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OUR NATION OF BUILDERS: HOME ECONOMICS

HEARING

BEFORE THE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

OF THE

COMMITTEE ON ENERGY AND COMMERCE

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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[1] Mr. Judson did not respond to submitted questions for the record.
[2] Mr. Shaw did not respond to submitted questions for the record.
[3] Ms. Biddle did not respond to submitted questions for the record.

OUR NATION OF BUILDERS: HOME ECONOMICS

TUESDAY, JUNE 4, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 2123 of the Rayburn House Office Building, Hon. Lee Terry (chairman of the subcommittee) presiding.

Members present: Representatives Terry, Lance, Blackburn, Guthrie, Olson, McKinley, Bilirakis, Johnson, Long, Schakowsky, McNerney, Welch and Matheson.

Staff present: Kirby Howard, Legislative Clerk; Nick Magallanes, Policy Coordinator, Commerce, Manufacturing, and Trade; Brian McCullough, Senior Professional Staff Member, Commerce, Manufacturing, and Trade; Gib Mullan, Chief Counsel, Commerce, Manufacturing, and Trade; Andrew Powaleny, Deputy Press Secretary; Shannon Weinberg Taylor, Counsel, Commerce, Manufacturing, and Trade; Michelle Ash, Democratic Chief Counsel; and Will Wallace, Democratic Professional Staff Member.

OPENING STATEMENT OF HON. LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. Good morning, and welcome to our hearing. I am pleased to say that this is our fourth hearing in our "Nation of Builders" series and one that I have been looking forward to, particularly because I get to welcome somebody from my hometown, and frankly, a one-time neighbor, and that is George Kubat, who is the CEO of Phillips Manufacturing, a company that I am proud to have headquartered in my district, and particular in south Omaha, a notorious—I shouldn't say notorious, but a well-known blue-collar area of my great city.

Thus far in Congress, we have heard from the CEOs of the largest steel companies in the United States, representatives of the world's largest auto manufacturing companies, and even had a showcase displaying the wide range of products being manufactured in each of our districts on this committee panel. And today we are welcoming our home builders and manufacturers of products that are included in home building.

Of course, these industries are pretty different. A company like Ford, who testified at our hearing on auto manufacturing, is markedly different in many ways from my constituent on today's panel,

Phillips Manufacturing. One makes cars, and one makes corner beads used for drywall finishing. Clearly, their products are different. Their companies are different sizes and serve different market sectors. Yet their message to our subcommittee is quite similar. Both the President of the Americas at Ford and Mr. Kubat from Phillips put three of the same issues in their top four areas for Congress to focus on. Now, I don't think these two business leaders know each other, so I doubt they worked in concert, but they were remarkably consistent when it came to identifying places where Congress should focus and policy areas in need of improvement. They say we should pay attention to regulatory efficiency and certainty, tax reform, and worker education and training.

Not surprisingly, the similarity between testimonies does not stop here. We have had over 35 witnesses testify at our manufacturing hearings and many of the themes and issues have been recurrent. It is time we start listening to these folks and what they are telling us, and start looking at ways we can take their advice, address their concerns and help them help Americans get back to work.

I believe that the best way to grow our economy is by nurturing an environment where organic job growth is possible, and there is nothing more organic than in home multi-housing and single-family construction. According to the National Association of Manufacturers, U.S. manufacturing jobs pay around $77,000 a year, and we must find ways to facilitate growth in these domestic industries, and I hope today as we hear from the home building industry we can help create the organic environment they need to stay competitive and create good-paying jobs, all while building affordable housing for Americans. This is a nonpartisan issue. Not only will we create this environment, foster job creation, but it will also help our manufacturers build the next generation of energy efficient, more affordable and safer homes.

I want to thank again our witnesses for being here today.

[The prepared statement of Mr. Terry follows:]

PREPARED STATEMENT OF HON. LEE TERRY

Good morning, and welcome to our hearing today on the national impact of the homebuilding industry. I am pleased to say that this is our fourth hearing in our "Nation of Builders" series and one that I have been looking forward to-particularly because I get to welcome George Kubat, the CEO of Phillips Manufacturing, a company I am proud to have headquartered in my district.

Thus far this Congress, we have heard from the CEOs of the largest steel companies in the U.S. and representatives of the world's largest auto manufacturing companies, and even had a showcase displaying the wide range of products being manufactured in each district represented on this subcommittee panel. And today we are welcoming homebuilders and manufacturers of products that are included in homebuilding.

Of course, these industries are pretty different. A company like Ford, who testified at our hearing on auto manufacturing, is markedly different in many ways from my constituent on today's panel, Phillips manufacturing. One makes cars, and one makes corner bead used for drywall finishing. Clearly, their products are different. Their companies are different sizes and serve different market sectors.

Yet their message to our subcommittee is quite similar. Both the President for the Americas at Ford and Mr. Kubat from Phillips put three of the same issues within their "top four" areas for Congress to focus on. Now, I don't think these two business leaders know each other, so I doubt they worked in concert, but they were remarkably consistent when it came to identifying places where Congress should focus and policy areas in need of improvement. They say we should pay attention

to regulatory efficiency and certainty; tax reform; and worker education and training.

Not surprisingly, the similarity between testimonies does not stop here. We have had over 35 witnesses testify at our manufacturing hearings and many of the themes and issues have been recurrent.

It's time we start listening to what these folks are telling us, and start looking at ways we can take their advice, address their concerns and help them help Americans get back to work.

I believe that the best way to grow our economy is by nurturing an environment where organic job growth is possible. We have repeatedly heard about the good jobs manufacturing provides. According to the National Association of Manufacturers, U.S. manufacturing jobs pay around $77,000 jobs a year. Let's find ways to facilitate growth in these domestic industries.

I hope we will hear today from the homebuilding industry how we can help create the organic environment they need to keep building and creating good paying jobs while building affordable housing for Americans. This is a nonpartisan issue. Not only will creating this environment foster job creation, but it will also help manufacturers to build the next generation of more energy efficient, more affordable and safer homes.

I would like to thank all the witnesses for appearing today and everyone for attending.

# # #

Mr. TERRY. Marsha, do you want a minute and a half? I will yield to the gentlelady from Tennessee.

Mrs. BLACKBURN. Thank you, Mr. Chairman, for calling the hearing today, and I want to take my time and welcome Curt Stevens, who is the CEO of Louisiana-Pacific Corporation. It is headquartered in Nashville, Tennessee, and we are proud to have it there. LP is not only one of the backbones of the housing industry but they are a leader in quality-engineered wood building products including OSB, structural framing products and exterior siding for use in residential, industrial and light commercial construction. As we talk about jobs in this committee, it is important to note that they employ 3,900 people and operate 25 mills located in the United States, Canada, Chile and Brazil. LP is striving not only to be seen as a respected manufacturer of building products but is creating jobs in local communities across the country. These are forest owners, truckers, loggers, suppliers, and we want to make certain that we keep that jobs growth environment in place.

So Mr. Stevens, we welcome you and I look forward to your testimony, and Mr. Chairman, I yield back.

Mr. TERRY. Thank you, and I will yield back the 8 seconds and recognize the gentlelady from Illinois, our ranking member, Jan Schakowsky.

OPENING STATEMENT OF HON. JANICE D. SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you, Mr. Chairman, for yielding and for holding today's very important hearing on the home building industry.

In Chicago, where I am from, home sale prices dropped dramatically following the Great Recession 36 percent below pre-recession level. Housing in Chicago is rebounding from that low point. The median sale price for homes is 18 percent higher than last year, according to Trulia. However, the New York Times Magazine this

past weekend highlighted for many areas of Chicago the foreclosure crisis is still causing pain and we need to develop policies to support the rehabilitation of those neighborhoods.

The home building industry has historically been a good indicator of strength of our economy, and I am pleased that the industry continues to recover from the recession. The industry supports almost 600,000 jobs nationwide, and with housing starts up 13 percent over the same period last year, I am hopeful that those job numbers are going to continue to grow.

As we seek ways to foster growth in the home building industry, it is important that we do so in a thoughtful and forward-looking way. The topic of energy efficiency will be a major subject of today's hearing, and for good reason. Energy is one of the three largest costs of home ownership. Incentivizing upfront investments in energy-efficient building materials, electronics and other products can save families thousands of dollars in the long run while also reducing pollution and improving public health. I look forward to hearing from our witnesses about how to motivate those investments in the development phase for new homes.

And while we are on the subject of smart home design, I want to mention another important priority for me as it comes to housing. As we continue our housing recovery and our population ages and our military veterans return from the battlefield with severe physical disabilities, there is an increased need for accessible housing. The cost to renovate existing housing to make it accessible for those with physical disabilities can be tens of thousands of dollars, often forcing residents to move or become increasingly isolated or go to a nursing home, but if accessibility features are incorporated into housing at the time of construction, the additional cost can be less than $600. So next week I plan to reintroduce the Inclusive Home Design Act, legislation I have sponsored for more than a decade, really at the behest of the disability community. My bill would require homes built with federal dollars to meet inclusive design standards including at least one accessible or zero-step entrance into the home, doorways wide enough for a wheelchair on the main level, and let us face it, there is no magic to the size of a door width if you do it initially as opposed to having to rehab it, one wheelchair-accessible bathroom, light switches and thermostats at reachable heights from a wheelchair. This legislation is a commonsense approach to addressing the rising demand for inclusive housing. It is another case in which a low-cost investment early can prevent incredibly burdensome renovations later on. I have to tell you, I have made attempts in the past to deal with the home building industry, I hope that we can some of us have a conversation about this and that you would consider support for this commonsense legislation.

I look forward to hearing from our witnesses about the state of home building, its impact on the overall economy, the increase in energy-efficient home design, and how we can incentivize further job growth in the industry. I yield back.

Mr. TERRY. The gentlelady yields back. The gentleman from Texas, Mr. Olson, is recognized for 2 minutes.

Mr. OLSON. I thank the chair, and I am thrilled to introduce the President of the Texas Association of Builders, the President and

CEO of Tilson Homes, and my friend, Eddie Martin. Eddie has a distinction that I will never have: he is a native Texan. Born in Pecos, Texas, he is a West Texas man. He got his bachelor's degree from Abilene Christian University, his law degree from the University of Houston, and Eddie and his wife, Brenda, have been married for 33 years. Last September, Eddie and Brenda took another full-time job spoiling their first grandchild, Kate. So welcome, Eddie. Thank you for coming. I look forward to your testimony. I yield back.

Mr. TERRY. Is there anybody else that wishes to be recognized for a statement? Seeing none, this should be written down in congressional history as the shortest opening statements.

With that, we will start our testimony. As I mentioned, we are going to go from Mr. Judson to our right. At 5 minutes, if you are still talking, you will hear some progressively strengthening in sound tapping by the gavel. There are some lights there. Green, yellow is the last minute, so you should start when you see it turn yellow, start wrapping up.

So Mr. Judson, you are now recognized for 5 minutes.

STATEMENTS OF RICK JUDSON, OWNER, EVERGREEN DEVELOPMENT GROUP, AND CHAIRMAN, NATIONAL ASSOCIATION OF HOME BUILDERS; CURT STEVENS, CEO, LOUISIANA-PACIFIC CORPORATION; GEORGE KUBAT, PRESIDENT AND CEO, PHILLIPS MANUFACTURING COMPANY; EDWARD MARTIN, PRESIDENT AND CEO, TILSON HOME CORPORATION; THOMAS S. BOZZUTO, CHAIRMAN AND CEO, BOZZUTO GROUP, AND CHAIRMAN, NATIONAL MULTI HOUSING COUNCIL, ON BEHALF OF NATIONAL APARTMENT ASSOCIATION; AND STEVEN NADEL, EXECUTIVE DIRECTOR, AMERICAN COUNCIL FOR ENERGY-EFFICIENT ECONOMY

STATEMENT OF RICK JUDSON

Mr. JUDSON. Thank you. On behalf of the more than 140,000 members of the National Association of Home Builders, I appreciate the opportunity to testify before you today. My name is Rick Judson. I am a home builder and developer from Charlotte, North Carolina, and Chairman of the Board of the National Association of Home Builders.

Home building is dominated by small firms, and our membership reflects just that. Approximately 70 percent of the NAHB members build 10 or fewer homes per year, and their median revenue is under a million dollars. Collectively, however, we represent a massive industry employing literally millions of people and producing about 17 percent of the Nation's gross domestic product. The recession, of course, has taken a heavy toll. Total employment in home building is down almost 40 percent from our peak of 2006 and it is down to under 2.1 million employees. Last year, the industry only constructed 534,000 homes. For a comparison, to keep up with population growth and replacement needs, we should be building about 1.4 million homes per year.

There is, however, reason for optimism. Over the last 2 years, the housing market has started to heal and home building is beginning to pick up. Our growth creates jobs, something you have all

acknowledged. More than three full-time jobs are generated by the construction of each single-family home. Similarly, 100 new multi-family units will result in 116 new jobs. With just a normal production cycle, 2 million more job opportunities will be available to this country. Housing also provides a key tax base for State and local governments. Homeowners paid approximately $3 billion in property taxes last year.

However, economic and policy headwinds are beginning to slow some recovery. For example, in response to the prolonged downturn, many building material companies cut back on production and capacity. Now that housing is coming back, the lack of product availability is resulting in rising costs. Pricing for lumber, wood products accounts for about 15 percent of the cost in new construction. OSB products jumped over 80 percent in the past year. Framing lumber is up 32 percent. Gypsum products—drywall, etc.—are up about 40 percent. This drives up the price for new homes, which particularly is tough on builders of affordable housing. It doesn't take much of an effect to put people out of the ability to purchase a home. About 240,000 households will be priced out with every $1,000 increment in the cost of housing. Policies that streamline permitting, that attract investment into domestic mining, and that encourage multi-use forest management would all help in the pricing pressures that seem to ride this cyclical ride.

We are also concerned with the trends in energy code development, to mandate certain or almost proprietary products or techniques. This significantly limits the choice for consumers and does not allow for the performance-driven value engineering that we would prefer. Further efforts to push energy efficiency without real consideration of cost is a huge problem. I am a certified green professional builder, and I understand the value of energy efficiency and its importance to the consumer, but even with those savings, there are significant upfront costs being incurred in the home. We are particularly concerned about the costs imposed in one of the most recent energy codes. It will take the typical homeowner about 13 years to break even on that investment. In some States like Nebraska, it would be almost 17 years. Traditionally, the consumer is expecting and willing to pay for that capital investment that would be recovered in 7 or 8 years, so keep that in mind. These long payback periods will ultimately hurt housing affordability, and ironically, push lower-income owners into cheaper, older, less efficient homes.

Possibly the most significant problem facing our industry is the lack of construction lending. NAHB strongly supports two bills, House Resolution 1255 and Senate Resolution 1002, that would require banking regulators to issue new guidance specifically addressing the key regulatory areas that have significantly hampered the flow of credit to our Nation's home builders.

There still is work to be done before we see a healthy housing market, but again, as I mentioned, there is reason to be optimistic. We have 2.1 million households that have not formed due to the economy. These are college students moving back in with their parents, like mine. There are people taking on extra roommates. These individuals represent significant demand in the near term for both rental and purchasing of homes. Forecasts predict that housing

starts over the next year will nearly double that of 2009. Future growth, if not impeded by the issues I discussed, will create jobs, will enhance small business, will create tax incentives for local and federal government.

We are industry that is ready to get back to work, and we would appreciate your assistance in assuring the recovery and our ability to contribute to society. Thank you.

[The prepared statement of Mr. Judson follows:]



Testimony of Rick Judson
Chairman of the Board of Directors, NAHB
On Behalf of the
National Association of Home Builders

Before the
House Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing, and Trade

Hearing on
Our Nation of Builders: Home Economics
Tuesday, June 4, 2013

Introduction

Chairman Terry, Ranking Member Schakowsky, members of the subcommittee, on behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I appreciate the opportunity to testify today. My name is Rick Judson, and I am a homebuilder and developer from Charlotte, North Carolina, and NAHB's 2013 Chairman of the Board.

NAHB members are involved in the home building, remodeling, multifamily construction, property management, subcontracting and light commercial construction industries. We are affiliated with more than 800 state and local home builder associations throughout the country, and since the association's inception in 1942, NAHB's primary goal has been to ensure that housing is a national priority and that all Americans have access to safe, decent and affordable housing, whether they choose to buy or rent a home.

The State of Housing

The nation's housing markets are beginning to see widespread consistent, sustainable growth. To track this level of improvement, NAHB created the Improving Markets Index (IMI), a conservative listing of markets showing long-term improvement in employment, home prices, and building permits. As of May 2013, the IMI listed 258 metros areas as improving, with at least one in each state and now covering over 70 percent of all markets.

However, economic and policy headwinds remain that have slowed builders' ability to build and prospective home buyers' ability to make a home purchase. If these headwinds are reduced, then housing's contribution to economic growth would be larger and the overall economic recovery more robust.

The home building industry is uniquely large and decentralized. As of April 2013, total employment in home building stands at 2.132 million individuals; broken down as 586,000 builders and 1.545 million residential specialty trade contractors. These numbers are down 1.318 million individuals from peak employment in April 2006, a 38% decline. These workers and entrepreneurs are spread out across the nation.

Like most of the construction sector, home building is dominated by small firms. The median gross receipts for NAHB members is just under $1 million. Approximately 80 percent of our builders build 10 or fewer homes per year and employ 10 or fewer employees.

Collectively, however, they represent a massive industry, employing millions of people and generating 17% of our nation's gross domestic product. Housing contributes to the national economy in two basic ways: through private residential investment and consumption spending on housing services. Historically, residential investment has averaged roughly 5% of GDP while housing services have averaged between 12% and 13%, for a combined 17% to 18% of GDP. These shares tend to vary over the business cycle.

The Great Recession and its lingering impacts significantly reduced the production of housing. Due to these declines, the industry is operating well below historic norms. In order to meet the

housing needs of a growing population and replacement requirements of older housing stock, the industry is expected to be building about 1.4 million new single-family homes each year and more than 1.7 million total housing units. In comparison, in 2012, home builders constructed only 534,000 single family homes and 247,000 multifamily units.

Nonetheless, over the last two years, home building has experienced significant growth. In fact, since the last quarter of 2011, advances in home building have been responsible for 20% of total economic expansion. And this growth creates jobs. According to NAHB estimates, 305 full-time equivalent (FTE) jobs, and $8.9 million in tax revenue are generated by the construction of 100 single family homes. Similarly, 100 new multifamily units results in 116 FTE jobs and $3.3 million in tax revenue. Further, the building and improvement of the housing stock of a local area provides a tax base for state and local governments. While typically not included in federal analysis, the taxes attributable to housing are substantial. According to Census data and NAHB calculations, property taxes attributable to housing totaled approximately $300 billion in 2012.

The rise and fall of housing activity has been the dominant economic factor of the last decade. Housing typically leads the economy out of recession, although in the period after the Great Recession, housing has not played that role. There are many reasons why the recovery has been slower than past history would suggest.

Regulatory burdens, increased construction costs and particularly the lack of available financing have hindered a healthy recovery and impending tax reform has significant upside and downside risks for the industry.

Building Materials

As the housing recovery continues, rising costs of building materials are decreasing affordability and preventing builders from meeting the demand for new homes. In response to the prolonged housing downturn, many building materials companies cut back on production and capacity. Over the past year, as residential construction showed signs of a sustained recovery, certain materials prices increased.

For the industry, lumber has always been a volatile-priced product. Such wide price swings in lumber, over a short period of time, can have a direct effect on the affordability of homes.

NAHB research shows lumber and wood products account for 15% of the cost of construction for a single family house. The prices of these materials have soared as the housing recovery gained momentum in 2012. For example, prices of oriented strand board (OSB), an engineered wood product, have grown 80% over the last year, and framing lumber prices increased by 32% to a recent peak over a six month period.

Gypsum prices also continue to be a main driver for residential construction cost increases in 2012, rising 39% above the most recent low in February of 2011. Approximately 90% of gypsum

is used in the manufacture of wallboard for residential and non-residential building applications. A further 5% is used as an additive in cement production.

The rising cost of inputs drives up the cost of construction, which in turn, increases the price of a new home. The impact is of particular concern in the affordable housing sector where relatively small price increases can have an immediate impact on low- to moderate-income home buyers who are more susceptible to being priced out of the market.

As noted earlier, home builders are generally organized as small businesses. Many of these small-volume builders and subcontractors do not have the capital to finance the up-front costs associated with input price volatility, and consequently, increases in building material costs lead to fewer homes constructed.

