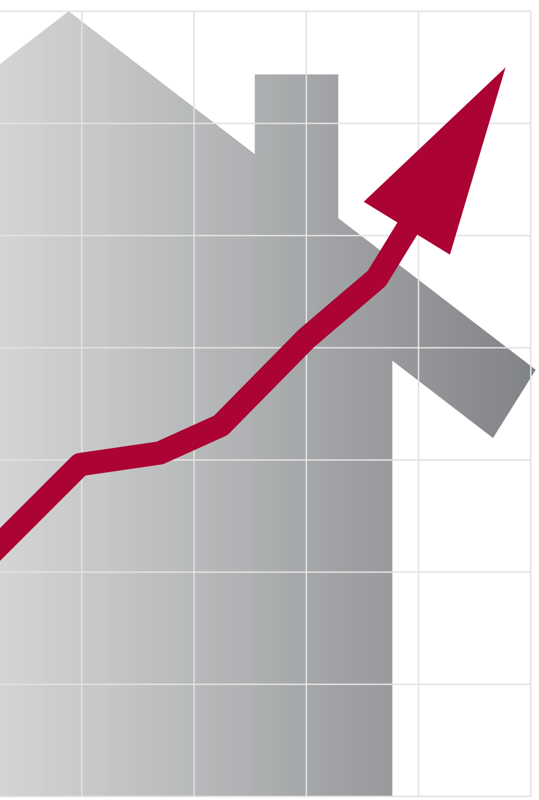
Economic Recovery *Starts* with Housing

The Principles and Policies of California Homebuilders

# CBIA is…

- The principle advocate at the state Capitol for policies that increase housing production and homeownership opportunities in California – with a Sacramento-based lobbying team of professionals with over 100 years in housing public policy experience.
- A full-service trade association, representing the working men and women of over 5,000 companies involved in homebuilding in California, including the nation's largest homebuilding companies – represented by the California Major Builders Council (CMBC) – as well as the specialty trade contractors who are on site every day building California's homes.
- Thousands of volunteers helping to define the principles and public policies that make California's homebuilding industry the most innovative and productive in the nation.
- Homebuilders like Horace Hogan, II, president of Brehm Communities, a San Diego homebuilding company. Says Horace about his chairmanship of CBIA in 2009, "California is being challenged like never before and California's homebuilders are committed to working with lawmakers and policy-makers in Sacramento on concrete and lasting solutions."

**...the trusted**
**Voice of Housing in California.**



CBIA
California Building Industry Association

CBIA maintains a library of important facts and information about housing and homebuilding in California. Visit our Web site at **www.cbia.org**.

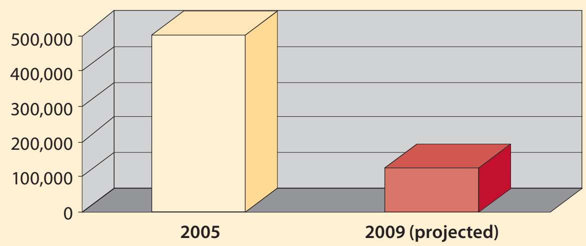
# Housing today – by the numbers

## *Housing is in a rut and is dragging down the California economy.*

You'd have to have been living on Mars to not know that California – and the nation – is suffering from a severe economic decline. And, if you didn't know how substantial the impact is of a depressed housing market on the state's economic condition, you should read this.

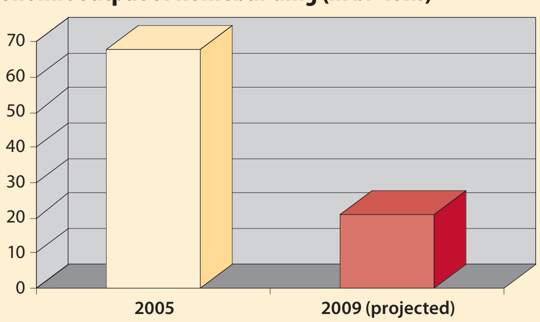
When housing markets are healthy and new homes are being built, the economy does well. The last time California was building homes at a healthy level, tens of thousands of new jobs were being created and economic output was brimming. But, as illustrated below, California stopped building homes and jobs and economic prosperity began to disappear.

**Jobs created by homebuilding**




**Loss of Jobs: 363,294 (2005 - 2009)**

**Economic output of homebuilding (in billions)**




**Loss in Economic Output: $46 Billion (2005 - 2009)**

According to various economic analyses, the construction of a single new home generates anywhere from 2 to 3 jobs. And, housing construction generates roughly $330,000 in economic benefit for every new home built. So, when housing activity subsides, as it has now, the economy suffers.