Residential construction has finally turned the corner and is contributing to, rather than subtracting from, Gross Domestic Product growth and an improving labor market. Any effort to ease escalating price pressures, help rebuild the supply chain, and support a continuing housing recovery is effective economic policy. Policies that streamline permitting processes, attract investment in domestic mining of critical minerals, and encourage multi-use forest management practices for national forests are meaningful steps forward. It is important for Congress to take a deep look at these issues and determine what actions can be taken in an environmentally-friendly way.

Building Energy Codes

Building energy codes, such as the International Energy Conservation Code (IECC) are used across the country to establish minimum standards for building energy efficiency. The codes are developed by private entities, but are then adopted by state and local governments. The Department of Energy (DOE) participates in this process. While they do not develop the codes themselves, they are authorized to provide "technical assistance." NAHB has serious concerns that this has been broadly interpreted to allow them to offer support or opposition for certain proposals.

Over the last few years, the industry has seen some negative trends in code development leading to less choice and decreased value to the consumer. First, there has been a move towards using a more prescriptive approach – mandating the use of certain products or techniques. Unfortunately, some businesses have realized that by inserting specific products into the IECC, they can require the use of their products and increase their profits. Instead of allowing the builder to make decisions in the interest of the buyer – based on personal preferences, cost, behavior, etc. – the IECC, in some instances, dictates how to build and what products to use.

DOE has supported such efforts in the past, including measures to give preferential treatment to foam sheathing over wood products. The Department also sought to delete measures aimed to promote flexibility in the IECC – one such provision allowed builders to trade off energy

measures - wall insulation, for example, provided they installed more efficient mechanical equipment. The same net energy use would be maintained, but the builder would have more design and construction options. Unfortunately the Department was successful and this was removed from the code in 2009.

Another unfortunate trend is the attempt to mandate further energy use reductions, without real consideration of economic costs. I am a certified green professional – I know how to build green homes. I know how valuable the energy savings are to the consumer, but even with these savings, there is a significant, upfront cost.

According to an NAHB market report, "What Home Buyers Really Want," buyers are willing to pay more for lower utility costs, but according the data, buyers need a 14 percent return on investment, which corresponds to a 7-year payback period. The latest version of the IECC had such significant cost increases that it would take the average family 13.3 years just to break even on required mandates. In fact, for most of Nebraska, the payback period is 17.3 years.

Please keep in mind that the energy code is not an "option" for buyers looking for a more efficient home. Rather, this is a requirement for every single home in that jurisdiction – including low-income housing and homes for first-time homebuyers. The energy code is a baseline for all homes. If we want to seek further efficiency gains, incentive programs, green building rating systems, and other programs can be used to encourage homeowners to make those decisions. Energy efficiency tax credits, such as the section 25C and 25D credits, stand out as examples of this better approach. In contrast, increasing housing costs for all homebuyers will have the unintended consequence of reducing housing affordability.

Increases to the cost of doing business, raise home prices and impede growth in the industry. If the price of a home increases by $1,000, either through cost increases for materials or due to regulations, 246,000 households are priced out of mortgage eligibility for a 30 year, fixed-rate mortgage with a 5% interest rate. It is important, not only to the home building industry, but the entire economy as well, to minimize any barriers to building.

Housing Production Credit Crisis

One key factor contributing to housing's current depressed state has been continued lack of Acquisition, Development and Construction (AD&C) lending by the banking community. According to FDIC data, the outstanding stock of AD&C loans is down 80% since 2007, despite recent increases in underlying demand for new construction.

The unwillingness of banks to provide financing to home builders has stymied the recovery of our industry and slowed the overall economic recovery. Our members have spent years caught in a debate between banks and federal regulators over who is to blame for the lack of construction lending to the home building sector. Our members hear one story from their banks and another from federal regulators. There is no clear understanding as to whether federal banking regulators are pressuring the banks not to lend; whether the local field

examiners are 'acting rogue' against the guidance of the federal regulators in D.C. or if banking institutions are overhauling and downsizing portfolios independent of regulator/examiner pressure.

Home builders continue to report that lenders are unwilling to extend new AD&C credit or to modify outstanding AD&C loans in order to provide more time for builders and developers to complete projects and pay off loans. Banks themselves often cite regulatory requirements or examiner pressure as reasons for them to shrink their AD&C loan portfolios. While federal banking regulators insist they are not encouraging banking institutions to stop making loans or to indiscriminately liquidate outstanding loans, reports from NAHB members in a number of different geographies strongly indicate that bank examiners in the field have adopted a significantly more aggressive and negative posture toward AD&C loans.

Since mid-2008, NAHB's *Survey of Acquisition, Development and Construction Financing* has shown problems with AD&C credit availability. Builders have consistently reported that the most common reason their banks give them for not extending new credit for viable projects is pressure from regulators. Builders also report that banks are tightening terms on outstanding, often performing, construction and development loans by demanding additional assets as collateral, requiring partial pay-downs based on reappraisals, and refusing to allow additional draws. Again, banks cite these tightening actions are due to pressure from regulators.

NAHB has presented federal banking regulators with specific instances of credit restrictions, provided data showing no difference in credit access based on market conditions, and requested specific changes to current regulatory guidance. To date, these efforts have not produced any tangible results. It is clear that further action is needed to get credit flowing again to home builders. Without such action, the housing recovery will continue to limp along dragging down our nation's ability to recover from the current economic downturn.

With the introduction of legislation in the House and Senate to address the regulatory barriers to construction lending, the profile of this lending crisis has been raised significantly in Congress. NAHB strongly supports H.R. 1255, the *Home Construction Lending Regulatory Improvement Act of 2013*, introduced by Representatives Gary Miller (R-CA) and Carolyn McCarthy (D-NY), and S. 1002, the *Home Building Lending Improvement Act of 2013*, introduced by Senators Robert Menendez (D-NJ) and Johnny Isakson (R-GA). Both of these bills would require banking regulators to issue new guidance specifically addressing key regulatory areas that have significantly hampered the flow of credit to our nation's home builders.

In short, NAHB strongly supports congressional action to help restore the flow of credit to our nation's home builders. By addressing the regulatory barriers to sound AD&C lending, Congress can help put Americans back to work and strengthen our communities by increasing the property tax base that supports local schools, teachers, police, firefighters and public services.

Tax Reform

The idea of a simpler, less complex tax code has great appeal to NAHB's membership. At the same time, our industry remembers painful lessons from the *Tax Reform Act of 1986*, when the commercial and multifamily sectors experienced a downturn due to unintended consequences. For this reason we urge Congress to be cautious and thoughtful when it comes to housing and tax reform.

NAHB also defends housing choice. While homeownership offers communities and households numerous benefits, it is important to recognize that for every family there is a time to rent and a time to own a home. For these reasons, NAHB supports policies that promote a healthy rental housing sector, including support for the Low-Income Housing Tax Credit, which was created as part of the *Tax Reform Act of 1986* and has become a successful public-private partnership that assists in the development of affordable housing.

Homeownership remains the major path to wealth for the middle class. We believe that any policy change that makes it harder to buy a home, or delays the purchase of the home until an older age, will have significant long-term impacts on household wealth accumulation and the makeup of the middle class as a whole. As most homeowners benefit from the mortgage interest deduction, and most of that benefit flows to younger, middle class families, weakening the deduction and making homeownership less accessible is likely to diminish the financial success of future generations.

The use of debt is also critical for the supply side of the housing market. The small businesses in the residential construction sector depend on debt to finance business operations, make payrolls, and build or improve homes. Approximately 80% of NAHB's membership consists of businesses organized as non C-Corporation entities (sole proprietorships, partnerships, LLCs and S Corporations). And, few of the 20% of members organized as C Corporations are publicly-traded corporations.

For such small firms, equity financing from Wall Street is not an option. The average NAHB member, be they a land developer, remodeler, or home builder, must seek business financing in the form of debt from banks – AD&C lending as noted above. It is typical with such loans for small businesses to offer up personal guarantees (effectively using personal assets as collateral) in order to attract capital to small business. For these reasons, the tax treatment of debt and the prospects for a recovery in housing, and the economy as a whole, are directly related.

NAHB supports the goal of many in Congress to reform the tax code. How housing is dealt with in tax reform will shape the economy moving forward. Housing can be a key engine for job growth that this country needs. NAHB believes that lower rates, simplification, and a fair system will spur economic growth and increase competitiveness. And these economic outcomes are good for housing, because housing not only equals jobs, but jobs means more demand for housing. To foster that virtuous cycle for economic growth, we believe strongly that you must look upon changing the homeownership tax incentives with extreme caution.

Conclusion

While there is still work to do before we see a healthy housing market back at historic norms, I would like to conclude by looking ahead to a hopeful future for our industry. Because of the down turn, there is considerable pent-up housing demand. Based on NAHB estimates, approximately 2.1 million potential homes are needed to account for newly developed households that have delayed buying due to poor economic conditions. When this pent-up housing demand is unlocked, these future renters and homebuyers will need additional housing to start families and invest in their neighborhoods.

Perhaps even more telling are the attitudes of builders themselves. NAHB conducts monthly and quarterly surveys of the residential construction sector that provide a market pulse of current conditions. The most prominent is the monthly NAHB/Wells Fargo Housing Market Index (HMI), which reports builder confidence within the single-family market. While this number has fluctuated month to month, our most recent May numbers show an increase to 44, significantly higher than the low of 8 set during January 2009.

This rise in confidence is consistent with the rise in overall housing starts. In 2009, total housing starts numbered only 554,000. NAHB forecasts that housing starts for 2013 will number just about 1 million. The industry is only about half back to the historic norms necessary to meet the housing needs of a growing population. This future growth, if not impeded by the issues discussed in this testimony, will create jobs, increase small business successes, and raise tax revenue for state, local and federal governments.

Thank you for your time. We look forward to working with the Subcommittee in the future.

Mr. TERRY. Thank you, Mr. Judson.
Now, Mr. Stevens, you are recognized for 5 minutes.

STATEMENT OF CURT STEVENS

Mr. STEVENS. Thank you. My name is Curt Stevens. I am the CEO of Louisiana-Pacific Corporation. This year, Louisiana-Pacific celebrates our 40th anniversary. Over the years, we have managed millions of acres of forestland, operated hundreds of wood-products mills, and sold almost every building product that can be made from wood.

A little more than a decade ago, we sold our forestlands and narrowed our focus to concentrate on what we do best: manufacturing and selling building products. Today we produce the wood products that build the roofs, walls and floors of single- and multi-family homes across the country.

More than half of LP's sales come from products made in 15 manufacturing sites spread across 13 States, from northern California to Maine to Alabama. We are headquartered in Nashville, Tennessee, and also operate administrative sites in Oregon, Washington and Idaho. We operate another 10 plants in Canada, Chile and Brazil.

LP employs 2,630 people in the United States. Twenty-two hundred of these folks are in our production facilities located in rural areas close to our wood supply. These are communities where jobs can be scarce, and LP is often the major employer. Besides these LP jobs, for every person LP directly employs, about three additional jobs are created in these communities for loggers, truckers, suppliers and others. In addition, LP provides income to thousands of local family forest owners by purchasing the timber that they grow.

Even during the market recession, the wood products industry operated almost 1,000 manufacturing facilities across America, providing close to 400,000 jobs and a payroll of $16.5 billion, and this was in 2011. Over the years, LP has been through many up-and-down cycles in the housing market but we have never seen a dip as severe as the recent housing downturn from 2007 to 2012. LP along with others in our industry was forced to shut our mills, reduce hours and shifts, and lay off workers.

The good news is that in the last year, housing starts are slowly but consistently improving. We are cautiously optimistic about the new few years. The signs of continued growth are there, but we still face economic headwinds and regulatory burdens that could slow growth and income and jobs. It is in this context that I would like to offer perspectives on several priorities to ensure that this fundamental American industry continues to strength and remain competitive.

Environmental stewardship and compliance is one of LP's core values, and the wood products industry has met many costly regulatory challenges over the years. The industry needs a reasonable and sustainable regulatory path based in quality science. For example, the Wood Maximal Achievable Control Technology, or MACT, or will cost LP upwards of $13 million.

The wood products industry is a leading user of wood fiber and producer and user of carbon-neutral renewable biomass energy to

run our plants. Mandates and incentives including the Federal Renewable Electricity Standard, climate policies and the Renewable Fuel Standard promote the use of biomass for energy. Policymakers should be mindful of the growing demand that this created in the United States and internationally for biomass and the impact it could have on the mature wood products industry that rely on this fiber both as our raw material and a means for energy creation at our facilities.

Additionally, wood products face a threat from the U.S. Department of Energy-supported 2012 International Energy Conservation Code, the IECC. Despite the ability of either product to contribute to equivalent thermal performance, the 2012 version of the IECC unjustifiably gives preferential treatment to one product—foam sheathing—over structural wood panels such as OSB. That preference could result in a loss of 20 percent of the structural wood market and thousands of jobs.

As an international company, comprehensive tax reform, though not easy, is long overdue. At LP, these are real issues that affect daily decisions about where we make our products and hire our people. For example, Canada is one of many OECD member countries that have lowered corporate rates during the past two decades while U.S. corporate rates have remained nearly stagnant.

Finally, LP supports immigration reform that helps ensure that we can find qualified labor to operate our mills, plant trees for sustainable forests that supply raw materials, and to contract the homes our products help to make.

In summary, Louisiana-Pacific and the wood products industry play an important role in the economy of our Nation and the building of America. We are on the upswing, but we need your help in enacting and supporting policies to ensure that we have reasonable, science-based environmental regulation, energy regulations and codes that maintain a level playing field and fair competition, corporate tax return, and policies to address labor needs and skills gaps. We are proud to manufacture the materials that literally build America.

Thank you for the opportunity to speak to you at this hearing.

[The prepared statement of Mr. Stevens follows:]

Testimony of

Curt Stevens

CEO of Louisiana-Pacific Corporation

before the House Energy and Commerce

Subcommittee on Commerce, Manufacturing, and Trade

Tuesday, June 4, 2013

Good morning. Thank you Chairman Terry, Ranking Member Schakowsky, and members of the subcommittee for this opportunity to share perspectives from our company and on behalf of the American wood products industry. We are proud to manufacture the materials that *literally* build America.

My name is Curt Stevens. I am the CEO of Louisiana-Pacific Corporation, known to our customers and employees as LP Building Products or LP. I have been CEO since last year, after spending 15 years as the company's Chief Financial Officer. Before joining LP, I had served since 1983 as the COO/CFO for Planar Systems (1983), a leading American manufacturer of flat panel displays

This year, Louisiana-Pacific celebrates our 40th anniversary. Over the years, we have managed millions of acres of forest land, operated hundreds of wood products mills and sold almost every building product that can be made from wood – from solid-sawn lumber to oriented strand board, plywood, exterior siding, particleboard, windows, and decking. A little more than a decade ago, we sold our forest lands and narrowed our focus to concentrate on what we do best – manufacturing and selling building products.

Today, we produce the wood products that build the roofs, walls, and floors of single and multi-family homes across the country. We pioneered and are the world's largest producer of Oriented Strand Board, or OSB, a structural product made of wood strands and resin. It is widely used as a substitute for plywood. Our second largest business makes engineered wood siding for homes, non-residential structures, and light industrial construction. We also make structural engineered wood products including I-joists, laminated veneer lumber, and laminated strand lumber.

The company operates 25 plants in the United States, Canada, Chile, and Brazil. LP's net sales in 2012 were $1.7 billion and we are on a pace to exceed $2.0 billion in sales as a result of the housing recovery.

More than half of these sales come from products made in fifteen manufacturing sites spread across thirteen states-- from Northern California to Maine to Alabama. We also operate administrative sites in Tennessee, Oregon, Washington and Idaho, and have a sales force spread across the U.S.

LP employs 2,630 people in the United States. 2,200 of these folks work in our production facilities, located in rural areas close to our wood supply. These are communities where jobs can be scarce and LP is often the major employer. We provide good, family-wage manufacturing jobs with full benefits that pay an average of $46,000 a year. Besides these LP jobs, for every person LP directly employs, about three additional jobs are created in these communities for loggers, truckers, suppliers, and others. In addition, LP provides income to thousands of local family forest owners by purchasing the timber they grow.

As an industry, wood products companies operated almost one thousand manufacturing facilities across America, providing close to 400,000 jobs with a payroll of $16.5 billion in 2011 –and that was during the market recession. The value of industry shipments in that year was $239 billion dollars.

Over the years, LP has been through many up and down cycles in the housing market. But we have never seen a dip as severe as the recent housing downturn from 2007 to 2012. LP, along with others in our industry, was forced to shutter mills, reduce hours and shifts, and lay-off workers. Just months after it was opened in 2008, LP had to close its brand-new, state-of-the art OSB mill in Lower Alabama, built with an investment of more than $240 million and providing 150 direct new jobs.

The good news is that over the last year housing starts are slowly, but consistently improving. Things are starting to turn around for the wood products industry and LP. LP recently re-started that new OSB mill in Alabama, which now employs 133 people. We have also begun to add back shifts and rehire people at other sites– but we are still not at pre-recession levels.

In the first quarter of 2013, after many years of losing money, we reported our best results in seven years.

We are cautiously optimistic about the next few years. The signs of continued growth are there, but we still face economic headwinds and regulatory burdens that could slow growth in income and jobs.

It is in this context that I would like to offer perspectives on several priorities to ensure that this fundamental American industry continues to strengthen and remain competitive as we emerge from a very depressed housing market.

Environmental regulation must be practical, achievable, and based in good science

Environmental stewardship and compliance is one of LP's core values, and incorporated into every employee's job. In fact, 11 of LP's 15 U.S. manufacturing operations have gone more than five years without an enforcement action of any kind!

The wood products industry has met many costly regulatory challenges over the years. Some of these investments have led to major improvements in air quality, while other mandated investments have had little environment benefit. Unfortunately, we face challenges from two recently released rules, as well as further regulatory proposals that could impose many millions of dollars in new capital obligations over the next 3-10 years with seemingly little overall environmental benefit. This "zero return capital" threatens jobs in communities that can ill afford to lose them, at a time when the U.S. is still struggling to add jobs and maintain growth.

The industry needs a reasonable and sustainable regulatory path based in quality science, and we stand ready to work with EPA, the administration, and Congress to:

- Implement a cost-effective approach to mandatory obligations, such as the Wood Maximum Achievable Control Technology, or MACT, by working with the inherent flexibility of the statute. We anticipate that compliance with MACT as it is currently structured will cost LP upwards of $13 million.
- Work with states to grant an extra year to comply with Boiler MACT requirements where justified by significant investments or other difficulties in implementation.
- Assure a practical approach to the development and implementation of the National Ambient Air Quality Standards Programs. It must recognize the limitations on

monitoring data, and use realistic air quality models that allow projects to proceed and mills to stay competitive.

Energy policy must maintain a level playing field among industries

The wood products industry is a leading user of wood fiber and producer and user of carbon-neutral renewable biomass energy to run our plants. Our use of biomass energy is among the most efficient in the world. It uses residues that would otherwise be waste to create both thermal and electrical energy for our manufacturing facilities.

While other technologies are being developed, today's biomass energy heavily depends on wood fiber. This same woody biomass is the essential raw material for the wood products we make. Policymakers should be mindful of the growing demand for U.S. biomass to meet domestic and international renewable energy policies and the impact it could have on the mature wood products industries already in place, which rely on wood fiber both as a raw material for our products and a means of energy creation for our plants; and employ hundreds of thousands of people across America.

Government policies that pick winners and losers by mandating a particular use for a raw material or fuel that would otherwise not be viable are misguided and should be avoided. Mandates and incentives, including the federal Renewable Electricity Standard, climate policies and the Renewable Fuel Standard promote the use of biomass for energy. The combined effects of these mandates could affect the balance between the many users of forest resources and affect the long-term sustainability of our forests.

Mandates and incentives that distort the market for wood biomass raw materials are detrimental to our industry. Policy must treat existing industry biomass generation equally with newly-created energy generation.

We must have a sustainable and competitive wood supply. Forests have a long growing cycle. Government policies that encourage additional demand for biomass should be coupled with those that increase the available long-term supply of wood, including increasing wood availability from public lands.

Despite their positive energy and environmental benefits, wood products face a threat from the U.S. Department of Energy-supported 2012 International Energy Conservation Code (IECC). Either product can contribute to equivalent thermal performance, yet the 2012 version of the IECC unjustifiably gives preferential treatment to one product – foam sheathing – over structural wood panels, such as OSB. That preference could result in a loss of 20 percent of the structural wood market and thousands of jobs.