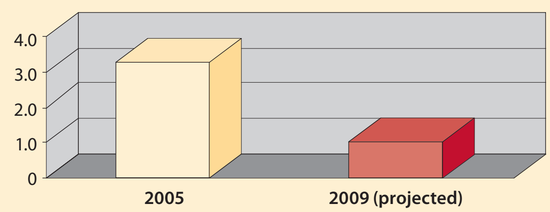
And, the jobs lost aren't only those of construction workers. They are truckers, cabinet makers, furniture manufacturers, appliance distributors, utility workers, bank employees, accountants, insurers, machinists, paint manufacturers, retail sales personnel, food and beverage workers, warehouse and storage managers and more.

When housing gets sick, so too do state and local governments. Before the real estate collapse, state and local treasuries were flush with cash. When construction stopped, revenues dried up. A study of the relationship between residential construction and tax revenues shows $16,000 flowing to Sacramento for every new home built and $3,000 to local governments. So, for every new home not built, California loses money.

Depressed state revenues mean bulging budget deficits and every year California faces one fiscal crisis after another. State government continually has a hard time paying its bills and services are the first thing to suffer in communities across the state as local coffers reach empty, as they are today.

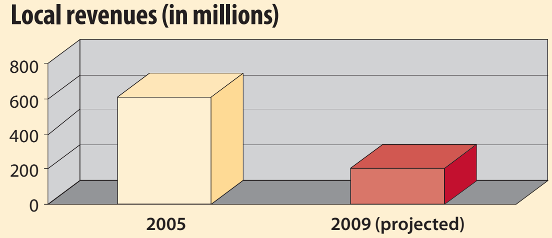
Bottom line: If housing doesn't get better, the state won't get better, and economic misery will linger.

**State revenues (in billions)**




**Loss in State Revenues: $2.2 Billion (2005 - 2009)**

**Local revenues (in millions)**




**Loss in Local Government Revenues: $426 Million (2005 - 2009)**

---

1 Sacramento Regional Research Institute, "The Economic Benefits of Housing – Update"; August, 2008.

2 Blue Sky Consulting Group, "The Housing Bottom Line – Fiscal Impact of New Home Construction on California Governments"; June, 2007.

# It's the economy, stupid...

## *In case you didn't know it, California is mired in a deep recession.*

Record foreclosures, surging unemployment and home prices in free fall are combining to send consumer confidence to some of the lowest levels in history. California – indeed, the nation – is suffering the worst economic conditions since the Great Depression. It's no wonder that the refrain of the Bill Clinton presidential campaign a generation ago is popular again today.

You remember. When candidates strayed into other areas of public policy in the early days of the 1992 presidential contest – while the U.S. was struggling through a serious (but not nearly as bad) economic downturn – the former Arkansas governor pushed back, continuously, with that simple but penetrating rhetorical, which ultimately helped carry him to the White House – "it's the economy, stupid."

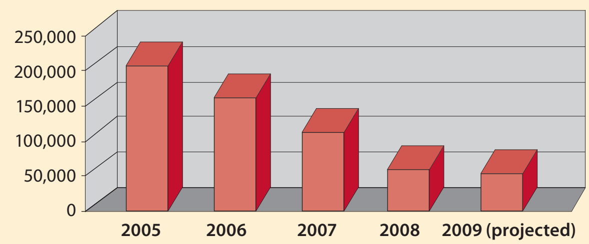
But, that affirmation grew to be more than just a clever campaign slogan. It became a metaphor, reflecting a fundamental reminder to elected leaders of all sorts and political persuasion: that working to ensure economic security is not only a public-policy ambition, it's a responsibility and a duty of government.

And, today, that duty is more important than ever.

### HOUSING DRAG

Indeed, the pain and dislocation resulting from today's economic crisis – gripping California and the nation – are threatening to get worse as time moves on. A look at what's at work – or isn't – in housing markets, makes it clear that current conditions are feeding on themselves and things stand to move from bad to awful. In 2008 housing production in California was at the lowest level since they began keeping track in 1954 with only 65,380 permits issued for new homes. Projections for 2009 are dreadfully lower. The Construction Industry Research Board (CIRB) is forecasting production of 56,600 units for the year (see chart). Meanwhile, as declining values continue to sink housing markets even further, so too goes the wealth and economic security once gained by owning a home.

**Annual permit totals**




What began nearly three years ago as a not-uncommon "sputtering" in home prices – a by-product of the ups and downs of housing markets – became an economic vortex as a substantial number of borrowers defaulted on their mortgages and values spiraled down and ultimately nose-dived. At its start, this situation appeared to be a consequence of borrowers taking on debt they couldn't afford and market-softening foreclosures began to rise.