We encourage Congress to provide oversight to the DOE to ensure it is supporting the elimination of product-specific preferences and providing a level playing field in the 2015 version of the code, which is currently under development.

Comprehensive tax reform is overdue

Comprehensive tax reform, though not easy, is long overdue. Lowering the corporate tax rate and bringing about a reformed, competitive international tax system will help attract and retain business operations and good paying jobs in the U.S.

The United States has the highest statutory corporate tax rate among OECD countries. A significant reduction in statutory corporate income tax rates to approximately 25%, which would be more in line with the average among other OECD countries, is needed for U.S.-based companies to be able to compete in America and abroad.

At LP, these are real issues that affect daily decisions about where we make our products and hire our people. For example, Canada is one of many OECD member countries that have lowered corporate rates during the past two decades, while U.S. corporate rates have remained nearly stagnant. We make many of the same products in our Canadian operations that we produce in the U.S.

Tax structure is one of the costs we consider when we have business choices to make about where to invest in manufacturing assets. In the U.S., our combined state and federal tax rates are about 39%. In contrast, combined federal and provincial tax rates in Canada are almost 30% lower. With such a large disparity between U.S. and Canadian taxation, our American mills are frankly at a disadvantage.

In addition, a tax system with the lowest possible tax rates for all businesses is desirable to foster capital investment, jobs creation, exports, and economic growth.

Business investment is another crucial driver of economic growth and jobs. Wood products is a capital-intensive industry. Appropriate treatment of depreciation, interest expenses, and research expenditures is important to ensure that capital intensive manufacturers like LP continue to upgrade existing facilities and invest in new and more efficient equipment.

Challenges in finding skilled labor for our mills

LP supports immigration reform that helps ensure we can find qualified labor to operate our mills, plant trees for sustainable forests that supply our raw materials, and construct the homes our products help to make.

We encourage Congress to support employment and training policies and incentives to increase the workforce for skilled trades, such as manufacturing maintenance workers and electricians. These are positions at LP that can take many months to fill, at a time when we are working to ramp up our production to meet growing demand.

In summary, Louisiana-Pacific and the Wood Products industry play an important role in the economy of our nation, and the Building of America. We are on the upswing, but need your help in enacting and supporting policies to ensure that we have reasonable, science-based environmental regulation, energy regulations and codes that maintain a

level playing field and fair competition, corporate tax reform, and policies to address labor needs and skills gaps.

Thank you for the opportunity to speak at this hearing.

Mr. TERRY. Thank you. Well done.

And now Mr. Kubat, who is the President and CEO of Phillips Manufacturing, headquartered in Omaha, Nebraska, you are recognized for 5 minutes.

STATEMENT OF GEORGE KUBAT

Mr. KUBAT. Chairman Terry, Ranking Member Schakowsky, distinguished members of the subcommittee, good morning and thank you for the opportunity to testify today. My name is George Kubat, and I am the President and CEO of Phillips Manufacturing Company.

Phillips is a drywall bead and trim manufacturer—the metal corners used in drywall applications and related products. We are a nationwide manufacturer and distribution company, employee owned and in business for over 50 years.

Given my limited time in front of the subcommittee this morning, I will be focused on the following areas and request your help, which will benefit many manufacturers in the United States: one, over-regulation; two, vocational education; three, taxation; and four, unfair foreign competition.

Over-regulation: My initial comment is a general concern that any time a representative of a government agency contracts a business and says I am from the government and I am here to help you, the immediate reaction of the business is to assume a defensive position. The growth and complexity of regulation and corresponding enforcement increases in all areas every year. Although the agencies may know the regulations and rules under their umbrella, it is impossible for small manufacturers to stay current with what they must comply. Of course, lack of knowledge or understanding is not a defense for noncompliance. To our 13 federal agencies whose regulatory umbrella Phillips Manufacturer must comply with, they are listed in my prepared comments. Certainly, there is a need for regulation and governance over manufacturing practices for many reasons including employee safety, quality of treatment, environment, immigration, health care, taxes and many more but it can't possibly make sense for a relatively simple metal manufacturing business like Phillips Manufacturing to work through 13 federal agencies and dozens of State and local agencies. As difficult and expensive as compliance is for Phillips, it has to be impossible for the smallest of manufacturers, those with 50 or less employees. Over the past several decades in the United States we have created a labyrinth bureaucracy of government policy and complexity of regulation that makes it difficult for Phillips Manufacturing and especially smaller manufacturing companies to comply with today's requirements.

Vocational education: Another request for this subcommittee is to reverse the decline in vocational education. Phillips Manufacturing is not alone in its struggle to find enough workers to fill our open positions in skilled trades. I believe many manufacturers, and our customers in the building construction trades, share this same challenge. It is little wonder that we struggle to find enough people in the skilled trades when I reflect on the fact that, to my knowledge, high schools and community colleges have none or minimal shop-type classes. The local community colleges have switched

their marketing focus from skilled trades education to university preparation. Compare this situation to when I was in school, where almost every high school had shop classes and the local community college focused on the skilled trades education.

Taxation: The U.S. tax code is archaic, complex, and beyond the ability of even the IRS to understand it. Tax rates only continue to increase including the tax increases mandated by the Health Care and Education Reconciliation Act of 2010, which, by the way, it seems no one really understands how this Act will fully impact our cost of doing business in the United States. One thing is clear, income tax rates for smaller businesses which are fortunate enough to make money will go up by 3.8 percent in 2013. In addition, payroll taxes will increase, as well as the cost of providing insurance benefits to our employees. These costs reduce our ability to reinvest in our business and be competitive with non-United States businesses.

Unfair foreign competition: Earlier I referred to the global economy. What do we view as unfair foreign competition? Our regulatory and tax structure in the United States creates a higher cost of production for many products that Phillips manufactures. The unfair foreign competition is from products manufactured in countries where governments provide financial support. These products are of inferior material and quality. China is a major concern but there are also many other countries. It makes it difficult not only to compete with these products for sales in the United States, it makes it impossible to even think of exporting any of our products to foreign countries. Phillips Manufacturing only manufactures in the United States.

In conclusion, please take action to lower taxes, stop the bureaucratic growth of regulation—less is better. Skilled trades are good jobs and people need to be trained and educated to fill the positions. Create and address unfair foreign competition. Phillips is proud to label all our products made in the U.S.A.

Thank you for giving me the opportunity to present to you today.

[The prepared statement of Mr. Kubat follows:]

Summary of Testimony of George J. Kubat
President and CEO, Phillips Manufacturing Co.

Commerce, Manufacturing and Trade Committee Hearing
June 4, 2013

Chairman Terry, Ranking Member Schakowsky and distinguished members of the subcommittee, good morning and thank you for the opportunity to testify today.

My name is George Kubat and I am the President and CEO of Phillips Manufacturing Co. Phillips is a drywall bead and trim manufacturer (basically the metal corners used in drywall applications and related products). We are a nationwide manufacturing and distribution company, privately held and in business for over 50 years.

Given my limited time in front of the subcommittee this morning, I will be focusing on the following areas and request your help which will benefit many manufacturers in the United States:

1. Over-regulation
2. Vocational education
3. Taxation
4. Unfair Foreign Competition

Over Regulation

My initial comment is the general concern that any time a representative of a government agency contacts a business and says: "I am from the government and I am here to help you" the immediate reaction is for the business to assume a defensive position.

The growth and complexity of regulation and corresponding enforcement increases in all areas every year. Although the agencies may know the regulations and rules under their umbrella, it is impossible for smaller manufacturers to stay current with what they must comply with. Of course, lack of knowledge or understanding, is not a defense for non-compliance.

The number of agencies whose regulatory umbrella Phillips Manufacturing must comply with include:

1. The Department of Labor
2. The Occupational, Safety and Health Administration
3. The Department of Health and Human Services
4. The National Labor Relations Board
5. The Department of Immigration Services
6. The Internal Revenue Service
7. The U.S. Census Bureau
8. Department of Transportation
9. Bureau of Labor and Statistics

10. Environmental Protection Agency
11. US International Trade Commission
12. Department of Commerce
13. Department of Homeland Security
14. The regulations of the 50 states, the District of Columbia, and countless counties and municipalities.

Certainly there is a need for regulation and governance over manufacturing practices for many reasons including employee safety, equality of treatment, environmental, immigration, health care, taxes, and many more but it can't possibly make sense for a relatively simple metal manufacturing business like Phillips Manufacturing to work through thirteen federal agencies and dozens of state and local agencies. As difficult and expensive as compliance is for Phillips, it has to be impossible for the smallest of manufacturers – those with fifty and less employees.

Over the past several decades in the United States we have created a labyrinth bureaucracy of government policy and complexity of regulation that makes it very difficult for Phillips Manufacturing and especially smaller manufacturing companies to compete in a global manufacturing economy. In today's global economy and transportation systems, we are in competition with manufacturing from all industrial countries. Most all have considerably less regulation in all areas as well as lower labor costs of production.

Vocational Education

Another request for this subcommittee is to reverse the decline in vocational education. Phillips Manufacturing is not alone in its struggle to find enough workers to fill our open positions in skilled trades. I believe many manufacturers, and our customers in the building construction trades, share this same challenge. It's little wonder that we struggle to find enough people in the skilled trades when I reflect on the fact that, to my knowledge, high schools and community colleges have none or minimal shop-type classes. The local community colleges have switched their marketing focus from skilled trades education to university preparation. Compare this situation to when I was in school, where almost every high school had shop classes and the local community college focused on the skilled trades education.

I'm not sure why the schools shifted so heavily in their emphasis away from skilled trades education, however I would hope that this committee can find a way to bring this important issue to light in Washington, D.C. so that other governmental agencies, possibly the Department of Education, can broaden the view of our education system to once again teach and prepare the next generation of manufacturers and builders.

Taxation

The U.S. tax code is archaic, complex and beyond the ability of even the IRS to understand it. Tax rates only continue to increase including the tax increases mandated by the Health Care and Education Reconciliation Act of 2010. Which, by the way, it seems no one really understands how this act will fully impact our cost of doing business in the United States. One thing is clear, the income tax rates for smaller businesses which are fortunate enough

to make money will go up by 3.8% in 2013. In addition, payroll taxes will increase, as well as the cost of providing insurance benefits to our employees. These costs reduce our ability to reinvest in our business and be competitive with non-U.S. businesses.

Unfair Foreign Competition

Earlier I referred to the Global Economy. What do we view as unfair foreign competition? Our regulatory and tax structure in the United States creates a higher cost of production for many products which Phillips manufactures. The unfair foreign competition is from products manufactured in countries where governments provide financial support. These products are of inferior material and quality. China is a major concern but also many other countries. It makes it difficult not only to compete with these products for sales in the United States, it makes it impossible to even think of exporting any of our products to foreign countries.

Conclusion

Please take action to lower taxes, stop the bureaucratic growth of regulation – less is better. Skilled trades are good jobs and people need to be trained/educated to fill the positions. Create and address unfair foreign competition. Phillips is proud to label all our products "Made in the U.S.A."

In conclusion, I thank you for giving me the opportunity to present to you today.

Summary of Testimony of George J. Kubat
President and CEO, Phillips Manufacturing Co.

The focus of my testimony will be on the following areas. I request your help which will benefit many manufacturers in the United States:

1. Over-regulation: Over the past several decades in the United States we have created a labyrinth bureaucracy of government policy and complexity of regulation that makes it very difficult for smaller manufacturing companies to compete in a global manufacturing economy.
2. Vocational education: Schools have shifted their emphasis away from skilled trades education. Can this committee can find a way to bring this important issue to light so that other governmental agencies can broaden the view of our education system to once again teach and prepare the next generation of manufacturers and builders.
3. Taxation: Income tax rates for smaller businesses which are fortunate enough to make money will go up by 3.8% in 2013 and payroll taxes will increase, as well as the cost of providing insurance benefits to our employees. These costs reduce our ability to reinvest in our business and be competitive with non-U.S. businesses.
4. Unfair Foreign Competition: Our regulatory and tax structure in the United States creates a higher cost of production for many products which Phillips manufactures. The unfair foreign competition is from products manufactured in countries where governments provide financial support.

Mr. TERRY. Thank you, Mr. Kubat.

And Mr. Martin is the President and CEO of Tilson Home Corporation that we heard somebody up on this dais brag about. You are recognized for 5 minutes.

STATEMENT OF EDWARD MARTIN

Mr. MARTIN. Thank you, Chairman Lee Terry and Ranking Member Schakowsky and the members of the Subcommittee on Commerce, Manufacturing, and Trade. Thank you for the opportunity to testify today. My name is Eddie Martin and I am a home builder from Texas, and President and CEO of Tilson Home Corporation. I have 30 years of experience in the building industry myself, both as a practitioner and an industry representative. I am honored to participate in this hearing on housing's role in sustaining and growing the national economy.

Established in 1932, Tilson signs and builds custom homes on customers' property throughout Texas. We are a family owned and operated now for four generations. Family members have managed our business. We are ranked by Builder magazine as one of one the 100 largest builders in the United States.

We have seen firsthand the housing market has improved over the last year, which is a welcome change to our industry and the economy. The building industry includes a vast network that includes general contractors and some contracted businesses, some of whom will testify here today.

At the same time, this turnaround presents new challenges for the industry. At Tilson Homes, we are already experiencing labor shortage in both the high-skill and low-skill end of the construction labor categories. The most acute shortages are framing, flooring, roofing, HVAC, plumbing, and electrical contractors. My company has experienced delays due to the lack of qualified framing crews who are familiar with various structural building codes including windstorm codes on the coast. Plumbers and HVAC technicians are in short supply. We are struggling to find master plumbers and roughing crews who run the pipes and foundations before the concrete is placed because the workforce is aging, it is getting harder to find young plumbers to enter the trade.

As a 100 percent committed EPA Energy Star builder, Tilson is required to use Energy Star-certified HVAC contractors. Finding new certified HVAC contractors is difficult because of the shortage of skilled workers trained in Energy Star. As a result of the shortage of skilled labor, on average it is taking my company a month longer to build our homes, which adds to our costs and makes it more difficult to satisfy our customers.

As a state and national industry rep, I can attest the lack of skilled labor has become a nationwide problem. In the most recent NAHB/Wells Fargo Housing Market Index survey, 46 percent of builders experience delays in completing projects on time. Fifteen percent of the respondents had to turn down some projects, and another 9 percent lost or canceled sales as a result of the recent labor shortages. According to the 2011 American Community survey, foreign-born workers account for 22 percent of the construction labor force nationally. This number varies by state, and in some states such as Texas, we have nearly 40 percent foreign-born workers in

the industry. These are the states that will experience the most acute labor shortages once home building increases. I would also note that the immigrants are concentrated in some trades needed to build homes such as carpenters, painters, drywall, brick mason, and general construction laborers. These are the trades that require less training and education but consistently register the highest labor shortages in NAHB surveys.

As Congress begins to consider immigration reform, I strongly believe that this is an important opportunity for the country to implement a new market-based visa system that would allow more immigrants to legally enter the construction workforce each year. Despite our efforts to recruit and train American workers, there is still a worker shortage, which is a very real obstacle to our industry's full recovery as work is delayed or canceled due to this shortage.

The housing industry is turning the corner and contributing to an improving labor market. However, I believe a long-term holistic approach to comprehensive immigration reform can maximize the recovery in housing and allow the industry to reach its full economic potential.

Thank you for having me. I look forward to questions.

[The prepared statement of Mr. Martin follows:]

Testimony of Edward Martin
President and Chief Executive Officer,
Tilson Home Corporation

Hearing on
"Our Nation of Builders: Home Economics"

Before the
Subcommittee on Commerce, Manufacturing, and Trade
Of the House Committee on Energy and Commerce
June 4, 2013

Introduction

I appreciate the opportunity to participate in today's hearing on the housing industry. My name is Ed Martin, and I am a homebuilder from Austin, Texas, and the President and Chief Executive Officer of Tilson Home Corporation. I also serve as the President of the Texas Association of Builders.

I have over 30 years of experience in the building industry, both as a practitioner and an industry representative. The building industry is made up of a vast system of general contractors and subcontracted businesses, and having experience as a skilled HVAC tradesman, an attorney representing the multi-family development industry, and the President of one of the largest custom home building production companies across the United States, I am intimately knowledgeable of the industry and its needs.

As an industry representative, I have been active in the National Association of Home Builders' leadership structure at the local, state, and national levels throughout my career. From my own personal experience as a builder and also as an industry representative, I am acutely aware of housing's role in sustaining the national economy.

Few industries have struggled more during the Great Recession than the home building industry. The decline in home construction has been historic and unprecedented. Single-family housing production peaked in early 2006 at an annual rate of 1.8 million homes, but construction fell to 353,000 per year in early 2009, an 80% decline in activity. A normal year driven by underlying demographics should see 1.4 million single-family homes produced. If home building were operating at a normal level, there would be millions of more jobs in home building and related trades.

The improvement in housing markets over the last year has been a welcome change for the economy. Improvements in home prices and building are widespread, with the NAHB/First American Improving Markets Index now standing at a count of 258 of 361 metropolitan statistical areas. NAHB is anticipating total housing starts of 970,000 this year and 1.18 million in 2014 as the market continues its gradual rebound.

Residential construction has finally turned the corner and is contributing to, rather than subtracting from, Gross Domestic Product growth and an improving labor market. Any efforts to ease escalating price pressures; help rebuild the supply chain; and support a continuing housing recovery is smart economic policy.

Worker Shortages in Residential Construction

This turnaround presents new labor challenges for the construction industry. At Tilson Home, we are experiencing comparable labor shortages across various labor categories. Framing, flooring, and roofing trades experience the most acute shortages in our business, although there is certainly a clear need for more workers in the HVAC, plumbing, and electrical industries.

The shortage of framers is especially acute because of the need for familiarity with various structural building codes, including in coastal areas that have a windstorm code. My company is experiencing delays due to the lack of qualified framing crews to begin work on the structure of our homes. Large volume builders are bidding against each other because of the shortage of qualified framers.

Our company is struggling to find master plumbers and rough-in crews, which run the pipes in the foundation before the concrete is poured. The workforce is aging (the average age of a master plumber is 56) and it is getting harder to find young plumbers to enter into the trade. Because of the inability of our contractors to hire qualified labor, we are experiencing significant delays.

Tilson Home supports EPA's Energy Star Program. As an Energy Star builder, we have to use an Energy Star-certified HVAC contractor. At this time, finding new, certified HVAC contractors is difficult because of the shortage of skilled workers trained in Energy Star.

As a result of the shortage of skilled labor, on average, it is taking my company a month longer to build a home.

Nationwide, surveys show that shortages of skilled labor are driving up costs and impeding a more robust housing recovery. The January and March 2013 NAHB/Wells Fargo Housing Market Index (HMI), which gauge sales conditions from builders across the county, indicate that labor shortages are quickly rising on home builders' list of most significant problems. 46 percent of the builders surveyed experienced delays in completing projects on time. 15 percent of respondents had to turn down some projects, and nine percent lost or cancelled sales as a result of recent labor shortages.[1]

Foreign Labor in Construction

The home building industry, with the contribution of a substantial immigrant workforce, plays a critical role in sustaining the national economy and meeting the nation's housing needs. The inflow of foreign-born labor into construction is cyclical and coincides with overall housing activity. Their share was rising rapidly during the housing boom years when labor shortages were widespread and serious. However, even during the severe housing downturn and a period of high unemployment, the construction labor force continued to recruit new immigrants to replace, for example, native and foreign-born workers leaving the industry.

With Congressional attention shifting to immigration reform, I believe strongly that this debate provides an important opportunity for the country to implement a new market-based visa system that would allow more immigrants to legally enter the construction workforce each year.

American and immigrant workers working alongside each other in the construction industry is not a new development. Throughout our nation's history, the immigrant community has played a

[1] NAHB Economics, "Evidence of Growing Labor Shortages in Home Building", *available at* http://eyeonhousing.wordpress.com/2013/ 03/26/evidence-of-growing-labor-shortages-in-home-building/.

vibrant and important role in the industry, often bringing their trade-related expertise and skills to enhance the quality of our work. Immigrants who have come to America and joined our industry have been able to enhance their skills, create and grow their own businesses, and gain a foothold in the American middle class.

According to the 2011 American Community Survey, foreign-born workers account for 22% of the construction labor force. Particularly, immigrants are concentrated in some of the trades needed to build a home, such as carpenters, painters, drywall, brick masons, and construction laborers. These are trades that require less training and education,[2] but consistently register some of the highest labor shortages in NAHB surveys.

The distribution of immigrant construction workers is not even across the United States, with some states drawing more than a third of their construction workers from abroad. States that traditionally rely on foreign-born labor, but lost its significant share during the housing downturn – such as Arizona, California, Colorado, Florida, Nevada, and Texas – are most likely to experience difficulties in filling out construction job vacancies once home building takes off.[3]

Despite our efforts to recruit and train American workers,[4] our industry faces a very real impediment to full recovery if work is delayed or even cancelled due to worker shortages. A new, workable visa program would complement our skills training efforts within the nation's borders, and fill the labor gaps needed to meet the nation's housing needs.

Conclusion

The housing industry is turning the corner, and contributing to an improving labor market. However, the current shortage of skilled labor is impeding the industry from reaching its full economic potential. I believe a long-term, holistic approach to comprehensive immigration reform can maximize the recovery in housing.

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[2]The construction industry relies heavily on labor that requires less training and education. 21 percent of construction workers do not have a high school diploma and an additional third of the construction labor force did not study beyond high school. Immigrants who arrive to the United States to work in the construction industry are more likely to be drawn into lower-skill trades since roughly half of them do not have a high school diploma and additional 27 percent did not study beyond high school. By comparison, only 13 percent of native born workers in the construction industry did not graduate from high school and more than half of them went to college. As a result, immigrants represent more than half of the lowest skill construction labor force, while their overall share in the construction labor force is 22 percent. For more detailed information, please see NAHB Economics, "Immigrant Workers in the Construction Labor Force" *available at* http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=200529&channelID=311.

[3] To review a map detailing the regional differences, please *see id.*

[4] NAHB works diligently to address the continuing need for skilled labor within the nation's borders. In partnership with NAHB and Job Corps, the Home Building Institute (HBI) is a national leader for career training and job placement in the building industry. HBI's Job Corps training programs are national in scope but implemented locally, using proven models that can be customized to meet the workforce needs of communities across the United States. It prepares students with the skills and experience they need for successful careers through pre-apprenticeship training, job placement services, mentoring, certification programs, textbooks and curricula. With an 80 percent job placement rate for graduates, HBI Job Corps programs provide services for disadvantaged youth in 73 centers across the country.

Given the significant role that foreign workers play in the housing industry, Congress should implement a market-based visa program that will allow more construction workers to enter the residential construction industry. A stable and efficient immigration system will provide the certainty needed to grow our economy and increase competitiveness.

Thank you again for the opportunity to testify today.

Mr. TERRY. Thank you very much.

I now recognize Mr. Bozzuto from the National Apartments Association. He is the Chairman and CEO of Bozzuto Group, and I thank you for taking the time to come to us, and you are now recognized for 5 minutes.

STATEMENT OF THOMAS S. BOZZUTO

Mr. BOZZUTO. Chairman Terry and Ranking Member Schakowsky, representing the National Multi-Housing Council and the National Apartment Association, I would like to thank you for this opportunity to testify on the multi-family sector's contribution to the national economy. I am Tom Bozzuto, Chairman and CEO of the Bozzuto Group, and also Chairman of the National Multi-Housing Council. I have been in the multi-family business for more than four decades. My firm focuses on the mid-Atlantic region developing, building and managing apartment properties.

In our country, the strongest communities contain a mix of housing options, and that includes apartments. Apartment homes and our 35 million residents nationally contribute $1.1 trillion annually to the economy and help support more than 25 million jobs. I am proud to say that since the recession in 2009, my company, the Bozzuto Group, has developed, is building more than three-quarters of a billion dollars worth of projects that have collectively supported more than 10,000 jobs.

Nationally, research by George Mason University economist Steve Fuller shows that in 2011 alone, apartment construction reflecting approximately one-third of all new housing starts had a total economic contribution of $42.5 billion and supported nearly 324,000 jobs including 121,000 onsite positions. Furthermore, half of all new households formed this decade are expected to rent, so demand will continue to grow. Supply is already falling short as an estimated 300,000 to 400,000 units must be built each year to meet demand yet just half that number was delivered in 2012.

It is important to realize that the multi-family industry relies heavily on our manufacturing partners to both develop new apartments and maintain the country's 19 million apartment homes. Allow me to illustrate this with one of my own projects: Union Wharf. We are building this $72 million apartment community in Baltimore's historic Fells Point neighborhood, and when completed later this year, it will provide 281 apartment homes and 4,500 square feet of retail. More than 600 jobs will have been created by this project. On track to achieve LEED gold certification and build on an infill former industrial lot, the project showcases our commitment to sustainability and demonstrates how apartments spur economic growth.

The manufacturing impact of this project is profound. The building required enough concrete to fill 240 swimming pools. End to end, the lumber used would span about 331 miles, and the drywall could cover more than 42 football fields. The sprinkler system alone required 56,000 linear feet of piping and almost 5,000 heads. In addition, we will use 204,000 pounds of granite, 290,000 bricks, more than 7,000 gallons of paint, and 1,700 appliances and 3,500 cabinets, and this is one building. A significant percentage of these materials were manufactured in America with more than 25 percent

coming within 500 miles of the site. The apartment industry, as demonstrated by this one project, is a robust economic engine that provides lasting job growth and spending nationwide.

And now for our recommendations. As significant consumers of energy, policies that ensure continued access to affordable fuel sources are critical. Efficiency improvements made in apartment properties can generate significant energy reductions and can impact a large number of households. The committee should advance incentive-based strategies for promoting building efficiency that recognize the unique characteristics of apartments. We also caution against creating a rating system that grades buildings on their energy efficiency, and instead we support the expansion of well-known energy management tools to apartments such as the Energy Star program. We also support voluntary green building programs such as the National Green Building Standard, the only standard written to be seamlessly incorporated into existing building codes.

My written testimony also outlines several other key issues critical to the apartment industry such as a tax system that promotes economic growth without disrupting the real estate industry, a housing finance system that provides access to capital in all markets at all times, and a regulatory environment that does not inhibit our ability to provide housing to millions of American people.

On behalf of the apartment industry, thank you for the opportunity to testify.

[The prepared statement of Mr. Bozzuto follows:]



STATEMENT BY
THOMAS S. BOZZUTO

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
THE BOZZUTO GROUP

ON BEHALF OF THE
NATIONAL MULTI HOUSING COUNCIL
AND THE
NATIONAL APARTMENT ASSOCIATION

BEFORE THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING AND TRADE

FOR THE HEARING
"OUR NATION OF BUILDERS: HOME ECONOMICS"

JUNE 4, 2013

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Chairman Terry and Ranking Member Schakowsky, the National Multi Housing Council (NMHC) and the National Apartment Association (NAA) would like to thank you for this opportunity to testify on the multifamily sector's contribution to the national economy and our relationship to manufacturing. We applaud your efforts to examine all facets of the nation's homebuilding industry and your recognition of the role that housing providers play in promoting economic growth and job creation.

NMHC/NAA represent the nation's leading firms participating in the multifamily rental housing industry. Our combined memberships engage in all aspects of the apartment industry, including ownership, development, management and finance. NMHC represents the principal officers of the apartment industry's largest and most prominent firms. NAA is a federation of 170 state and local apartment associations comprised of approximately 60,000 multifamily housing companies representing more than 6.6 million apartment homes throughout the United States and Canada.

THE ECONOMIC IMPACT OF APARTMENTS

The apartment industry plays a fundamental role in providing suitable and affordable housing to millions of Americans, while significantly contributing to the American economy. In communities across the country, apartments thrive – helping people live in a home that is right for them. Whether it is young professionals, empty nesters, students, military personnel or families looking for a flexible and economical housing choice, apartment homes provide a practical option to meet their specific housing needs.

Demand for apartments continues to grow and half of all new households formed this decade are expected to rent. With 77 million Baby Boomers who may consider downsizing and nearly 80 million Echo Boomers beginning to enter the housing market, Harvard University research suggests that up to 7 million new renter households will form this decade[1].

Unfortunately, supply is already falling short of meeting this demand. An estimated 300,000 to 400,000 apartment units must be built each year to meet demand; yet just 158,000 apartments were delivered in 2012 – not enough to even replace the units lost annually through demolition,

[1] Stephen S. Fuller, Ph.D., "The Trillion Dollar Apartment Industry", in partnership with the National Multi Housing Council and National Apartment Association. February 2013. Available at: www.weareapartments.org.

obsolescence and conversion. The nation is facing a shortage of multifamily homes. This shortage is particularly acute for low- and moderate-income households. The Harvard Joint Center for Housing Studies estimates a nationwide affordable housing shortfall of 5.1 million units.

This signifies a tremendous opportunity for economic growth stemming from the apartment industry. According to George Mason University Economist Stephen Fuller, Ph.D., apartment homes and the 35 million residents that live in them already contribute $1.1 trillion annually to the economy[2]. That is nearly 26 million jobs in construction, operations, leasing, management and skilled trades - many at local businesses supported by apartments and the millions who live there.

New apartment construction is a significant driver of job creation and spending in communities nationwide. The economic downturn resulted in a large decline in multifamily building, with apartment starts hitting a low in 2009 of just 97,300 new units according to the U.S. Census. However, by mid-2010 new apartment groundbreakings began to trend upwards, and in 2011, 167,000 apartment units were started. According to Dr. Fuller's report, this construction activity produced $14.8 billion in spending, and had a total economic contribution of $42.5 billion. Further, this apartment construction spending generated $12.7 billion in personal earnings and supported nearly 324,000 jobs in 2011. Most of these jobs were directly supported by apartment construction, including 121,000 on-site positions held by framers, electricians, plumbers, carpenters and various other trades.

However, the economic effects of apartment buildings extend far beyond the initial construction period. Apartment growth generates permanent jobs and tremendous spending related to ongoing property operations and maintenance. Beyond the routine needs of keeping a building operational, apartment firms invest annually in property repairs and improvements to attract and retain residents in a competitive environment. The multifamily industry spends nearly $70 billion on apartment operations every year. That spending generates a total economic contribution of $182.6 billion according to Dr. Fuller, and supports 2.3 million jobs annually.

Finally, apartment residents themselves substantially contribute to the communities in which they live. Apartment resident spending totaled $421.5 billion, supporting 22.8 million jobs, for a total economic contribution of $885.2 billion in 2011.

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[2] *See id.*

By way of illustration, my company, The Bozzuto Group, has started more than three-quarters of a billion dollar's worth of projects since the end of the recession. Using economic analysis completed for NMHC/NAA[3], this means we have contributed to the creation of more than 10,200 jobs nationally. Specifically, since June 2009 we have generated:

- In Maryland: Projects valued at $518.2 million (2,245 units);
- In DC: Projects valued at $279.3 million (707 units);
- In Pennsylvania: Projects valued at $45 million (248 units);
- **Total: Projects valued at $842.5 million (3,200 units).**

And, these numbers represent only projects that we started in which we have an ownership interest. Beyond this, our construction company has started an additional $555 million worth of projects for other developers.

HOW APARTMENT DEVELOPMENT SPURS MANUFACTURING

The multifamily industry relies heavily on our manufacturing partners to both develop new apartments and maintain the country's 19 million apartment homes. Because apartments come in all shapes and sizes and each project is individualized, we depend on a full gamut of manufacturers, ranging from high-volume producers to small specialty shops.

To put this in perspective, let me illustrate how this works with a current Bozzuto construction project, Union Wharf. The $72 million apartment community is being built on an undeveloped, former industrial, waterfront site in Baltimore's historic Fells Point neighborhood, and when completed later this year, will bring to the community 281 apartment homes, 4,500 square feet of retail and nearly 500 parking spaces. More than 600 jobs will be created by the project.

The manufacturing impact of this project is profound given the tremendous amount of building materials and products used in its' construction. This building required 14,000 cubic yards of concrete and an additional 1,000 tons of reinforcing bar (rebar) – enough concrete to fill 240 swimming pools. There is nearly 1.75 million linear feet of lumber, which end-to-end would

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[3] *See id.* and http://www.weareapartments.org/calculator/search.

span about 331 miles. The project includes 76,000 sheets of drywall, which could cover more than 42 football fields. The sprinkler system alone requires 56,250 linear feet of piping and almost 5,000 sprinkler heads. In addition, this apartment community will use 204,000 lbs of granite, 290,000 bricks, over 7,000 gallons of paint, 1,700 appliances and 3,500 cabinets.

Union Wharf also illustrates our commitment to sustainability and good environmental stewardship, and exemplifies the opportunities available for the apartment industry to spur economic growth in existing communities. This infill development project, being built on the site of a former concrete factory, restored an underutilized and vacant land parcel to productive use, promoting smart land use practices. Union Wharf was accepted into Maryland's Voluntary Cleanup Program, a program that encourages the restoration and redevelopment of industrial and commercial sites.

In addition, this project is on track to achieve LEED Gold certification from the U.S. Green Building Council. Among the green building features included in Union Wharf are: water-conserving plumbing fixtures, Energy Star appliances, high-efficiency windows, energy-saving HVAC systems and energy efficient construction materials.

More important, over 25 percent of the construction materials used were sourced within 500 miles of the project site. This reflects the possibilities available for multifamily firms to develop relationships with regional manufacturers and suppliers. More than $1.4 million of the project's concrete was manufactured within 5 miles of the site, and an additional $2.3 million in related concrete materials were manufactured within 500 miles of the site. Other regionally-sourced materials included the wood framing and $700,000 worth of rebar.

This is an especially important project in that we are supporting the City of Baltimore's goal of bringing more than 30,000 new residents to Baltimore over the next decade – reversing a more than a half-century of population decline. We join Baltimore in trying to do our part to accomplish that vision.

And we cannot profitably build such large-scale multifamily developments without our longtime supplier partnerships. We have existing national contracts with U.S.-based manufacturers including Moen, Shaw, Kohler, Tyvek (a DuPont Company), Ingersoll Rand and Sherwin Williams.

We continue to expand our supplier relationships, mixing them into our existing pool of partners to ensure that we get the quality we demand at a price that is competitive.

HOMEBUILDING CHALLENGES AND POLICY OPPORTUNITIES

The apartment industry can be a robust economic engine that provides lasting job growth and spending nationwide. However, the ability of our sector to provide these benefits depends on collaboration and partnership with Congress and State and local governments to ensure that policies support the development and operation of apartment housing. The House Energy and Commerce Committee is poised to address a number of issues of concern to the apartment industry.

Energy Policy

Apartment firms have a significant business interest in both reducing the energy costs of developing and operating apartment communities and maintaining continued access to affordable fuel sources. Efficient use of resources is key to ensuring that housing and related utility expenses remain affordable for apartment businesses and residents alike.

As the Energy and Commerce Committee, and Congress in its entirety, moves forward with energy policy reform, we wish to call your attention to several issues with the capacity to either help or hinder the apartment industry in our efforts to grow our business, create jobs and spur spending while maintaining housing affordability.

Apartment homes are already a highly efficient housing choice. Data from the U.S. Energy Information Administration consistently shows that people living in apartments use less energy per household and per household member than their counterparts in single-family houses. This reflects certain efficiencies inherent in the design and operation of multifamily buildings including compact design, small unit size and limited exterior openings and exposures. Of course, new opportunities for increasing energy savings are constantly evolving. Notably, energy efficiency improvements made in apartment properties can generate significant energy reductions and impact a large number of households. Federal efforts to drive efficiency investments should therefore recognize the unique characteristics of apartment housing and support industry-specific research, technology development and demonstration programs.

Building Energy Codes:

Numerous legislative efforts have focused on reducing energy consumption through aggressive building energy codes. However, research shows that over-reaching codes negatively impact apartment affordability and could quell new apartment construction and building renovation.

NMHC/NAA have an extensive history of service in the development of national model energy codes and have served on numerous code and standard committees, including the International Code Council's (ICC) International Energy Conservation Code (IECC) and ASHRAE Standards 90.1 and 90.2. We also serve as an ICC Strategic Partner and are members of the ICC Code Technology Committee, Industry Advisor Committee and the recently formed Sustainability, Energy and High Performance Building Code Action Committee. As such, we have an explicit commitment to developing meaningful, practical and cost-effective building codes.

We recognize that the U.S. Department of Energy (DOE) also plays an important role in the code development process, and that the code committees attribute significant weight to DOE's analysis. Therefore, it is critical that any DOE recommendations, data analysis and cost calculations reflect realistic industry benchmarks, and are accurate, transparent and replicable. Importantly, DOE should recognize that multifamily development is unique in the residential sector and requires sector-specific analysis of code provisions and costs. NMHC/NAA support efforts to compel DOE to economically justify their code activity, publically vet their code proposals and collaborate with all stakeholders.

Building Energy Labeling and Energy Consumption Disclosure:

As policymakers seek ways to improve energy efficiency, some legislative and regulatory efforts aim to establish a building rating system that would grade buildings on their energy efficiency and publicly disclose that information. Most notably is the proposed DOE Asset Rating Program. Building energy labels raise valuation concerns and transactional uncertainty, especially since the accuracy of these labels is not yet proven in the apartment sector.

NMHC/NAA oppose the development of mandatory building performance labeling programs and continue to work with federal partners to expand well-known and voluntary energy management tools, such as the federal Energy Star program, to apartment properties.

Green Building Codes and Standards:

Apartment firms have increasingly established sustainability and green building goals for their portfolios. However, where policymakers seek to incorporate green building mandates into building codes or other jurisdiction requirements, the apartment industry can face significant costs and technical problems where green programs are not well tailored to multifamily construction.

The National Green Building Standard (NGBS) is the most appropriate standard for residential construction. It was developed by a diverse group of stakeholders that included state and local building code officials, representatives of the U.S. Green Building Council, real estate industry representatives, product manufacturers and other experts in green building and energy efficiency. Moreover, the standard, which covers multifamily, single-family and mixed-use development, is the only residential standard written to be seamlessly incorporated into existing building codes, and it has followed the strict standard-setting procedures established by the American National Standards Institute.

Energy Efficiency Incentives:

Instead of mandates, the apartment industry supports meaningful incentives for energy-efficiency upgrades in buildings that both promote energy savings and spur jobs. Favorable tax treatments, including enhanced depreciation schedules for certain building systems and an extension and expansion of the energy-efficient new homes and commercial buildings tax provisions, are among the tools to assist property owners in making substantial investments in newer, more efficient building systems.

Other Key Apartment Industry Priorities

More broadly, the apartment industry is affected by a host of federal polices ranging from immigration, to housing finance reform, to tax reform. While not all within the jurisdiction of this committee, there are several issues in particular that play a critical role in the health of the apartment industry:

Housing Finance Reform

The apartment industry's success depends on a stable and sufficient supply of liquid capital in ALL markets at ALL times. That capital is not only needed to enable the industry to build more apartments but also to allow existing owners to renovate and maintain their buildings and to en-

able owners to refinance maturing mortgages. An absence of such capital does not just affect apartment owners; it also affects millions of renters and the communities they live in.

Although NMHC/NAA strongly support a financing structure dominated by private capital, history has shown that even during healthy economic times the private sector has been unable to meet the industry's financing needs. All private sources of capital, from commercial banks to life insurance companies to the CMBS market, have limitations either in the terms of loans they offer, the kinds of properties and markets they target or even their capacity or willingness to lend to certain types of borrowers and in less attractive markets.

As a result, NMHC/NAA urge policymakers to maintain a federal guarantee for multifamily mortgages whether or not they choose to retain Fannie Mae and Freddie Mac in their present forms. This is crucial to ensuring that liquid mortgage capital is available in secondary and tertiary markets during all economic climates. Furthermore, providing a federal guarantee in the multifamily sector has not come at a cost to taxpayers, even during the financial collapse. Fannie Mae's and Freddie Mac's multifamily lines of business were not part of the housing crisis and have actually produced $10 billion in net profits for the government since they were placed into conservatorship.

Reducing Regulatory Barriers

The apartment industry is a highly regulated sector, governed by a flood of regulations from agencies as diverse as the Department of Housing and Urban Development (HUD), the Environmental Protection Agency (EPA), the Department of Energy (DOE) and even the Federal Reserve. Excessive regulation and compliance uncertainty results in costly mandates that divert resources not only from the production and operation of multifamily housing, but ultimately, from job creation.