But, as the pace continued, even accelerated, the value of new homes – and existing homes with well-performing loans – took on the taint of the market and, suddenly, a much larger inventory of real estate was increasingly viewed as troubled or risky. This began a steady retreat of lenders from housing markets and, correspondingly, the onset of a substantial drought of homebuyers.

Now, no one wants to touch housing – except investors who canvas markets for bargains and readily consume the bank-owned homes that are scattered throughout otherwise sales-quiet neighborhoods. Indeed, as reported on the previous page, lenders aren't lending, builders aren't building and would-be homebuyers, fearful to buy too soon, continue to sit on the sidelines.

### Credit squeeze compounds problem

It was the proverbial "perfect storm" when a cyclical fall-off in home prices produced record foreclosures which, in turn, triggered a virtual "freeze" on credit. Suddenly, everyone was a credit risk – homeowners, homebuyers and homebuilders. One by one, banks ceased funding existing and often healthy construction loans. The loans, and their sponsoring homebuilding companies, became "still more victims" of the credit shock gripping the globe. But, as often happens in times of crisis, the cure for this credit "crunch" – pulling up the drawbridge and making only a few "safe" loans – became worse than the disease. Now, there's another hole – and a deep one – to dig out of.

# . . .and now it's time to act.

***"This Nation asks for action, and action now."***

–Franklin Delano Roosevelt, March 4, 1933

Whether or not the Depression-era New Deal, advanced by President Franklin Delano Roosevelt to pull the nation out of its historic economic slump, was good or bad public policy is still subject to debate. But, like it or not, it was action – aimed at putting people back to work and turning things around. With the inauguration of FDR came a determination that dramatic and immediate action was necessary to bring about economic recovery.

Today, saddled with similar, grim economic conditions, government has been having trouble deciding what to do. Here in California, pre-occupation with a serious revenue shortfall virtually paralyzed lawmakers for months and prevented them from considering urgently needed "stimulus" or "recovery" measures to ride tandem with an ultimate budget fix. And so, unemployment soared (to double digits) as the state's economic – and fiscal – health simply got worse. Meanwhile, in some housing markets, values continued to drop sharply – over 40 percent in some places – and the prospects of needed, job-generating home construction improving anytime soon have been dim.

An increasingly frustrated private sector has tried to break through with a simple message of: "economic stimulus, too!" Indeed, business in California knows the budget will never be fixed until the state economy is also fixed and starts growing again.

That's, now, what everyone else – including President Obama, a chorus of Members of Congress and countless economists – is saying: fix the economy, now!

Indeed, the longer government doesn't act – responsibly and responsively – the very problem that helped accelerate the current downturn (i.e. sharp drop in jobs and tax revenues) grows exponentially. And, as the evidence shows, the work must start in the housing sector. Each new day that buyers remain spectators – as they are today – the home-value water level drops ever further, exposing new, previously performing mortgages to the risk of their borrowers walking away from those loans.

Indeed, as FDR said in 1933, "We must act and act quickly."

## HOUSING STIMULUS

California homebuilders know what's needed. Dormant housing markets must be transformed into active housing markets. Consumers must, once again, see a reason to return. In 1975, a tax credit offered by the federal government beckoned would-be homeowners back – not for the cash but because it signaled restored confidence in the market. Consumer fear went away and within two years things were back to normal and the economy started growing again.

California recently received a dose of the same medicine but only in a limited quantity. The recently enacted $10,000 homebuyer tax credit was limited to just 10,000 households. It's a good start but more families must be inspired to return to housing markets to get things back to normal. California needs to start building homes again – enough to bring the state out of its deep economic funk, like it's done so many other times before.

California needs jobs. Homebuilding creates jobs, lots of them. California needs tax revenues. Homebuilding produces substantial tax revenues. California needs its confidence in real estate markets restored. Homebuilding can help do that.

To learn more about CBIA's proposals for economic recovery and housing prosperity, review the following pages and consider how those reforms can help. It's time to act.

### Formula for recovery

CBIA's "Housing Builds Jobs" campaign is aimed at promoting legislation that creates jobs and broad economic recovery by stimulating new home construction. The following summarizes all legislative initiatives CBIA is pursuing at the Capitol this year.