NMHC/NAA recognize the need for regulations but urge Congress to insist that new rules have demonstrable benefits that justify the cost of compliance. In addition, federal agencies should be aware that broad-stroke regulations often have disproportionate effects on various industries; therefore, those rules and regulations affecting real estate should reflect the industry's diverse business and operational structures. Finally, all regulations must be grounded in fact and rely on the latest scientific and/or economic evidence.

Tax Reform

NMHC/NAA support enacting pro-growth tax reform that does not disadvantage apartment owners and renters relative to other asset classes. Our principles for reform include insisting that Congress take a comprehensive approach and not reduce rates for corporate taxpayers at the expense of flow-through taxpayers (e.g., LLCs, partnerships and S Corporations) that dominate the multifamily sector and remit business taxes on their individual income tax returns. We also strongly support maintaining the current-law tax treatment of carried interest; the full deductibility of business interest; the Low-Income Housing Tax Credit; and the estate tax compromise agreed to in the American Taxpayer Relief Act of 2012 that calls for a $5.12 million exemption (indexed for inflation) and a 40 percent top rate.

Immigration Reform

NMHC/NAA urge policymakers to address our national immigration policy through comprehensive federal legislation. Immigration policy is a federal responsibility with national security and economic implications that should be handled by the federal government. Comprehensive immigration reform would be a disincentive for state and local governments to enact a patchwork of laws, including those measures imposing mandates on rental housing providers to verify the immigration status of apartment residents, thereby creating greater predictability and efficiency.

We support a reliable system for employers to verify the immigration status of their employees accurately and efficiently. In addition, our industry supports a rational visa program that adequately addresses our changing workforce needs and enables U.S. businesses to attract and retain the talent necessary for growing our economy.

CONCLUSION

In closing, NMHC/NAA look forward to working with the House Energy and Commerce Committee, as well as the entire Congress, to craft policy that would promote economic growth and satisfy the nation's multifamily housing needs. On behalf of the apartment industry and our 35 million residents, we stand ready to work with Congress to ensure that the nation's policy helps bring apartments, and the jobs and dollars they generate, to communities nationwide.

Mr. TERRY. And thank you. And now, speaking of home energy efficiencies, we have Mr. Nadel, who is the Executive Director of the American Council for an Energy-Efficient Economy. Thank you for being here, and you are now recognized for 5 minutes.

STATEMENT OF STEVEN NADEL

Mr. NADEL. Thank you, Chairman Terry and other members of the committee. I am very happy to speak before you today. As you noted, I am the Executive Director of the American Council for an Energy-Efficient Economy. We are a nonprofit organization that acts as a catalyst to advance energy-efficiencies policies, programs, technologies and investments. We were formed by energy researchers, and just celebrated are 33rd anniversary. Personally, I have been involved in energy-efficiency issues since the 1970s. ACEEE is a nonprofit organization. In our view, energy efficiency is a quintessentially nonpartisan issue since no one is in favor of energy waste.

Today's hearing is on home building and home economics. A critical part of home economics is making homes energy efficient so they have low operating costs. The major costs of home ownership are mortgage payments, property taxes, home insurance and energy. The mortgage industry commonly refers to PITI for principal, interest, taxes and insurance, but energy costs should also be included as they are usually higher than insurance costs and sometimes higher than taxes.

In my written testimony, I provide some average numbers. Specifically, mortgages average more than $12,000 per year for the average home, real estate taxes and energy each average just over $2,000 per year, and insurance is about $800 per year.

While energy costs average just over $2,000 per year, some homes use more than twice that amount and others use than half of this amount. In most homes, energy use and energy bills can be reduced by 20 to 40 percent through cost-effective energy-efficiency investments. In my written testimony, I show how energy-efficiency investments in our homes cost less than new electricity supplies and often less than current natural gas prices. In addition to saving energy, another virtue of energy-efficiency investments are they tend to be very labor-intensive, helping to create jobs.

Unfortunately, a variety of market barriers keep builders, homeowners, landlords and renters from realizing these savings. The barriers are many-fold and include such factors as split incentives, panic purchases and bundling of energy-saving features with extra-high-cost bells and whistles. The term "split incentives" refers to the fact that landlords and builders often do not make efficiency investments because the benefits of lower energy bills are received by tenants and home buyers.

In the United States, policies to improve the energy efficiency of homes, both new and existing, are primarily at the State and local levels. However, federal policy has had an impact, and at a minimum, the federal government can provide information and assistance in order to make it easier for States and local jurisdictions to undertake appropriate local actions.

I discuss several current policies in my written testimony, but in the interest of time, I just wanted to note that only about 11 per-

cent of new homes qualify for the current federal new homes tax incentive. The other 89 percent could do better. And the home performance Energy Star program, the leading home retrofit program, has retrofitted less than 1 percent of the single-family housing stock and even less of the multi-family stock. Reaching more homes with these and similar programs will help reduce energy costs and improve affordability for many homeowners. Overall, the National Academy of Sciences in 2010 found that energy efficiency could reduce U.S. energy use by 25 to 30 percent below forecasted levels.

Recently, Representatives McKinley and Welch, both members of this subcommittee, introduced the Energy Savings and Industrial Competitiveness Act, H.R. 1616, which is a bipartisan bill that includes multiple provisions to encourage energy efficiency. It is a companion to similar legislation introduced by Senators Shaheen and Portman. The Senate bill was recently reported out of committee on a bipartisan 19–3 vote and is expected to reach the Senate Floor in July. We hope that H.R. 1616 can follow in its wake.

In this bill as well as a number of other bills that have been introduced or that amendments are expected on the Senate Floor, there are four specific policy recommendations I wanted to briefly mention here. First, support for model and State building codes. These codes are developed by groups like the International Code Council. DOE provides technical assistance to these bodies and also as the States are considering adopting them. H.R. 1616 makes the code revision process more transparent and encourages and assists States to consider the most recent model codes, and it will improve compliance with the codes. We recommend that this be included. I would note that decision-making remains at the State level.

Second, I would note improving home mortgage underwriting. Most mortgage underwriting decisions are made based on mortgage payments, taxes and insurance but not energy costs. Investments in energy efficiency can reduce the carrying cost of a home, improving loan repayment rates and potentially qualifying more purchasers for mortgages. A recent study by researchers at the University of North Carolina found that efficient homes, meaning those certified to meet Energy Star criteria, had a 32 percent lower default rate than otherwise similar homes. In the 112th Congress, Senators Bennet and Isakson introduced a bill called the SAVE Act. It is now going through revisions, and I understand it may be reintroduced soon. Our understanding is that the revised bill is likely to direct HUD to develop guidelines for considering expected energy cost savings of a property when determining home loan eligibility and home value determinations, and in addition, it would encourage efforts to inform loan applicants of the costs and benefits of improving the energy efficiency of their homes. These changes will make efficient homes more valuable and affordable, while reducing homeowner energy bills.

I also discuss ways to improve home energy benchmarking and how to enact temporary incentives for comprehensive home energy retrofits.

I thank you for your time and look forward to your questions.

[The prepared statement of Mr. Nadel follows:]



Submission of Steven Nadel,
Executive Director
American Council for an Energy-Efficient Economy (ACEEE)

To the House Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing, and Trade

Hearing on: Our Nation of Builders: Home Economics

Date: June 4, 2013

Summary

Energy is one of the largest costs of home ownership, only surpassed by mortgage payments and about the same as the cost of real estate taxes. Fortunately, there is much that can be done to reduce the energy use of both new homes and existing homes and it is typically less expensive to reduce energy consumption in a home through energy efficiency measures than the cost of the same amount of energy from new energy supplies. Unfortunately, a series of market barriers keeps investments in energy efficiency below optimal levels.

Smart policies can help address some of these market barriers, helping the private market to better capture these efficiency opportunities. State, local, and federal policies, such as building codes, tax incentives, and voluntary new home and home retrofit programs, have contributed to significant improvements in home energy efficiency. However, substantial cost-effective energy savings remain untapped—the National Academy of Sciences estimates available savings of 25-30% over the next 20-25 years relative to the Energy Information Administration's Reference Case forecast. As Congress considers ways to improve home economics and create jobs, we recommend that it consider policies to:

1. Support model and state building code activities
2. Improve home mortgage underwriting
3. Encourage home energy use benchmarking and disclosure
4. Provide temporary incentives for comprehensive home energy retrofits

Due to its ability to reduce home carrying costs and create jobs, energy efficiency should be one cornerstone of our efforts to improve home economics.

Introduction

My name is Steven Nadel and I am the Executive Director of the American Council for an Energy-Efficient Economy (ACEEE), a nonprofit organization that acts as a catalyst to advance energy efficiency policies, programs, technologies, investments, and behavior. We were formed in 1980 by energy researchers and celebrated our 30th anniversary in 2010. Personally I have been involved in energy efficiency issues since the late-1970s and have testified multiple times before this Committee and its Subcommittees as well as before the Senate Energy and Natural Resources Committee.

ACEEE is a nonpartisan organization. Today I appear as a Democratic witness but during the development of the *Energy Policy Act of 2005*, I appeared several times as a Republican witness. In our view, energy efficiency is a quintessentially nonpartisan issue. Today's hearing is on home building and home economics. A critical part of this is making homes energy efficient so they have low operating costs.

In my testimony I wish to make three primary points:

1. Energy efficiency is an important aspect of home economics.
2. Effective state, local, and federal policies have helped to improve the efficiency of American homes but more can be done.

3. There are a number of pending bills before Congress that have bipartisan support. These bills could provide a foundation for this Committee's work to improve home economics and promote cost-effective energy efficiency savings.

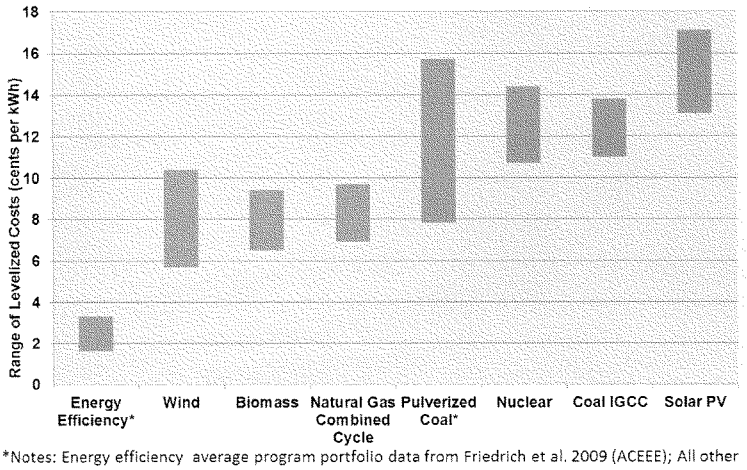
Energy Efficiency and Home Economics

The major costs of home ownership are mortgage payments, property taxes, home insurance, and energy. The mortgage industry commonly refers to "PITI" for principle, interest, taxes, and insurance. But energy costs should also be included as they are usually higher than insurance costs and sometimes higher than taxes. The table below provides average numbers:

Item	Annual Amount	Notes and Source
Mortgage payments	$12,732 ($1061 per month)	Based on a national average home loan for $222,261 with a 30-year mortgage at 4%, according to LendingTree: http://realtormag.realtor.org/daily-news/2012/01/03/what-does-average-home-owner-pay-mortgage
Real Estate Taxes	$2,331	Median Real Estate taxes in 2011 for homes with a mortgage from the American Community Survey: http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_11_1YR_S2506&prodType=table
Energy	$2,051	2012 figure estimated by ACEEE using 2009 consumption from *Residential Energy Consumption Survey* and average 2012 residential energy prices for electricity, natural gas, fuel oil, and propane from several Energy Information Administration reports and databases.
Homeowners Insurance	$806	Average of 2006, 2007, and 2008 from: http://www.census.gov/compendia/statab/cats/banking_finance_insurance/insurance.html, Table 1224.

As can be seen, energy costs average about $2,050 per home each year. But some homes use more than twice this amount and others less than half this amount. In most homes, energy use and energy bills can be reduced by 20-40% through cost-effective energy efficiency investments. The cost-effectiveness of energy efficiency investments is illustrated in Figure 1, which compares the cost of power from new power plants of various types with the cost per kWh saved of utility-administered energy efficiency programs. Our research indicates that residential and commercial programs, on average, have the same costs per kWh saved as each other, and thus average cost for all sectors is a reasonable approximation for residential sector costs. Energy efficiency programs average approximately 3 cents per kWh saved while power from new power plants starts at 6-7 cents per kWh.

Figure 1. Levelized Cost per kWh for Different Electricity Resources



*Notes: Energy efficiency average program portfolio data from Friedrich et al. 2009 (ACEEE); All other data from Lazard 2012. High-end range of advanced pulverized coal includes 90% carbon capture.

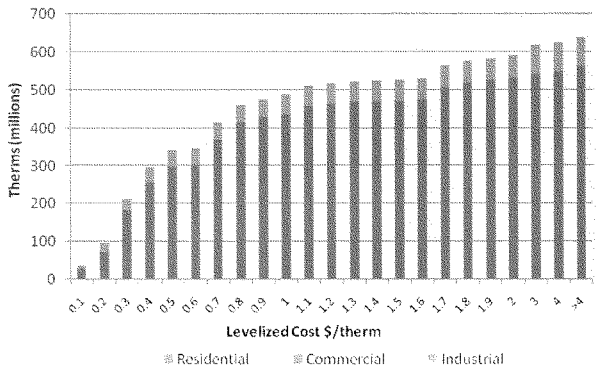
Friedrich, Katherine and Maggie Eldridge, Dan York, Patti Witte, Marty Kushler. 2009. *Saving Energy Cost-Effectively: A National Review of the Cost of Energy Saved Through Utility-Sector Energy Efficiency Programs.* Report Number U092. Washington, D.C.: American Council for an Energy-Efficient Economy; Lazard Ltd. 2012. *Levelized Cost of Energy Analysis: Version 6.0.* Lazard Ltd.

Likewise, substantial cost-effective natural gas savings are available, even at today's low natural gas prices. Figure 2 shows the results of a study by Northwest Energy (a natural gas utility) on the opportunities for cost-effective natural gas savings as a function of natural gas prices. As can be seen, even at 2012's average residential natural gas price of $1.06 per therm,[1] large savings are available.

Another virtue of energy efficiency investments are that they tend to be very labor-intensive, helping to create jobs. First, jobs are created designing, manufacturing, and installing efficiency measures. Second, as consumers and businesses save on their energy bills, they re-spend the savings, which generates additional jobs. Figure 3 shows how more jobs are generated per dollar invested in construction and services (where most of the energy efficiency jobs are) than in the energy sector (which is capital but not labor intensive).

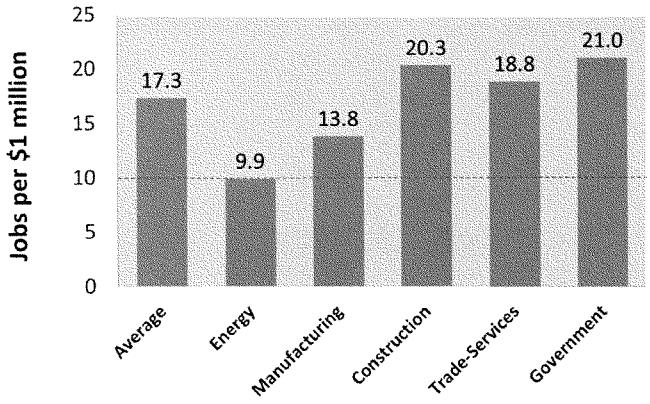
[1] EIA. 2013. *Natural Gas Monthly.* Washington, DC: Energy Information Administration, U.S. DOE. http://www.eia.gov/naturalgas/monthly/.

Figure 2. Natural Gas Efficiency Northwest Regional Supply Curve, 2020



Source: NW Energy 2009[2]

Figure 3. Jobs per Million Dollars of Revenue by Key Sectors of the U.S. Economy



Source: ACEEE. *How Does Energy Efficiency Create Jobs*. http://www.aceee.org/fact-sheet/ee-job-creation.

[2] Northwest Energy Coalition. 2009. *The Power of Efficiency: Pacific Northwest Energy Conservation Potential Through 2020.* http://nwenergy.adhostclient.com/wp-content/uploads/Power-of-Efficiency-050109.pdf. Seattle, WA: Northwest Energy Coalition and Ecotope, Inc.

Unfortunately, a variety of market barriers keep builders, homeowners, landlords, and renters from realizing these savings The barriers are manifold and include such factors as "split incentives" (landlords and builders often do not make efficiency investments because the benefits of lower energy bills are received by tenants and homebuyers); panic purchases (when a product such as a refrigerator needs replacement, there often is not time to research energy-saving options); and bundling of energy-saving features with high-cost extra "bells and whistles." These barriers are discussed more fully in a recent ACEEE study.[3]

Current Policies to Promote Energy Efficiency in Housing

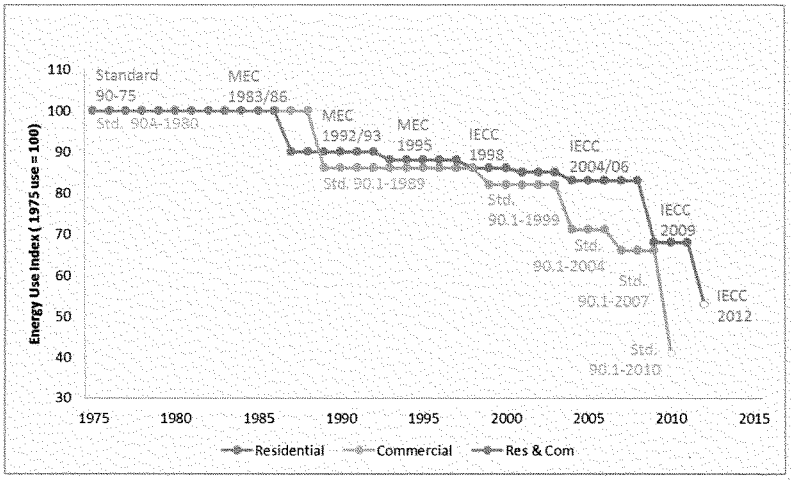
In the United States, policies to improve the efficiency of homes, both new and existing, are primarily at the state and local level. However, federal policy has had an impact, and at a minimum, the federal government can provide information and assistance in order to make it easier for states and local jurisdictions to undertake appropriate local actions. Among the policies that have been driving improvements in home energy efficiency are:

- Building codes
- ENERGY STAR, federal tax incentives, and other voluntary new home programs
- Home Performance with ENERGY STAR and other voluntary home retrofit programs

Building Codes. States and local jurisdictions have been including energy efficiency requirements in their building codes since the 1970s energy crises. There are several national model codes developed by independent membership organizations with active public participation. These include the International Code Council [ICC] and the American Society of Heating, Refrigerating and Air-conditioning Engineers [ASHRAE]. Typically states then adopt these model codes, sometimes with state-specific modifications. As a result, as shown in Figure 4, the efficiency of new homes built to model codes has steadily increased, with substantial improvements in recent years. For example, a home built to the 2009 International Energy Conservation Code (IECC), the code most commonly adopted by states, will use about 30% less energy than a home built to the 1975 version of ASHRAE Standard 90.

[3] Vaidyanathan et al. 2013. *Overcoming Market Barriers and Using Market Forces to Advance Energy Efficiency.* Report E136. Washington, DC: American Council for an Energy-Efficient Economy. https://www.aceee.org/research-report/e136.

Figure 4. Energy Use Index for Homes and Commercial Buildings Built to Different Model Energy Codes



Source: Compiled by ACEEE based on data from DOE

ENERGY STAR New Homes and New Energy Efficient Home Tax Credit. The Environmental Protection Agency (EPA) and the Department of Energy (DOE) have run a program for many years to encourage builders to build and homebuyers to purchase homes that are substantially more efficient than required by building codes (e.g., typically 15% more efficient). Thousands of builders participate and as of 2012, more than 1.4 million ENERGY STAR Homes have been built.[4] In addition, in the *Energy Policy Act of 2005* Congress adopted the Section 45L New Energy Efficient Home Tax Credit, which provides $2,000 to builders for each home that reduces energy use by 50% below the 2003 IECC. When this credit was enacted, less than 1% of new homes met this standard. In 2011(the last year with data available), about 11% of new homes built qualified for this tax incentive.[5]

Home Performance with ENERGY STAR and other retrofit programs. Another EPA/DOE program is Home Performance with ENERGY STAR. The program is designed to encourage extensive home renovations to make both the building shell and mechanical systems energy efficient. The program works with contractors to train them on whole home retrofit analysis, construction, and marketing techniques. The program often partners with states and utilities, which often offer incentives for these whole home retrofits. As of 2012, more than 250,000 homes had been retrofitted, with energy savings averaging 20% per home.[6]

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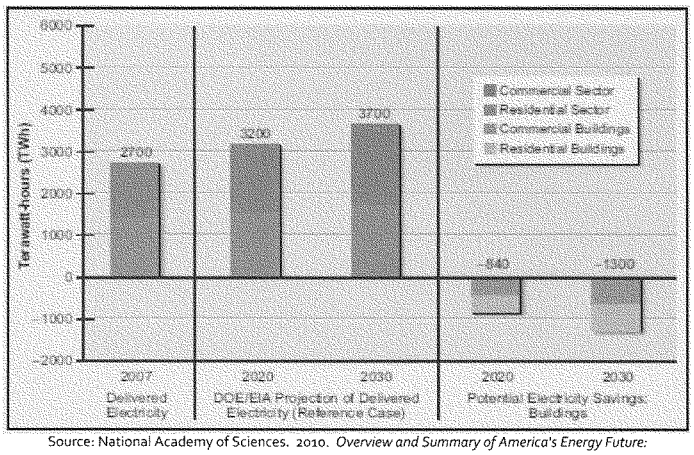
[4] http://www.energystar.gov/index.cfm?fuseaction=new_homes_partners.locator.

[5] Baden, Steve (Residential Energy Services Network). 2012. Personal Communication. July 6.

[6] Number of homes built from Home Performance with ENERGY STAR Project Dashboard: http://www.energystar.gov/index.cfm?c=home_improvement.hpwes_project_dashboards. Average savings per home from U.S. EPA. 2011.

However, more can be done. As discussed above, about 11% of new homes qualify for the section 45L tax incentive, but many more do not. Home Performance with ENERGY STAR has retrofitted less than 1% of the single-family housing stock. If we double this to account for other comprehensive home retrofit programs, this still leaves more than 95% of homes that could be retrofitted. Overall, the National Academy of Sciences in 2010 found that energy efficiency could reduce U.S. energy use by 25-30% below forecasted levels over the next 20-25 years. Their results for buildings are illustrated in Figure 5.

Figure 5. Results of NAS 2010 Study on Energy Efficiency Opportunities in Buildings



Source: National Academy of Sciences. 2010. *Overview and Summary of America's Energy Future: Technology and Transformation.* Washington, DC: National Academies Press.

Additional Useful Policies

Recently, Representatives David McKinley (R-WV) and Peter Welch (D-VT), co-chairs of the High Performance Building Caucus, introduced the *Energy Savings and Industrial Competitiveness Act* (H.R. 1616), a bipartisan bill that includes several provisions to encourage energy efficiency that have widespread support. This is a companion bill to similar legislation introduced by Senators Jeanne Shaheen (D-N.H.) and Rob Portman (R-Ohio). The Senate bill was reported out of Committee on a bipartisan 19-3 vote and is expected to reach the Senate floor in July. Several provisions in the McKinley-Welch bill will promote cost-effective energy efficiency investments in homes as will several amendments that are likely to receive broad support when the Senate bill reaches the Senate floor. In addition, Representatives McKinley and Welch recently introduced the *Home Owner Managing Energy Savings Act of 2013* or the HOMES Act, which would provide rebates to homeowners who invest in energy efficiency improvements. (H.R. 2128). I will briefly discuss some of these opportunities.

Home Performance with ENERGY STAR—A Cost-Effective Strategy for Improving Efficiency in Existing Homes. May 23. Washington, D.C. http://www.energystar.gov/ia/home_improvement/HPwES_Utility_Intro_FactSheet.pdf .

1. **Support for Model and State Building Codes.** National model building codes are developed by the International Code Council (ICC) and the American Society of Heating, Refrigerating and Air-conditioning Engineers (ASHRAE). DOE provides technical assistance to these bodies and also assists states that are considering adopting these codes. Section 101 of H.R. 1616 makes the code-revision process more transparent and encourages and assists states to consider the most recent model codes and to improve compliance with codes. Decision-making remains at the state level.

2. **Improving Home Mortgage Underwriting.** Most mortgage underwriting decisions are made based on mortgage payments, taxes, and insurance but not energy costs. Investments in energy efficiency can reduce the carrying cost of a home, improving loan repayment rates and potentially qualifying more purchasers for mortgages. A recent study by researchers at the University of North Carolina found that efficient homes (those certified to ENERGY STAR criteria) had a 32% lower default rate than otherwise similar homes.[7] In the 112th Congress, Senators Bennet (D-CO) and Isakson (R-GA) introduced the *Sensible Accounting to Value Energy Act (SAVE).* The bill is now going through revisions to address concerns from realtors and others and a revised bill may be incorporated into the S. 761 bill when it reaches the Senate floor. Our understanding is that the revised bill is likely to: (1) direct HUD to develop guidelines for considering expected energy cost savings of a property when determining home loan eligibility and home value determinations, and (2) encourage efforts to inform loan applicants of the costs and benefits of improving the energy efficiency of their new homes. These changes will make efficient homes more valuable and affordable, while reducing homeowner energy bills.

3. **Home Energy Use Benchmarking and Disclosure.** Many homeowners, building owners, and tenants do not know how efficient/inefficient their homes are. Benchmarking allows the owner or tenant to compare his or her home to similar homes and can motivate owners of inefficient homes to make energy efficiency investments. Likewise, prospective home purchasers and renters can use information on home energy use and relative performance to help make important decisions about which home to purchase or rent. Making this information readily available helps the new home and rental markets to function well—an informed consumer is more likely to be a smart consumer. State, local, and federal efforts to promote benchmarking are emphasizing commercial and multifamily buildings to start, but as lessons are learned, experiments at the residential level may be worthwhile.[8]

4. **Temporary incentives for comprehensive home energy retrofits.** About half the states have programs to encourage and assist homeowners to consider a package of energy efficiency measures to optimize the energy efficiency of their homes. Many of these work with the federal Home Performance with ENERGY STAR voluntary program. To encourage more contractors to learn how to offer such services and to increase adoption of such comprehensive retrofits, temporary financial incentives can be useful, with the incentives phased out after several years when the market for such services can better function on its own. Representatives McKinley and Welch have introduced the HOMES bill, which would provide such incentives and we support this bill. The key need is to develop an offset for the proposed program funding. Another option would be to consider tax incentives for such retrofits, such as a variation on the *Cut Energy Bills at Home Act* (S. 1914) introduced by Senators Snowe (R-ME), Bingaman (D-NM), and Feinstein (D-CA) in the 112th Congress.

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[7] UNC Center for Market Capital and Institute for Market Transformation. 2013. *Home Energy Efficiency and Mortgage Risks.* http://www.imt.org/uploads/resources/files/IMT_UNC_HomeEEMortgageRisksfinal.pdf.

[8] For a discussion of residential efforts to date, please see Cluett and Amann. 2013. *Residential Energy Use Disclosure: A Review of Current Policies.* Washington, DC: American Council for an Energy-Efficient Economy. https://www.aceee.org/research-report/a131.

In May 2012, ACEEE published an analysis of the costs and benefits of the 2012 version of the Shaheen-Portman legislation plus a related bill. We found that this energy efficiency legislation would reduce U.S. energy consumption in 2030 by 2.3 quadrillion Btu, about 2% of projected energy use that year, which in turn would drive annual consumer energy savings of about $23 billion in 2030. Furthermore, such a bill would create about 102,000 jobs by 2020 and about 185,000 jobs by 2030.[9] We are now beginning an analysis of the 2013 Shaheen-Portman bill, including likely amendments, and will be happy to share our results with you when they are available, likely in early September.

Conclusion

Energy is one of the largest costs of home ownership, only surpassed by mortgage payments and about the same as the cost of real estate taxes. The efficiency of American homes has improved substantially since the 1970s but much larger savings are possible, helping to reduce home carrying costs. These savings can help qualify more households for home ownership and decrease loan default rates while helping to generate jobs in our local communities. It is typically less expensive to reduce energy consumption in a home through energy efficiency measures than the cost of the same amount of energy from new energy supplies. Unfortunately, a series of market barriers keeps investments in energy efficiency below optimal levels.

Smart policies can help address some of these market barriers, helping the private market to better capture these efficiency opportunities. As Congress considers ways to improve home economics and create jobs, we recommend that it consider policies to:

1. Support model and state building code activities
2. Improve home mortgage underwriting
3. Encourage home energy use benchmarking and disclosure
4. Provide temporary incentives for comprehensive home energy retrofits

Due to its ability to reduce home carrying costs and create jobs, energy efficiency should be one cornerstone of our efforts to improve home economics.

This concludes my testimony. Thank you for the opportunity to present these views.

[9] Farley et al. 2012. *Impacts of Energy Efficiency Provisions in Pending Senate Energy Efficiency Bills.* American Council for an Energy-Efficient Economy. http://www.aceee.org/white-paper/shaheen-portman.

Mr. TERRY. Thank you. And now we go into the Q&A phase of our hearing. We get to ask the questions and you get to answer. This is the fun part.

So Mr. Kubat, I will start with you. Will you describe for us the difference from number of employees that you have employed to make the one part, the drywall beads, from, let us say 2008 to current?

Mr. KUBAT. Maybe just as a quick overview, I am old enough that I have had several lives, and it was in 2008 was the first time that I ever had to lay off people from positions where I wanted to keep them. We cannot control construction starts, and we have heard from several of the speakers today the pain that the construction industry went through that related to housing of any type, whether it is single, multi, apartments, condominiums. The cliff was very steep, and what we thought was a correction or a valley was a canyon. So back in 2007, before the collapse, our total employment would have been in the high 200s. We have heard statistics where up to 40 percent of people, I believe Mr. Stevens indicated Louisiana-Pacific had closing of plants and downturns. Fortunately, we did not have to close any plants. We have three plants. But we did have significant reduction in employment, and I can't give you the exact number but certainly it was down significantly under 200, maybe 160, 170 people. We are now back with what I refer to as the rising tide, and certainly we have an improving construction market and hopefully we can continue to support it in the United States.

We are continuing to hire, but one of the challenges that we have is this area of what are called skilled workers, and I am going to say that is primarily tool-and-die shop, and the training for that has to be onsite. There is not educational and vocational training bringing these people into the manufacturing market. We hope that you will be able to give us support in that area as we look to hire more people.

Mr. TERRY. I appreciate that. So let me feed off of the aspect, because it is amazing of all the different hearings we have had, everyone has testified that they have job openings in the manufacturing and building area but lack the semiskilled and skilled workers necessary. So Mr. Judson, and I will just down the line, if you could be fairly quick, do you have any thoughts on where we should focus our efforts to try to develop the semiskilled and skilled workers necessary?

Mr. JUDSON. From two fronts, the technical training is important and it has been something that has been deemphasized over the past few years. People have left our industry to go into other trades. There just was not the demand for their services so they have gone into other trades. The deglamorization of the construction trade has caused people in high school, for example, not to go into the trade arena so they are not learning a trade. The immigration laws at this point are prohibitive in allowing us to hire trainees as it might be to fill some of those beginning entry slots. So I would say to answer your question, a focus on technical training with trade schools and a focus on directing immigration labor opportunities into the industry.

Mr. TERRY. All right. Mr. Stevens?

Mr. STEVEN. I would second what was said there. The only thing that I might add to that is that the immigration reform will help both the direct labor workers as well as the skilled laborers. Canada is an interesting example. Canada just basically waived their immigration requirements for skilled trades, and they are bringing in a lot of individuals from the Philippines and from Ireland to fill these skill needs, and that may be a model you might want to consider looking at.

Mr. TERRY. Mr. Martin?

Mr. MARTIN. Yes, I would echo Mr. Judson's comments but I would also—you know, one of the problems is that high schools have no vocational training. In Texas, when they went to the four-by-four program, which required 4 years of science, English, social studies and math, they took out vocational training, and so there is no vocational training in Texas anymore, and there is actually a bill on the governor's desk to reinstitute vocational training in the high schools, and I think that would start getting people, young high school men and women who are not willing to go to college or wanting to go to college to get into a trade.

Mr. TERRY. Very interesting. Mr. Bozzuto?

Mr. BOZZUTO. The apartment industry began to recover from this recession before the home building did, and we began to see the shortage of manpower sooner, and it is very severe and it is causing meaningful cost increases. I defer to my associates here and their comment about vocational education and agree with them. With respect to immigration reform, our industry, our associations clearly support comprehensive immigration reform at the federal level with a reliable system for the employers to verify credentials.

Mr. TERRY. Thank you very much. Mr. Nadel, you don't get to answer that question, but I have a feeling you'll be asked a lot of questions. And that brings me to Mr. Matheson. Sorry. I am yanking it back.

Mr. MATHESON. All right. No problem.

Mr. TERRY. The ranking member is now recognized for her 5 minutes.

Ms. SCHAKOWSKY. I apologize. When family calls, you worry and take the call, so I apologize.

I wanted to talk a bit about foreclosures. It has been a real problem and continues to be, as I mentioned in my testimony, in Chicago. An average family who simply lives in proximity to foreclosures and who may not have any trouble with their loans have already lost or will lose more than $20,000 in household wealth. It has also become clear that many of those companies that carried out foreclosures over the last few years kept poor documentation, sometimes employed abusive tactics, and in some cases committed outright fraud.

On May 16, Representative Cummings introduced H.R. 1706, the Mortgage Settlement Monitoring Act of 2013, and I along with the chairman of our full committee, Mr. Waxman, are original cosponsors to try and ensure transparency in a federal settlement on mortgage servicers' unsafe and unsound practices, and a few members of this committee are cosponsors. So Mr. Judson, the National Association of Home Builders states on its Web site that it "urges banks to engage in transparent and effective forms of communica-

tion with borrowers to avoid unnecessary financial distress." It seems like it would be in the best interest of home builders and homeowners alike to reduce residential mortgage servicing and processing abuses as well as to promote transparency in any federal reviews. So I wanted to ask you, you may need to get more information, but on the surface, does this sound like a bill that could be supported?

Mr. JUDSON. I think the concept of what you are proposing is certainly supportable. Our industry doesn't deal in the writing or underwriting of mortgages. We build the homes that unfortunately have been foreclosed upon. We support that settlement. We support a fair settlement. The guilt associated with the foreclosure process is multifaceted, whether it be improperly underwriting, whether it be greed, whether it be people being truly misled on what their payments and obligation would be, it is across the board. We want that settlement done. We want it completed. These people need housing. If you can look at the housing stock in this country, the people that are being displaced or having to rent, and in some cases for more money than they could refinance their current home if they are paying a normal, regular rate. So we support that settlement.

Ms. SCHAKOWSKY. Thank you. We would like you to take a look at that, and we will get that to you, the legislation itself, and hopefully if we had the support of the home builders, that would be a boost for us.

Mr. JUDSON. Seventeen oh six?

Ms. SCHAKOWSKY. That is correct.

Mr. JUDSON. Thank you.

Mr. SCHAKOWSKY. Yes, 1706. I also wanted to talk about energy-efficient appliances, Mr. Nadel. I think you mentioned that various State and local but also federal-level energy-efficiency standards have come into effect. Residential and commercial appliances have evolved into high-performance machines, etc., but meanwhile, the price of energy-efficient appliances is falling. A new report by the ACEEE found that between 1987 and 2010, real prices of refrigerators, washers and dishwashers decreased by 35 percent, 45 percent and 30 percent, respectively, so I would like to ask you about this report and your other work on appliances, and can we conclude that State and federal energy efficiency standards for appliances are a highly effective, highly beneficial force for consumers and the environment, and if I get a new air conditioner that we are looking at, am I going to get the help I need in terms of some sort of a credit?

Mr. NADEL. Thank you for that question. Yes, our recent report did find that for many, most of the home appliances as well as commercial products that are regulated under federal standards, prices have been actually declining. Manufacturers have sharpened their pencils and figured out ways to reduce the costs, even as they have dramatically improved energy efficiency. Energy savings are quite large as well, and the very interesting thing from that report is we found that consumer choice had actually either stayed the same or increased. The products work better today, have more features, better performance than before. So I do I think that program has been very successful in saving energy, saving money. The program has

been very careful to set those standards at levels that are cost-effective and technologically feasible, so yes, that is very good.

In terms of your question about air conditioners, assuming you are in Chicago, I know Com Ed has a number of incentive programs that might be very useful to help you go beyond the minimum standard. For air conditioners, the minimum standard is called the CR rating of 13, but in many climates, 15, 16 might make sense.

Mr. TERRY. Thank you. The gentlelady yields back. At this time the chair recognizes the vice chair of the full committee, Ms. Blackburn, for her 5 minutes.

Mrs. BLACKBURN. Thank you, Mr. Chairman. And Mr. Nadel, I want to stay with you on the energy-efficiency issue. I have to tell you, I have never met anybody that wants to pay more for their energy costs. Everyone is looking for a way to cut those costs, and I keep watching these DOE and EPA mandates and the way they apply the rules, you know, how they will take the laws and then they go about different things through rulemaking, and of course, where I am from down in Tennessee. I am sure Mr. Stevens will tell you, a lot of us down there like to have a ceiling fan in the kitchen or the bedroom or out on the back porch if it is a covered porch. So has your organization taken a position on the DOE regulatory framework on ceiling fans?

Mr. NADEL. In general, as I replied to Ms. Schakowsky, we do support the efficiency standards program and particularly making sure that any new standards are technologically feasible and economically justified. On ceiling fans, that provision, as I recall, was enacted by Congress in 2005.

Mrs. BLACKBURN. That is correct.

Mr. NADEL. And yes, we supported that standard, and I believe that they are now reviewing that standard and trying to decide what, if any changes, may make sense. We plan to participate in that process.

Mrs. BLACKBURN. OK. Let me ask you this. Do you think DOE should be in the business of mandating the efficient products or should they allow consumers the choice of choosing energy-saving products that are going to fit their needs?

Mr. NADEL. Right. The minimum standards remove the least-efficient products from the market. They help address some of the market barriers but then give consumers many, many choices. As I mentioned before, they tend to actually improve consumer choice rather than decrease consumer choice.

Mrs. BLACKBURN. Well, and see, I think that we should be encouraging consumers in doing things to open up that environment and not making it more expensive and more difficult. Ceiling fans are one of those things that are in the market that can help people reduce their energy use. Sometimes I look at this and I think that burdening the ceiling-fan manufacturers with increased regulations prices a lot of people out of that market, and then increases their reliance on cooling systems. Am I wrong about that?

Mr. NADEL. We did not specifically look at ceiling fans, but for many of the products, the prices have actually declined with standards, not increased. So if we can have a win-win, I think it is

worthwhile. But again, we have not specifically looked at ceiling fans.

Mrs. BLACKBURN. Well, see, and we need more win-wins. We need less regulation and more options and the ability of individuals to get into that marketplace.

Mr. Stevens, I want to come to you. Mr. Judson sitting over there next to you mentioned that there had been a number of news articles about rising building material prices, and he also mentioned that there have been recent declines in wood prices and that his has been a positive development. So is this a trend we can expect to continue going forward, and can you confirm that this is a result of expanded production based on confidence that the recovery is real and justifies a return to higher levels of capacity and output?

Mr. STEVENS. Our building products that we produce are generally commodities, and a commodity product is, by its nature, a decision between a supplier and a buyer on what that price will be. So let me just use oriented stand board as an example, or OSB. At the end of December, that price was $360 per thousand square feet, roughly. In the first quarter, it rose to $430 because there was more demand than there was immediate suppliers and so buyers and sellers arrived at a higher price. In the last 6 weeks, that price has fallen below $300. So you see that there is a wide range of pricing in these commodity products, and that will continue. It will be local supply-and-demand considerations. It will be production coming online or production coming offline. It will also be very contingent upon weather and other conditions for building. So it is both the demand and the supply side of that.

I can speak directly to what LP has done. We made a decision in October to bring on a new plant in Alabama that we built for a cost of $240 million and ran it for 6 weeks. Then the housing market declined and we shut that plant down for 5 years. That took us about 9 months and over $10 million in capital to bring that plant online. We also announced last month that we are bringing on a plant in British Columbia to support the western United States in building products. So we are bringing on capacity at our plants to meet what we expect to be continued demand for building products.

Mrs. BLACKBURN. Thank you. Mr. Chairman, I will submit in writing a question for Mr. Martin that I had, and I yield back.

Mr. TERRY. Thank you. The chair recognizes now the gentleman from Utah. You are recognized for 5 minutes.