- **RECOVERY – Homebuyer tax credit.** To jump-start sagging housing markets, the $10,000 state tax credit is available for one year on a first-come first-served basis to buyers of new homes (see page 6).
- **RECOVERY – Subdivision map extension.** A likely delay in California's housing recovery demands a five-year extension of these critical entitlement procedures.
- **RECOVERY – Credit crunch relief.** Credit for construction projects and home purchases is scarce and CBIA believes that Cal HFA can do more to supply needed capital to housing markets.
- **RECOVERY – Fee relief.** Greater discipline needs to be imposed on the process of charging impact fees, which are still sky high despite the sharp decline in home prices.
- **RECOVERY – Infill housing.** California must continue to create opportunities for housing development in downtown neighborhoods. AB 389, passed in 2004, provides such opportunities and needs to be reauthorized in 2009.

# Small, tentative steps aren't working.

***"No economic recovery without housing stabilization."***

*–Wall Street Journal*, October 31, 2008

As noted California scholar Ken Rosen recently reminded us, housing has led California and the nation out of every economic recession since World War II. So, it's a good bet that housing can do it again – but only, says Rosen, "with the right set of public policy initiatives."

## ACTIONS THAT STIMULATE – CONFIDENCE

Rosen should know. The former UC Berkeley professor and renown expert on what makes real estate markets tick was on hand in 1975 when the U.S. Congress, facing circumstances in national housing markets similar to those today, took dramatic action and enacted a temporary tax credit for homebuyers that produced its intended objective: people returned to the marketplace, creating an immediate surge in home sales, leading to a hoped-for rebound in new home construction.

Says Rosen now, it's time for the same "electric shock" to be administered to moribund housing markets in California. Rosen's recommendation? A tax credit for targeted home purchases in 2009 – among them newly constructed homes – which he believes "could quickly clean up the inventory of foreclosed houses, reduce the overall inventory of unsold homes, and stabilize house prices . . ."

CBIA agrees with Rosen that a "jolt" is clearly what is needed to revive the pulse of California housing markets. Indeed, the two critical questions to ask in this situation – the first asked by the home consumer and the second asked by those Californians who feel the sharp edge of the housing downturn in an increasing number of other economic sectors – are these:

1. Why should I buy now?
2. What happens if consumers keep asking that question?

Congress tried to answer with a modest tax credit which, regrettably, won't work in California. So, California acted on its own. In the waning days of the state budget stalemate Senator Roy Ashburn (Bakersfield) announced that he wouldn't provide a necessary vote to pass the budget unless the fiscal package included some economic stimulus: specifically, a new homebuyer tax credit. Ultimately his demands were met and the legislature overwhelmingly passed SB 15XX (Ashburn).

The provisions of the Ashburn homebuyer tax credit included:

- A tax credit of up to $10,000 (5% of home price or $10k, whichever is less) for the purchase of a newly constructed, previously unoccupied home.
- Available March 1, 2009 and good until March 2010.
- Allocated by the state's Franchise Tax Board on a first-come, first-served basis.
- Paid out to home purchasers over three tax years in equal amounts (i.e. $3,333 for 2009, $3,333 for 2010, etc.)
- Purchasers must reside in the home for at least two years.

Meanwhile, Washington was trying to get it right but couldn't. Congress, adopting a minimalist view of things, tiptoed around the problem with more half-hearted measures that would limit the scope of a homebuyer tax credit and, thereby limit its impact, and economic stimulus effect. While a silly "repayment" requirement was removed from a seriously flawed federal tax credit approved last summer, the version enacted early this year was not much better. It limited the benefit to first-time homebuyers – which is only a small percentage of home sales activity, especially in California – and placed an arbitrary income-qualification test on users.

While both initiatives passed, California housing markets should expect only so much. First, due to the significant limitations on the purchaser, the federal credit is not likely to qualify too many buyers in a high-cost state like California. Meanwhile, the more effective California homebuyer tax credit – which was passed by the Legislature and signed by Governor Schwarzenegger in late February and is already on the lips of most shoppers – is limited in quantity and means to fully benefit from this housing stimulus, Sacramento will have to do it again, and pass another homebuyer tax credit.

### The case for new home construction

You're probably thinking that a new-construction-only tax credit is a little self serving. Here's why homebuilders' proposal is limited that way:

- New home construction creates jobs – as many as 3 new ones for every home built.
- New home construction generates positive tax revenues – enough to the state to more than cover the cost of the credit.
- The credit is good for only one year.
- The credit goes directly to homebuyers – not a dime goes into the pocket of a homebuilder.

Also important to note: if the credit is not used, it costs nothing.