Mr. MATHESON. Well, thank you, Chairman Terry. I appreciate that, and I appreciated the witnesses being here today.

Mr. Judson, I had a question for you about the issue of the home building industry's challenges it faces in the credit area, specifically for your AD&C loans, your acquisition, development and construction loans. Could you please talk to me about how those loans are used and the challenges that your industry is facing with those loans?

Mr. JUDSON. A builder will usually apply to a lending institution to borrow funds to build a home for you, and under the current climate and what has existed for the past several years, the builder cannot get that loan to build a home. Even more difficult is the ability to get what is called a speculative loan where a builder

would build a model home or a home for sale waiting for the buyer to come along and buy the home. That is driven by the regulatory in-fighting that is taking place between the regulating agencies and the lending institutions themselves. Each blames the other person for it. The lenders say that the regulators are over-regulating and the regulators say that the banks are not properly underwriting their loans. So it is a catch-22 and caught in the middle is first the building and secondly the homeowner, who then can't get a home built. Now, if by some miracle the builder can build the home, then the difficulty lies in being able to get that home financed, which includes the lender willing to make the loan underwritten, which was not in the case in the past. They were not properly underwritten. Loans today are properly underwritten. You can look at the GSEs, you can look at every single bank. They are making money because they are properly underwriting their loans. So it is important for us as builders to be able to have access to financing to be able to build the homes, the houses for people who want to buy the homes.

Mr. MATHESON. And would suggest there may be some role that Congress could play in trying to clarify this regulatory uncertainty that you were describing earlier?

Mr. JUDSON. Yes. Thank you. There were two bills that have been presented, one on the House side and one on the Senate side, that address the specificity of what a regulatory responsibility should be. It clarifies some of the capital requirements that should have and could have to make qualified loans to the consumer or the builder, but the congressional responsibility, I think, lies in their ability to more directly engage the regulatory arena in what their real responsibilities and authorities are.

Mr. MATHESON. OK. I appreciate that.

Mr. JUDSON. Thank you.

Mr. MATHESON. Mr. Stevens, you mentioned in your testimony the challenge of the government policies that are picking winners and losers, and you specifically mentioned the renewable fuel standards mandate for biomass fuels as a policy that could hurt the long-term sustainability of forests. Can you expand on that and explain how the RFS could hurt not only forest sustainability but also users of forest resources and products?

Mr. STEVENS. It all comes back to the proposed subsidies for renewable fuels. As an industry, for over 200 years the forest products industry has used trees for their primary raw material and to produce the energy to run their plants. For LP, an average OSB plant will produce 95 percent of the energy from the wood waste from our products. What we want is just a level playing field. We don't want any subsidies. We want to play based on the economics of the use of that wood and to be fair across the board.

Mr. MATHESON. OK. I appreciate that. Mr. Chairman, I will yield back.

Mr. TERRY. Thank you. I am out of order but I have the gavel.

It was interesting, a person that came to talk to me about the wood product industry and how they are producing solely to send woody biomass to Europe to meet their renewable standards, so it is not lumber that is being used in the United States but being milled and sent overseas. I thought that was interesting.

I now recognize the vice chairman of the subcommittee, Mr. Lance, for your 5 minutes.

Mr. LANCE. Thank you, Mr. Chairman. Good morning to you all.

In my home State of New Jersey, builders are reporting a surge in unit construction over last year's figures, I believe 22,000 new units this year. This is good news. Data released by the National Association of Realtors shows growth in the State's median residential real estate prices with multi-family construction growing the fastest. This is a first since the peak of the housing boom roughly a decade ago.

Of course, the market in New Jersey remains heavily affected by Hurricane Sandy, and the lasting impact will be felt for quite some time as the shore region of our State continues to rebuild. The storm did, however, spur much-needed new construction and renovations, boosting the lumber, plumbing and electric industries in these areas.

To Mr. Judson following up on what you had stated previously, what do you think we can do best to untangle the tangle that exists between those who wish to build and the fact that there seems to be a reluctance on the part of those who lend money to lend the appropriate amount of money? Before my service on this committee, I did serve on the Financial Services Committee, and this is a continuing issue both on that committee and on this committee. We have had repeated testimony that banks are not lending appropriately.

Mr. JUDSON. I testified before that committee, as you probably know.

Mr. LANCE. Yes, sir.

Mr. JUDSON. If I had the answers, I would have told you then.

Mr. LANCE. Yes, sir.

Mr. JUDSON. But I am learning as this goes along——

Mr. LANCE. As are we.

Mr. JUDSON [continuing]. It is an unfolding issue. I would go back to the specificity and the clear underwriting requirements for lenders. The banks had a knee-jerk reaction. I think this whole scenario was much of a knee jerk because of the dilemma that started several years ago with foreclosures and poorly underwritten loans. So it would start, I think, with a direction from Congress, Financial Services to the regulatory environment, working with lenders to support the home building industry, allowing them more latitude on the capitalization rates that they have. These have been suggestions that are current written into law have been taken as mandates that you cannot go over certain limits, whereas the community banks are now being literally put out of business from the construction lending standpoint.

Mr. LANCE. The community banks had absolutely nothing to do with the financial meltdown, as you know better than I. They were good actors in this whole process, and from my perspective, they are scared to death by over-regulation here in Washington, especially after the passage of Dodd-Frank, for which I certainly did not vote. But be that as it may, we all want a better environment so that the American people can purchase the new residential real estate, and there is a pent-up demand in my judgment, and we are discouraged because we feel that is important for the progress of

the economics of the Nation that this occur. Do you believe that we should revisit statutory law or simply require the agencies that administer current statutory law to do a better job?

Mr. JUDSON. That is a good question. It is probably some of both. The statutory guidelines could be specifically identified to address some of the concerns. I keep going back to the capitalization. But the willingness, almost encouragement, we spoke with Mr. Bernanke a couple of times and his term of the pendulum having swung too far I think is an accurate term.

Mr. LANCE. Yes, sir. Thank you. Are there others on the panel who wish to address the issue I have raised? Hearing none, I yield back the 40 seconds I have, Mr. Chairman.

Mr. TERRY. Very good. The chair recognizes the gentleman from California, Mr. McNerney, for 5 minutes.

Mr. MCNERNEY. Well, thank you, Mr. Chairman. My daddy was a home builder, so I appreciate the work that you all do, and I appreciate also how important home building is to our national economy not only in terms of employment but in terms of just giving people confidence in the economy and their spending and so on, so thank you for coming this morning. Thank you for passion.

I understand about 40 percent of our Nation's energy is used by buildings. Of course, part of that is by commercial buildings and part of that is by home buildings, but I am very interested in energy-efficiency housing. So I would like to address my first question to Mr. Nadel. How much specialized training is required by the workers to produce high-efficiency, even net-zero housing as opposed to what would be required in terms of the building materials to accomplish those goals?

Mr. NADEL. It will vary depending on the technique employed but generally it will require some extra training in terms of a very careful installation to prevent air leakage and whatnot, how to install some of the new materials, but it is not dramatic. There are usually short training courses available to help people get certified in doing these types of techniques.

Mr. MCNERNEY. Well, how much does it cost, say, to build a net-zero home compared to a standard home?

Mr. NADEL. I don't recall for a net-zero home. For a home——

Mr. MCNERNEY. For a high-efficiency home.

Mr. NADEL. For a high-efficiency home that uses half the energy of a typical new home, the estimates range anywhere from $1,000 to $4,000 or $5,000, depending on the type of home and who does the estimate, but these are for homes that cost hundreds of thousands of dollars.

Mr. MCNERNEY. That sounds like a pretty good bargain. Does anyone else care to address the question that I posed about training requirements?

Mr. KUBAT. This could be just a little different spin on it, Congressman, but a comment that maybe goes back a little bit to Ms. Blackburn too, but I had talked about over-regulation and the difference in regulation. In our manufacturing plant, which is a little bit different than residential, there is an OSHA standard for air quality. In the State of Ohio, the Ohio EPA also has a standard for air quality, and I don't know if the Ohio EPA standard is based off of a federal EPA standard but it is significantly less than the

OSHA EPA standard. So our plant more than meets the OSHA EPA standard but did not meet the Ohio EPA standard, and as a result of that, the Ohio EPA, I am going to use the word "mandated", which could be a little strong because there wasn't another solution that was—and a waiver was not available—that we are expelling in the winter time about 20 percent of the heated air in that plant out of the plant just out stacks into the atmosphere to meet the air standard of the Ohio EPA, and I think this question of, you know, where is the regulatory balance, how do we get to an OSHA standard that says we have also met versus an EPA standard, and I am going to call it Ohio EPA standard that we are not meeting, and the solution is take 20 percent of your heat out of your plant and——

Mr. MCNERNEY. Mr. Kubat, I appreciate your concern. Do you have legislative suggestions to alleviate this burden that would also ensure safety and quality of the product? Do you have any specific suggestions or are you just saying the regulations are bad?

Mr. KUBAT. I am not an engineer. I can't understand why there is an OSHA standard that we can meet and an Ohio standard that says it has to be significantly more, I am going to say more restrictive, and why is one so different than the other? I am not an engineer that can answer it other than they told me the answer is take 20 percent of the hot air out of your plant and blow it out into the sky.

Mr. MCNERNEY. Well, I appreciate your concern. Perhaps some legislative suggestions would be more helpful than just saying that you don't like the current regime. Is Phillips Manufacturing producing energy-efficient components for new housing?

Mr. KUBAT. The materials that we produce are used as part of building construction. They are not necessarily a direct energy-efficient component. It is raw form metal steel, and steel itself is not an item which would create an insulation or an energy barrier.

Mr. MCNERNEY. Thank you. Mr. Martin, you mentioned the difficulty finding labor. You know, given the high unemployment in the last few years, do you have any way to explain why we are still having labor shortages in specific areas?

Mr. MARTIN. Well, in Texas specifically, the unemployment is down mainly because of the energy sector and the two big oil plays, Eagle Ford shale and the Mill and Odessa play. So in Texas, we have a real problem because the oil industry is paying so much for their workers that they are leaving construction and going into energy. So that is our problem.

Mr. MCNERNEY. At least locally?

Mr. MARTIN. Yes.

Mr. MCNERNEY. Thank you, Mr. Chairman. I will yield back.

Mr. TERRY. Thank you, Jerry. And now I will recognize the gentleman from Texas, Mr. Olson, for 5 minutes.

Mr. OLSON. I thank the chair, and welcome to our panelists. As you know, this is the Subcommittee on Commerce, Manufacturing, and Trade, CMT. I assume I am speaking for Mr. Martin, we should change that to mean Come Move to Texas.

Mr. TERRY. I object.

Mr. OLSON. I have a question for all of you if I have time, but first of all, I would like answers from Mr. Martin and Mr. Judson.

Clearly, I know I am blessed living in Texas 22. Right now, at least 100 new homes are being built within 2 miles of my home in Sugar Land, Texas. The sounds of cement trucks, of hammers hitting nails at 7:00 in the morning are commonplace. But that growth we are experiencing in Texas is threatened by a shortage of labor. I know it is hard to find qualified workers. Mr. Martin mentioned unskilled workers such as framers, flooring personnel, HVAC, plumbers, painters, bricklayers, and the lure of the high-paying, low-skilled construction jobs is long gone. When I was growing up in the 1980s an 18-year-old, I could not get a construction job, and I craved a construction job. Those jobs paid six-plus dollars an hour compared to working minimum wage in some restaurant for just a little over two bucks and change. I mean, I wanted to get in that hot, boiling Texas sun with that asphalt, spread that wherever that needed to go because I am getting paid six bucks an hour. I love my 13-year-old son but his generation won't make that choice. The work is too tough. I know that immigration reform is part of the solution but we have proven we can't tailor our economic needs with our immigration policies. Somehow we have to get American kids interested in these jobs again.

So my question is, what can we do to encourage our youth to get involved in these jobs again started in the high school and community colleges? What can we do? Mr. Martin, you are first up, sir.

Mr. MARTIN. As I said earlier, right now on Governor Perry's desk is H.B. 5, which is reforming our school system to allow for vocational training, and I think that will go a long way to start helping. The problem is, as I said earlier, right now the average age for a plumber, electrician, HVAC technician is in the upper 50s, so they are getting closer to retirement age and there is this huge gap of the skilled workforce that we are going to have contending with as we try to bring these young high school kids and right-out-of-high-school kids up into the trades and get them trained so they can make a good living despite the lure of the oil and gas industry, but I think you have got to start this vocational training that we have in Texas had for 10 years.

Mr. OLSON. Yes, and growing up, I took shop, wood shop, in 8th grade. Now seniors in high school is the first chance you have to take wood shop. Look, I have got all 10 fingers. It was safe. I learned a lot.

Mr. Judson, a national perspective. What can we do to get kids excited about these jobs again, get Americans working in the construction industry?

Mr. JUDSON. The educational training is the key, whether it be through the Home Builder Institute—I mentioned earlier about the deglamorization that has taken place for this industry. Kids coming out of high school do not want to go into the construction industry. It is a respected trade. It has been for years when we were coming up and working in the construction trade industry. It is now perceived that way now. I think there is a perception in the industry and some things that we as an industry need to do to indicate that it is a respected trade and it can be an industry that will foster from a beginning as a bricklayer to running a bricklaying crew. If our average member has 10 or so employees, that is a painting crew, that is a drywall crew, but until the high school student rec-

ognizes that is an opportunity for him to advance himself in his own career, it won't happen.

Mr. OLSON. And Mr. Kubat from Phillips Manufacturing perspective, running out of time but what can we do to encourage our kids to get that education?

Mr. KUBAT. Well, I am going to go back to my prepared comments. I think it is a question that somewhere over time, however it was generated, the educational system has encouraged everyone to prepare for a college education, and not all people should be going to college. Some people have natural skills. Some people are born musicians, some people maybe have math skills. Maybe some people are born to be a doctor. But there are a lot of people that are born to be plumbers, electricians, I am going to call it tool-and-die craftsmen, but there is no opportunity for them to get trained, least in the experiences that we are seeing in the States that we operate in, either in the high school or the community colleges, and somehow we have to get that back into the system so that they see that these opportunities are there, and the level of unemployment we have now compared to the jobs that are available are simply people who do not have the skills or a place to go for training other than on-the-job training or employer-provided training to learn these trades. We have got to get it back to where it comes in at a much younger level. I am going to go back, and as you referred to, Congressman, as the shop classes that started in the high schools and then were continued in the community colleges and network those with manufacturers and contractors so that they can get credit while they work out on the job. Most of us learned a lot of what we learned not necessarily in school but on-the-job training when we got out of school, whether that was part of what we are doing in white-collar work or what people were doing in blue-collar work. Somehow we have got to get businesses, contractors to interact with the schools and get people back into training that will provide them a long-term skill and a long-term opportunity for compensation and retirement.

Mr. OLSON. I am way over my time so I yield back, Mr. Chairman. Mr. Stevens, Mr. Bozzuto and Mr. Nadel, I will get you those questions for the record. Thank you, Mr. Chairman.

Mr. TERRY. All right. Mr. McKinley, you are recognized for 5 minutes.

Mr. MCKINLEY. Thank you, Mr. Chairman. And Mr. Nadel, thank you very much for talking about our Energy Savings Act. I hope that we will get adequate consideration and we will get that bill worked.

But perhaps my remarks should have been in an opening statement but I come from the construction industry. I started in construction in 1965, and I had a home building company over 40 years ago I started that, so I come with some degree of awareness of what we are talking about here. But the concern I have not heard voiced strongly enough, maybe it is not your fault but I want to hear some direction. How are we going to get affordable housing for middle-class Americans and low-paid people across this country? I am looking for something in the $125,000 to $175,000 range. How are we going to achieve that in new homes or are we going to tell our American citizens they are not entitled to a new home,

they have to buy an older home and renovate it? I am really curious about where we are going as a country when we are dividing our major urban centers against rural America, and rural America cannot afford $300,000 and $400,000 homes when they are on an income that may be only $40,000 a year. So I am really curious. I hear the issues that you are talking about and I have experienced as a contractor, an engineer, an architect. I understand all those aspects. But I want to see from the other perspective, what are we doing for the people to give them homes that they can afford. Yes, sir.

Mr. BOZZUTO. Mr. McKinley, I think perhaps we haven't been as clear. When we object to regulation or express concerns about regulation, there is an unstated bias behind that, which is that our goal is to provide in the apartment industry is clearly the most affordable form of housing that can be built, but every time a regulation is mandated, no matter how meritorious, there is a cost implication that we end up having to put on, and this tradeoff that you have so appropriately pointed out is the one that is a struggle for us all of us in our industry. None of us want to see energy consumed unwisely. None of us want to design buildings that are not accessible to everyone. And yet every time a new law or regulation is enacted, whether at the federal level, the local level or the State level, or all together, it adds to the costs, making it more difficult for our industry to make housing affordable.

Mr. MCKINLEY. Are there responses from some of the others as to how we might be able to achieve more affordable housing? I really don't want to get a point that we tell middle-class America they are not entitled to a new home, they can't afford one, they have to buy an older home and fix it up. I think everyone in America, I would love to see them be able to reach out so that they can have a new home. I can remember the first home I built was affordable housing, $30,125. People could afford that. Yes, sir?

Mr. JUDSON. I would echo Mr. Bozzuto's comments about regulation. It accounts for somewhere between 18 and 20 percent of the cost of a home, and that is not to say that all regulation is bad or that all codes are bad because they certainly are not. We support things from quality and safety to the energy efficiency but there is a point of diminishing return on all those components. We think a commonsense approach needs to be taken. We think that the bureaucrat regulators, and I say that with all due affection, need to use some common sense when you are adding, 10, 15, 20 percent to a house and it is not a function of soundness or safety and maybe it is not as necessary as what you might think. You have got 20 percent to the cost of the land. If there were some leniencies allowed for affordable housing when you are developing a piece of property and you could do it for half of that cost, you have cut 10 percent out of the cost of the production of that house. So there are a lot of small components that could go into reducing that $130,000 house to $100,000 if that is what you had the cooperation in generating.

Mr. TERRY. All right. The gentleman's time is expired. The chair recognizes Mr. Johnson from Ohio.

Mr. JOHNSON. Thank you, Mr. Chairman. I associate myself with the comments that some of my other colleagues have made. The

American dream for millions of Americans is embodied in the idea of owning their own home, of finally putting a stake in the ground and saying this is my domain, this is my family, this is where we are going to plant our roots. And so this hearing that showcases the importance of the housing and rental market I think is extremely important to the American people. There is no doubt that the housing market is one of the main drivers of our economy, one of the main indicators as to the health of our economy as a whole, and we should do everything in our power to help not only these gentlemen and their companies sitting at this table but those all over the country have the resources and the ability, the tools that they need to help the millions of Americans find housing, build that home, enjoy the American dream and at the same time create the millions of jobs that are in the waiting.

My first question is for Mr. Judson. There have been a number of articulates lately talking about rising building-material costs. What obstacles are builders facing in terms of obtaining necessary building materials to complete their projects?

Mr. JUDSON. It is unfortunately a supply-demand scenario that is not uncommon. As was pointed out by Mr. Stevens, they had shuttered plants. The productive capacity has been diminished, and now that the industry is picking up again, it is a catch-up between building materials and the price but the prices escalate so dramatically as would be expected. It is not a price-gouging issue, it is just a supply-demand agreement between buyer and seller. But as was pointed out, if plants are operating more efficiently, if they can be brought on a little quicker, we can minimize the peaks and valleys in those cycles.

Mr. JOHNSON. Are there any actions that you think Congress should take to try to help resolve that problem?

Mr. JUDSON. From what I have heard today and what I have heard around the industry as I travel in the country is, the regulation for starting back up some of these plants is different than it might have been when those plants were built 5 years ago. So to have to operate to a new standard creates some hardship for them financially and creates some time delays in bringing that product back online.

Mr. JOHNSON. Now you are talking about regulatory reform again.

Mr. JUDSON. Yes, sir, I am.

Mr. JOHNSON. And I agree with you. I am not saying that in a negative way. I agree with you. Every time a new regulation comes out that stymies the industry, that puts a plant out of business, even a new owner that might come in and try to start that back up, it takes more money, more time. You lose a lot of the intellectual property of the workforce, and it is a problem.

What about on the soft side, the money side? I hear another common concern from home builders, realtors and potential home buyers the inability of obtaining loans and financing. Now, we all know that there was a serious problem in the last decade of predatory loan making and people taking out loans for which they simply could not meet their obligations. However, it now seems that perhaps Congress and federal regulators have overcorrected these mistakes and are stopping qualified home buyers from obtaining the

funds they need. You addressed this in your testimony as well as your opinion that the issue is ripe for Congressional action. Can you talk a little bit more about that? What do you think we ought to do?