# Excessive fees – barriers to economic recovery

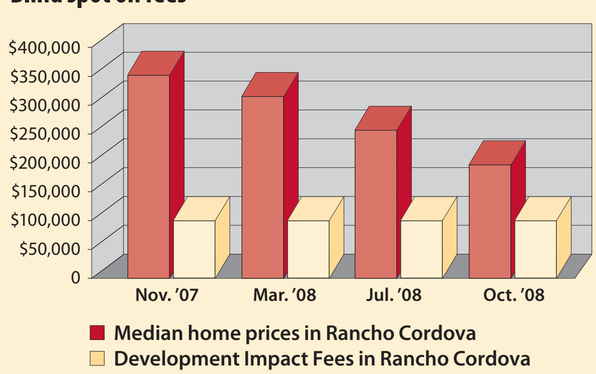
## *Rising government costs render home construction infeasible …*

What was once a plan to use the power to tax housing to finance community improvements in the City of Rancho Cordova is now a well-honed and insidious means of bringing job-generating housing and economic development to a grinding halt. What's happened in this newly chartered Sacramento-area community is not uncommon and now, as home construction has nose-dived in California, local governments are suddenly cash short and wondering what to do.

### MISSING THE MARKET

The chart below shows what happens when communities like Rancho Cordova attend more to counting coins than to accounting for dramatic changes in the economy. The following shows where home prices were in the fall of 2007 – seen in red – and where they stood a year later. The yellow indicates the level of impact fees – $100,000 – which remained constant despite the market's steep decline. Bottom line: with fee costs running half the price of a home, residential construction in the community has stopped.

**Blind spot on fees**




Bottom line: with fee costs now running half the price of a home, residential construction in the community has stopped.

If this situation wasn't bad enough, consider that some communities in the Bay Area charge well in excess of $100,000 in fees per home – over $150,000 in Dublin and over $120,000 in Livermore, just to name a few. And, in the town of Petaluma, as construction and home prices dived, city leaders decided to raise fees – by 100 percent!

California law establishes rules for how fees should be charged – for what and how much. But, today, with local governments strapped for the cash they say they need to meet increasing community demands, new housing is being asked more and more to shoulder the burden. So, when a new community park is demanded, homebuilders – and, ultimately, homebuyers – pay for it. When citizens want a new freeway overpass, new homes foot the bill. Open space and nature trails? Let the new homeowners pay for it. New day care center? Low-income housing? Ditto.

All of these activities/facilities and more are desirable. But, can California continue to ask homebuilders and new homebuyers to pay for them? Are they essential to support the new housing that's being proposed? If you took your neighbor to the grocery store, you might get them to pay for one or two items. But, start pulling all the desirables off the shelf and you lose a neighbor. And, that's just what's happening in California – local government's spending excesses are causing the state to lose housing, and jobs, and (ironically) tax revenues.

### THERE'S GOT TO BE A BETTER WAY

Unquestionably, California's fiscal problems can be tied to its arcane tax policy. And, for too long new homebuyers have bankrolled the local improvements to fill the gap. But, that can't continue. The homebuyers aren't there anymore and over-nourished localities are on crash diets as residential construction has all but disappeared. To get things back in balance – so that homebuilders are building again and local governments are able to finance essential community improvements and services – state laws and local policies have to change. Otherwise, nobody wins.

**What's this got to do with housing?**

Not long ago, when a recent infill housing project was proposed in Los Angeles, local elected officials demanded compensation – and this is what they asked for. It's three stories tall and was paid for by the higher prices hung on the newly constructed homes. Not likely that the new residents – and benefactors – saw the benefit…

# Building for the future

## *New California homes setting the standard for how to grow green.*

The potential of California spreading the benefits of greenbuilding statewide is running head-on into "politics as usual" at the Capitol. But, if reducing greenhouse gas (GHG) emissions is really the overriding public policy goal, something's got to change. Because, ironically, the impulse to heap still more requirements on new homes has everyone there overlooking not only just how well those homes are performing but the real energy savings treasure, as well: existing homes.

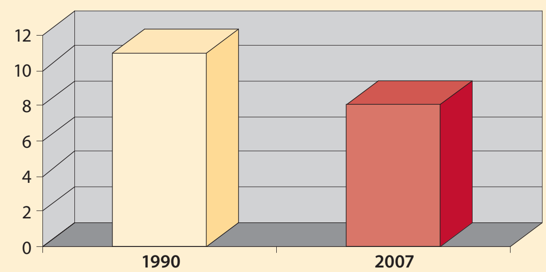
### MODEL CONSTRUCTION

Today, California homebuilders not only boast the most energy-efficient homes in the nation, they find themselves far ahead of the greenhouse gas (GHG) emissions goals set by the state in AB 32, "The Global Warming Solutions Act of 2006." According to an analysis by ConSol, an energy consulting firm, specializing in residential construction, the so-called "carbon footprint" (the GHG residue left behind by something man made) of a home built in 2007 is 25 percent smaller than that of homes built in 1990 – the baseline year for setting AB 32's emission goals.

As attention is focused in California on GHG, the legacy of Title 24 is revealed in the construction of today's new homes. This decades-old collaboration between the homebuilding industry and state government has served to produce the most energy-efficient homes in the nation. In fewer than 30 years, energy use in new homes has been reduced by 47 percent as a result of this partnership. Indeed, today, "whole house" energy use in a home built in 2008 is 24 percent less than one built in 1990. And, as that means less demand on carbon-emitting power generation facilities, new homes, according to the California Energy Commission (CEC), are only responsible for one-tenth of one percent of annual GHG emissions.

A recent authoritative study presents a picture of current and future homebuilding in California that means if the rest of the nation did it as well, the U.S. would be compliant with the global warming protocol set in Kyoto, Japan back in 1998. Highlights of the study include (see chart):

**Carbon footprint of a new home**




*New residential construction has already met and beat the AB 32, 2020 GHG reduction goal by 25% reduction in Metric Tons $CO_2e$ Per Year.*

### PARTNER, DON'T PUNISH

With this track record of pushing the envelope on energy efficiency and proving its effectiveness and affordability, it's baffling that lawmakers and policy makers continue to demand more of new housing, despite diminishing returns. The real bounty is to be found in existing homes, nine million of which were built before there were any energy standards. The same study that shows the reduction in energy use produced by new homes also shows how much further an energy-savings of $1 would go if it were invested in California's existing housing inventory of nearly 13 million units. Indeed, AB 32, which defines the state's objectives for reducing GHG emissions, sets a numeric goal. You simply can't get there from here by continuing to layer mandates on new homes.

CBIA believes the partnership with the CEC and its companion building-code agency – the Building Standards Commission (BSC) – has a proven track record of performance and innovation. Moreover, with the recent adoption of a state "greenbuilding" standard, the state should be both ensuring the proper implementation of that new standard – through programs like "California Green Builder" and "Build It Green" – and to begin to properly turn its attention to the energy (and water) savings to be had by auditing and even retrofitting existing homes.

### Housing: smart and green

Though years in the making, CBIA launched its greenbuilding program, California Green Builder (CGB), in 2004. Since that time nearly 6,000 new homes have been built in California using the CGB models for energy-efficiency and water conservation, saving thousands of kilowatts of energy, thousands of gallons of water and acres of trees. Now, with these well-established and efficient programs, greenbuilding in California is no longer an exception, it's the norm. For more information on the CGB program and on the BIG Green Point Rated program visit: **www.cagreenbuilder.org** and **www.builditgreen.org**, respectively.

# Water: Long on ideas, short on action

## *Supply, quality solutions abound while Sacramento fiddles and fights…*

For California, this century-old colloquial would be funny if it wasn't so true. Regrettably, Sacramento has perfected the use of conflict and contest to define how not to get anything done on the age-old issue of water.

### WATER SUPPLY

California is trying to get by each year with less and less water for more and more people – and, at some point, the system is going to collapse. Today the state's water system, which was designed to serve 18 million Californians, is serving twice as many people. It won't be long before the state's population reaches 50 million, meaning something must be done soon if California is going to meet its now and future water needs.

Compounding this problem are years of drought and supply diversions to preserve fish species and their habitat. Indeed, a recent federal court order has forced a 30 percent reduction in shipments of water from northern California to the south. Meanwhile, the health of a precious natural resource – the Sacramento-San Joaquin Delta – continues to wane. The Delta is not only an environmental treasure, it's a lifeline to a growing and thirsty Southland.

In Sacramento, there's talk about what to do but no action. Every year for the last ten, groups of various business, labor and community interests as well as water specialists have gotten together to design and advance strategies for increasing water storage in California. And, every year, environmental and other interests shoot those strategies down. Instead of working cooperatively on a comprehensive water supply effort – which includes storage for the future – this "just say no" crowd turns to the Legislature to thwart initiatives to increase the state's water supply and insist instead that laws be passed to force Californians to use less. And, while conservation is a good thing – and California homebuilders boast a track record of state-of-the-art conservation built into every new home-community – it can't alone meet the needs of a swelling population and an economy starved for growth.

Every year is a contest over water. And, every year, Californians lose.

### WATER QUALITY

Improving water quality is a critical public policy objective and, unlike the water supply issue – where lawmakers and policy-makers can't get into gear – activity abounds. And, that's the problem.

*"Whiskey is for drinking and water is for fighting."*

–Mark Twain

A recent report by the Little Hoover Commission, which looked at the state's implementation of federal and state water quality acts revealed significant weaknesses in the regulatory program administered by the State Water Resources Control Board (SWRCB) and its regional agencies. The Commission's most significant findings were 1) the state lacks a clear water quality policy; 2) the SWRCB lacks the scientific data, and analysis of the data it does have, for administering some of its program; 3) the policies administered by the Regional Water Quality Control Boards (RWQCBs) lack consistency and clarity; and 4) there is great uncertainty as to whether the state's regulatory program actually improves water quality.

While the Commission – and, to some extent, the Administration – recommend the state's regulatory program for water quality be overhauled, CBIA believes a simple "governance restructuring" misses the boat and, therefore, is recommending that the Legislature and the SWRCB examine a watershed-based approach to its stormwater management program – which is at the heart of the state's water-quality regulatory ambitions. This watershed, regionally based approach better takes into account the variety of physical and climatic conditions that exist around the state and, if fully implemented, virtually guarantees improved water quality and greater pollution protection of the state's water bodies. This approach was recently endorsed by the National Academies of Sciences and represents one of the homebuilding industry's top public policy priorities.

#### Water times two

California needs to improve the way it captures and stores Mother Nature's bounty of water and it needs to effectively protect its precious water bodies from pollution. CBIA has ideas on both:

**Water supply.** Increased supply not only through the construction of long-needed surface storage facilities but increase conservation; expanded the use of recycled water; the exploration of new technologies like desalination; and working collaboratively and immediately to restore the health of the Sacramento-San Joaquin Delta.

**Water quality.** Improve water quality by developing more sophisticated and efficient means of managing stormwater runoff, which starts with a regional, watershed-based stormwater management program. Conform the governance of the state's water-quality regulatory program to this more effective regime.

# AB 32: No free lunch

## *New global warming law could hamstring economy.*

California homebuilders support the Governor's ambition to reduce carbon emissions and thereby reduce the state's potential impact on climate change. AB 32, "The Global Warming Solutions Act of 2006", embeds this ambition into state law but how this sweeping new policy gets implemented is something that homebuilders are concerned about. To avoid serious impacts on the state's economy, AB 32 needs to be managed with care.

Indeed, the initial offering of the California Air Resources Board (CARB) – the state agency charged with developing the AB 32 implementation rules – may signal there's trouble ahead. CARB's recent release of the AB 32 "scoping plan" – the blueprint for defining how the law will work – included an economic-impact assessment that left scholars, scientists and the plan's business targets scratching their heads.

CARB downplayed the billions of dollars in start-up impacts on all sectors of California's economy and, instead presented a rosy picture of how future energy savings will offset those costs. Unfortunately – and particularly with the state's economy in a fragile condition – that's not how the world works. If up-front costs can't be absorbed, businesses will go under when they are unable to charge more for their goods and services. And it's misleading to imply that "long-term energy savings" will bring them back, as the report seems to do.

*"AB 32 is presented as a riskless 'free lunch' for Californians. I would like to believe this claim but … there are too many uncertainties and open microeconomic questions for me to believe this."*

–UCLA professor Matthew Kahn

Some of the costs, downplayed by the report, include higher electricity rates (11 percent increases per year); higher rates for natural gas (eight percent per year); higher gasoline prices ($11 billion over 10 years); and hundreds of millions more added to the cost of water. These new costs hit business right where it hurts, since they all affect the cost of operation. Wondered the San Diego Union in an editorial last year, "[H]ow could sharply increasing the operating costs of most businesses and reducing the disposable income of most individuals help the overall economy?"

Now, lawmakers and policy-makers around the globe are worried, too. The love affair with the idea of "greening" the planet may be fading somewhat as its costs may be more than any economy can handle. Earlier this year, at a United Nations global warming summit in Poland, the European Union surprised everyone by announcing it was cutting back on its plans to reduce carbon emissions by 2020. China and India, two key economic rivals of the U.S., reported similar changes in "green" policy – and continue to resist "globally" imposed emission caps.

Consumers – and voters – are also now asking more questions about the cost of fighting global warming. In Germany, for example, the subsidy costs supporting "green" jobs created by a government-sponsored solar-power initiative – over $200,000 per job – has electricity rate-payers seething as they now bear the burden of paying for this new experiment.

With the potential of AB 32 costs becoming extreme and California's economy hemorrhaging jobs, it's essential that state government move carefully on its plans to combat global warming.

### SB 375 – The first (right) step?

Last year, CBIA sat down with environmentalists and local governments in an effort to set the rules of the game for land use under an AB 32 regime. It was an unlikely proposition – given the history of combat with these groups, particularly environmentalists – but by summer, a deal was done. SB 375 (Steinberg) aims to make it clear to all in the transportation and land-use planning world what their obligations and opportunities are under the new law. While homebuilders and local governments will have to work together to reduce the GHG implications of development, they'll do so aided by improvements to housing law and to the California Environmental Quality Act (CEQA). SB 375 also provides the benefit of putting these rules out now instead of awaiting the uncertain actions of CARB.

# DO NO HARM!

## *Sometimes good intentions have serious consequences for housing.*

It's not unusual for homebuilders to have to fight off myriad public policy proposals in the Legislature and regulatory agencies that the industry believes will both add higher costs to already expensive housing and generally make it more difficult to build. Homebuilders find that while many of these proposals are well-intended they frequently call on new housing solely to finance or provide broader-based public policy objectives. Examples of these kind of proposals or actions from the recent past include:

- **Energy use –** legislation to require that (only) new housing reduce its energy use in support of California's battle against global warming.
- **Water use –** legislation to require (only) new homes to pay for bringing existing ones into compliance with the water-conservation standards those new homes already have to meet.
- **Solar power –** legislation to require that (only) new homes include $50,000 solar energy systems on their roofs.
- **Wildfires –** legislation to require (only) new homes pay for state fire-fighting, or not be built at all.
- **Stormwater –** new state regulations to require (only) new homes follow strict stormwater management standards regardless if the cleaner water gets dirty again once it leaves the home site.
- **Affordable housing –** local policies that require (only) new housing pay for or build government housing that's affordable to low-income families.

### THE WHOLE STORY

CBIA doesn't believe any one of the foregoing initiatives represent flawed public policy. Indeed, a closer look at what the homebuilding industry is already doing in these areas might change the minds of some lawmakers. For example:

- New California homes are more than 30% more energy efficient than any others built anywhere else in the world and their so-called carbon footprints are 24% smaller than homes built 20 years ago.
- Before new housing is approved, California homebuilders must not only demonstrate that there is ample water in the area to support the needs of incoming households, they must install water-conserving devices such as low-flow toilets and water-stingy landscaping and irrigation.
- No new housing is approved without demonstrated, paid-for fire protection and, more importantly, new homes are being built with so much fire safety – in their design and construction – that fire chiefs no longer send their personnel to those subdivisions to protect them from wildfires.

Regrettably, too many legislators overlook or ignore these public-policy – and public-safety – benefits of new housing. Instead of taking credit for these advances in energy efficiency, water conservation, fire-safety and other areas – and using them for modeling public policies for wider application in California – the tendency is to pile more and more requirements on new homes.

Why? It couldn't be to dramatically improve the existing benefits that new housing provides. Not only is there not much more to give, new housing represents only a tiny fraction of the existing housing stock – less than 1%. Some speculate that lawmakers may be driven by media spotlights. Others figure that winning the adulation of groups who frown on new housing is the motivation. Still others wonder if it's just simply easier to pass these new obligations on to a narrow constituency and avoid taxing the general public.

Whatever the motivation, lawmakers need to better comprehend the potentially destructive impacts these ideas have on housing. With that understanding ought to follow the decision to do no (more) harm to housing.

California Building Industry Association

1215 K Street, Suite 1200
Sacramento, California 95814
916-443-7933
fax 916-443-1960
www.cbia.org

To view the documents referred to in this publication, please refer to the CBIA Web site at **www.cbia.org**.

**Robert Rivinius, CAE**
Chief Executive Officer
Extension 333
rrivinius@cbia.org

**Tim Coyle**
Senior Vice President
Extension 307
tcoyle@cbia.org

**Richard Lyon**
Senior Legislative Advocate
Extension 303
rlyon@cbia.org

**Robert Raymer, P.E.**
Technical Director
Extension 322
rraymer@cbia.org

**Steve Cruz**
Legislative Advocate
Extension 302
scruz@cbia.org

**Allison Barnett**
Legislative Advocate
Extension 313
abarnett@cbia.org

**Nick Cammarota**
General Counsel
Extension 304
ncammarota@cbia.org

**Jason Bryant**
Political Affairs Director
Extension 338
jbryant@cbia.org

**Julie Paredes**
Legislative Assistant
Extension 351
jparedes@cbia.org

**Mike Ross**
Legislative Assistant
Extension 319
mross@cbia.org