Mr. JUDSON. Well, the two bills that have been introduced already are solid bills. They have bipartisan support, and I don't recall off the top, but I think it is Senate Bill 1002 and maybe the House 1255, but they both are pragmatic, they are both logical in their approach and again, as I mentioned, they are bipartisan. I think if there is lending available to the builders, then the houses can be built at a more affordable cost because builders now are paying almost a usurious rate for funding, to get funding. They are not getting it through the lending institutions that we traditionally were afforded.

Mr. JOHNSON. One more quick question in my remaining time. What would the Wood MACT rule, the EPA's proposed Wood MACT rule, how that would affect you folks? Mr. Stevens?

Mr. STEVENS. In my testimony, what I said is, the current version of the Wood MACT would cost LP about $13 million with really no improvement in technology or in productivity.

Mr. JOHNSON. And basically that is going to cost jobs, that is going to cost passing on costs to your customers. I mean, that money doesn't come out of thin air, right?

Mr. STEVENS. It is going to increase—not only do we have a $13 million capital expenditure but also increase our use of natural gas.

Mr. JOHNSON. Mr. Chairman, thank you. I yield back.

Mr. TERRY. Thank you. The gentleman's time is expired. Now the gentleman from Florida is recognized for 5 minutes.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I appreciate it very much, and I thank the panel for their testimony, and this question actually goes to the entire panel, whoever would like to respond.

In recent months, sales of single-family homes in the Tampa Bay area, St. Petersburg, Clearwater and Tampa, that area, have risen by more than 17 percent. Throughout the entire State of Florida, sales have been up by almost 10 percent. While this is good news, many analysts have suggested that most of these sales are being made to cash investors, and I see that as well. To what extent does new home construction follow the trends in the larger real estate market? Who would like to go first?

Mr. JUDSON. I will be glad to start. We go back to that supply-demand scenario. Florida was the epicenter of foreclosure, so the people are going in now to gobble up these houses and pay cash for them, many times from an investor standpoint. But as that supply diminishes, you are going to see new construction follow suit because you still have that pent-up demand. More families are being created. About 40 percent of the homes sold in this country are first-time buyers. So as those people are beginning to go into the market to look for homes and there is nothing available, new homes will be built, and if financing is available, not only for the construction process but for their permanent financing, then the economy will start again.

Mr. BILIRAKIS. Very good. Anyone else? Thank you very much.

Next question. This is for Mr. Bozzuto. You urged Congress to insist that any new rules from HUD or EPA or DOE have demon-

strable benefits that justify the costs of compliance. Can you identify any current or proposed rules that do not meet that standard in your eyes?

Mr. BOZZUTO. Well, I guess I will cite a recent HUD rule where HUD has changed the lending limits and requiring that on larger loans, the amount of equity that is required from the developer has to be significantly different, greater than it had been previously, yet this change was done absent any experience with loans of that nature having gotten in trouble. So it is the kind of thing that has major impacts on the industry, particularly if one was in the middle of the process. I suspect if I had 24 hours I probably could come up with 100 examples of rules and regulations that are in the nature of having been imposed because they were good ideas but not having any real benefit economically that justifies the costs associated with them.

Mr. BILIRAKIS. Thank you. Anyone else want to jump in? Well, thank you very much, Mr. Chairman. I appreciate it. I yield back my time.

Mr. TERRY. Thank you, Mr. Bilirakis. Now, Mr. Bozzuto, you don't have a question because we are done, but one of the things that we get to do as Members of Congress is to submit questions to you to answer. Mr. Nadel, you didn't have an opportunity to provide additional comments when we were talking about energy efficiency. You can guarantee I will submit a question, so you can provide that answer. Mr. Bozzuto, we will probably ask you a question giving you that opportunity to those list hundred examples. You may not have to be 100 but some good examples. Thank you.

And for those folks that we submit a written question to you, we would appreciate a timely answer. Timely would be within a few days for me, for some folks it could be 6 months but I prefer a week or two, OK? I would appreciate the timely answer. You guys were excellent. All of you provided us good insight on a variety of different topics, and you are now excused. We are going to take a couple of minutes while we switch panels here, and you will see some work on our microphones. We have learned in our backroom, they couldn't hear the witnesses. So we are going to see why that is occurring. So thank you all. You are dismissed.

Again, I will ask unanimous consent to let Mr. Welch speak for 1 minute. Hearing none, you are recognized. The gentleman from Vermont is recognized.

Mr. WELCH. First of all, I thank the chairman, but I want to reassure the panel that you will be treated much better than I was when I arrived.

I want to thank everybody for coming but I especially want to thank Ludy Biddle from NeighborWorks, who has been doing this incredible job in Vermont getting energy efficiency out into the remotest parts of a rural county and an old urban city, a city we are very proud of, Rutland, and the thing that has been so exciting, Ludy, to watch your work was, it is regular people getting out and making direct contact with homeowners and wading through all the challenges, financial and practical, that they face to make that decision to retrofit their homes.

Mr. Chairman, I was down one time visiting some homes that they have worked on but then I went into this class where there

were all these folks who were laid out because of the housing collapse. This was a few years ago. And they were learning about how they could use their skills to do something in their neighborhood to save their neighbors money and get them back earning cash. So it has been so tremendous to see the implementation of an idea. You know, we talk a lot around here but you all do get things done, and we really appreciate it. So thank you so much for being very proud and I am very proud of all the work that you and your team have accomplished.

Mr. TERRY. Thank you, Mr. Welch. Now the rest of you probably won't have as glaring an introduction as glowing as that one was, but Ms. Biddle, you deserve that, especially as being our only woman panelist today, so I appreciate you being here.

So by introductions, I am going to go down as I did before, and when you start to speak and are recognized, I will give you your introduction, so Mr. Robinson, Buddy, is Senior Vice President, General Counsel and Corporate Secretary for Kohler Company, who I think we have a few of your products in our house.

Mr. ROBINSON. I am glad to hear it.

Mr. TERRY. And so you are now recognized for 5 minutes.

STATEMENTS OF JAMES M. "BUDDY" ROBINSON, IV, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY, KOHLER COMPANY; WILLIAM SHAW, FOUNDER, WILLIAM SHAW AND ASSOCIATES; MARK WILHELMS, VICE PRESIDENT OF ARCHITECTURAL SALES, MIDWEST BRICK AND BLOCK; LUDY BIDDLE, EXECUTIVE DIRECTOR, NEIGHBORWORKS OF WESTERN VERMONT; AND BRIAN BOVIO, OPERATIONS MANAGER, BOVIO ADVANCED COMFORT AND ENERGY SOLUTIONS

STATEMENT OF JAMES M. ROBINSON, IV

Mr. ROBINSON. Thank you, Mr. Chairman and members of the subcommittee. I am Buddy Robinson, I am with Kohler Company, and I thank you for the opportunity to present Kohler Company's perspective on the current housing situation in the United States and prospects for its future.

Although housing starts may exceed a million for 2013, no one in the industry would claim this is a robust market by historic standards. It is well below the 2 million starts we experienced in 2005 but, thankfully, it is appreciably above the 500,000 starts at the bottom in 2009.

Kohler Company has played an important role in housing for more than a century. We will celebrate actually our 140th anniversary later this year. John Michael Kohler, an Austrian immigrant, came to Wisconsin, bought a farm implements company making cast-iron and steel implements in 1873. He took a product out his line, heated it up to 1,700 degrees Fahrenheit. He put a bunch of enamel frit on it and he took a picture, he put in his catalog and he said of the product, it would work as a horse trough or hog scalder, that when furnished with four legs will serve as a bathtub, and thus Kohler got into the bath business.

So Kohler ideas, craftsmanship and technology are at work all around the world. We currently have four corporate groups: kitchen

and bath, power, interiors and hospitality. We employ more than 30,000 associates. We have operations including more than 50 manufacturing facilities and we sell our products literally on every continent.

Generally speaking, Kohler Company is bullish on the prospects for continued recovery and growth in the housing market. However, there are a number of economic obstacles and federal policies confronting America that could detail our rosy outlook. I will turn to a few of those now.

First, home buyers and remodelers need access to affordable financing. Simply put, we need policies that encourage private institutions to participate in the home finance market. We need clarity in rules and regulations surrounding lending standards. We need consistent regulation and certification of appraisers and a greater general sensitivity in Washington toward burdensome processes that add time and cost without meaningful benefit to the mortgage finance market.

Secondly, we need national water-use standards based on science. Patchwork regulations applied selectively create unreasonable burdens on enterprises and they virtually guarantee a race to the lowest water usage levels regardless of good science or maximum efficiency. Kohler wholeheartedly supports the EPA Water Sense program. This is a public-private partnership promoting water efficiency, and it is working well. It deserves congressional funding. EPA reports that Water Sense-labeled products have helped Americans save $287 billion gallons of water. That is $4.7 billion in water and energy bills, you know, avoided. And we are proud to have been named EPA Water Sense Manufacturing Partner of the Year three times since the program was launched in 2008 including this past year in 2012.

Thirdly, we need policies that build the skilled and unskilled workforce. Kohler Company supports the intent of the comprehensive immigration reform pending in the Senate. It is overdue. As we face growing shortages in plumbers and other skilled trades, government should be doing what it can to support vocational and trade schools as well as supporting qualified apprenticeship programs. Furthermore, we need to offer work visas to all who graduate from U.S. colleges and universities, particularly those with science and engineering degrees.

And finally, there needs to be greater sensitivity in government to rules and regulations that drive up manufacturing costs. Often we do not have sufficient lead time to prepare for oncoming regulations. In other cases, good science is missing and decisions are based on faulty or incomplete studies. In still other instances, contradictions occur between and among federal agencies that share regulatory responsibilities.

So in conclusion, housing has pulled the U.S. economy out of every recession since the Great Depression. It remains critically important that governments at all levels help create and support an environment conducive to home building. Kohler Company's success illustrates what industrious immigrants can accomplish through the free enterprise system and a healthy housing sector.

I thank you for this opportunity and look forward to your questions.

[The prepared statement of Mr. Robinson follows:]

Testimony
James M. (Buddy) Robinson IV
Senior Vice President-General Counsel and Corporate Secretary
Kohler Co.
House Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing and Trade
June 4, 2013

I. Introduction

Mr. Chairman, Members of the Subcommittee. Thank you for the opportunity to present Kohler Co.'s perspective on the current housing situation in the United States and prospects for its future.

As others have noted, U.S. Census Bureau figures showed that U.S. builders broke ground on fewer homes in April than in the previous month, when they hit the rate of just over 1 million starts, the highest level since 2008. Analysts quickly blamed the decline on drops in apartment construction, which can be volatile. At the same time, housing sales rebounded smartly in April, and applications for building permits achieved the highest rate since June 2008. Although housing starts may exceed 1 million for 2013, no one in the industry would claim this is a robust market by historic standards. It is well below the 2 million starts of the 2005 boom levels, but appreciably above the 500,000 bottom experienced in 2009.

Generally speaking, Kohler Co. is bullish on prospects for continued recovery and growth in the housing market. However, there are also a number of economic challenges and federal policies confronting America that could derail our rosy outlook if they are not addressed by Congress.

Primary among these is accessibility to affordable housing and remodeling financing. That takes into account incentives such as the mortgage interest deduction and other critical

housing tax incentives. Accessibility includes protecting home values by preventing foreclosures and maintaining home ownership. It also means maintaining a balanced, consistent and appropriate level of government support for the housing finance system. If home buyers are denied access to affordable housing credit, a housing recovery will not occur, and economic growth will stall.

II. Kohler Co.

Before I go into more detail, let me first tell you about Kohler Co. Our company's founder, John Michael Kohler, was an Austrian immigrant, a businessman and a visionary. The year was 1873, an unlikely time to start a new business in America. Despite the economic uncertainties of the day, John Michael Kohler purchased the Sheboygan Union Iron and Steel Foundry, never anticipating the growth of the company that eventually would bear his name.

The firm produced cast-iron and steel implements for farmers in the area, castings for the city's furniture factories and ornamental iron pieces that included hitching posts, cemetery crosses, urns and settees.

In 1883, Kohler took a product in his line, heated it to 1700°F and sprinkled it with enamel powder. Placing a picture of it in the center of his one-page catalogue, he called it "a horse trough/hog scalder . . . [that] when furnished with four legs will serve as a bathtub." Kohler was in the plumbing business.

Like Kohler himself, many of the early employees were immigrants. Kohler Co. opened The American Club® in 1918 to house single male employees in comfortable surroundings at

an affordable cost across the street from the factory. Their dedication to excellence helped forge one of the oldest and largest privately held companies in the United States. Kohler ideas, craftsmanship and technology are at work today worldwide. From those humble beginnings, our company has grown far beyond what John Michael might ever have imagined, and his name has become synonymous with quality and originality. Our plumbing products, exquisite furniture, tile and stone, engines and generators, and hospitality and real estate lead the way to enhancing our customers' sense of gracious living.

The company is composed of four corporate groups: Kitchen and Bath, Power, Interiors, and Hospitality.

The Kohler Kitchen & Bath Group is a recognized global leader. It offers diverse product lines of fixtures, faucets, cabinetry and accessories from a powerful portfolio of brands that continually set new standards in design, craftsmanship and innovation – tied together by a singular level of quality over a broad range of price points. The Kitchen & Bath Group encompasses an extensive family of businesses around the world that manufacture plumbing products and cabinetry for the residential, commercial and industrial markets. It includes the well-known KOHLER®, STERLING®, ENGLEFIELD®, HYTEC®, JACOB DELAFON®, Karat and Novita plumbing brands; European showering brands Mira, Daryl and Rada; and cabinetry brands KOHLER and Sanijura for the bath. From the first 7 gallon Wellworth toilet introduced in 1936, to the 1.28 gallon Wellworth offered today, Kohler has been at the leading edge of innovation in water conservation.

The Kohler Global Power Group has been providing dependable power solutions in the United States since the early 1920s. From the introduction in 1920 of the Kohler Automatic Power & Light, the world's first engine-powered electric generator, and the first Kohler engine introduced in 1948, the Kohler Power Group has grown into a worldwide organization encompassing generators, transfer switches, switchgear and controllers; as well as gas, gasoline and diesel engines. It comprises Kohler Power Systems (U.S. and Asia), SDMO Industries (France) and Maquigeral (Brazil) that manufacture generators for residential, industrial, portable, mobile and marine applications, with a power output range of 4 to 3,250 kilowatts. Uninterruptible Power Supplies Ltd. (U.K.) is a leading provider of power protection product and services solutions. Kohler Engines (U.S. and Asia) and Lombardini (Italy) manufacture a wide range of gaseous, gasoline and diesel engines, from 4 to 74.3 horsepower, which are supplied to equipment manufacturers worldwide in the lawn and garden, commercial and industrial, agricultural and construction markets.

The Kohler Interiors Group consists of two home furnishing sectors – Decorative Products and Furniture – that offer exquisite collections by some of the world's most recognized designers, as well as a breadth of products by its talented in-house design teams. The group provides unprecedented indoor and outdoor options for residential and commercial projects and includes furniture brands Baker®, McGUIRE® and MARK DAVID®; and decorative products brands ANN SACKS® tile and stone, KALLISTA® plumbing, and Robern® mirrored cabinetry and vanities.

The Kohler Hospitality & Real Estate Group includes The American Club, boasting the first and only Forbes Five-Star hotel property in Wisconsin, and world-renowned championship golf courses Whistling Straits and Blackwolf Run. Kohler Co. also owns and operates the AA Five Red Star Old Course Hotel, Golf Resort & Spa in the birthplace of golf, St Andrews, Scotland. The Hotel stands astride the 17th hole of the Old Course and the North Sea. Just behind the 18th hole, Kohler Co. is renovating what will be known as Hamilton Grand, with 26 apartments.

Throughout its history, Kohler has expanded into new markets from its manufacturing base in Wisconsin. The company has sought to locate manufacturing operations in the markets it serves rather than shipping products manufactured in one market around the world to another. Today Kohler is comprised of more than 30,000 associates, operating more than 50 manufacturing plants around the world, serving customers on every continent. And when we say every continent we mean it. In 1934, Admiral Richard Bird took Kohler generators on his second expedition to the South Pole, only to discover that the Kohler generators left behind from his first expedition in 1929 still were operational.

While this may sound like a commercial for Kohler Co., it is really a public service announcement on behalf of America free enterprise, ingenuity, innovation, environmental sustainability, and commitment to the highest standards!

At Kohler Co. the corporation and each associate have the mission of contributing to a higher level of gracious living for those who are touched by our products and services. Gracious living is marked by qualities of charm, good taste and generosity of spirit. It is further

characterized by self-fulfillment and the enhancement of nature. We reflect this mission in our work, in our team approach to meeting objectives and in each of the products and services we provide our customers.

We endeavor to conduct ourselves in accordance with the following guiding principles:

- Live on the leading edge of design and technology in product and process.
- Maintain a single level of quality across all product categories. Prices will vary based on differences in materials, functions and design detail, but should never vary in quality.
- Provide consistent quick delivery to the end user.
- Employ service-minded people who enjoy solving problems, are passionate about their work and business, take ownership and are accountable.

If practiced as a whole, these principles establish our reputation. They help us generate market share growth by creating a competitive edge that cannot be duplicated. Foremost, these principles will enable attainment of our Mission. They will leave a lasting memory that will make people smile.

III. Important Issues Facing Conress

Issues facing the 113th Congress are serious and need your steadfast attention if we are to sustain the housing recovery. There are five priority issues that concern Kohler Co.

1. The first issue is: Access to affordable financing by home owners and remodelers.

Kohler Co. has followed closely federal efforts over the last year to affect positively the housing market, and we have been disturbed the lack of progress and agreement so far on a course of action.

A year ago, Federal Reserve Chairman Ben Bernanke sent a White Paper on Housing to Congress. He stated, "Restoring the health of the housing market is a necessary part of a broader strategy for economic recovery." He was criticized for interfering in an area that was the purview of Congress.

At about the same time, the President unveiled a plan to help struggling homeowners refinance their mortgages, to be funded by a tax on large financial institutions. The paper released last year by the Treasury Department spelled out three broad policy options for reforming government-sponsored entities and the Federal Housing Administration. However, the Administration refrained from pushing it.

A recurrent theme throughout Bernanke's paper was that government-sponsored entities (GSEs) such as Fannie Mae and Freddie Mac should continue to play a prominent role in housing markets and that a policy of no action, or simply allowing foreclosures to take place until the market bottomed out, would only prolong "downward pressure on the wealth of current homeowners and the resultant drag on the economy at large." While calling for GSEs to continue playing a role, Bernanke's report was critical of institutions such as Fannie and Freddie for focusing too much on their own profits and not enough on what they do best for the national economy. V So far, no decisive action has been taken on GSEs.

In early May, the President nominated Rep. Mel Watt (D-NC), a veteran member of the House Financial Services Committee, to be director of the Federal Housing Finance Agency which oversees Fannie and Freddie and other GSEs. As this is a critical position that should be filled, we hope the Senate will consider his nomination thoughtfully and without undue delay.

Media reports said that the Treasury Department has been ready to release a more detailed plan, but has withheld it because of political consequences.

Simply put, we need policies that encourage private institutions to participate in the home finance market; clarity in rules and regulations surrounding lending standards; consistent regulation and certification of appraisers; and a greater sensitivity in Washington toward burdensome processes that add time and cost without meaningful benefit to the mortgage finance market.

2. Our second issue is: National water-use standards based on science.

Kohler Co. has an historic record of success in product innovation, technology advancements, water conservancy, environmental efficiency, and long-term sustainability. In support of this commitment, we need firm support from federal, state and local policy makers for national water-use standards that allow Kohler and other manufacturers to invent, produce and market plumbing fixtures and fitting, without local, state or regional variances that cause

havoc with manufacturing and distribution. Such harmonized regulations need to apply to all market participants, large and small, domestic and foreign.

Patchwork regulations applied selectively create unreasonable burdens on enterprises and virtually guarantee a race to the lowest usage levels, regardless of good science and maximum efficiency.

Before World War I, an environmentally sensitive Kohler Village was designed and built, envisioned by Walter J. Kohler, son of the founder and CEO of the company for 35 years. He considered its development as "the serious business of building a fine American city, with opportunity for home ownership in agreeable surroundings, all tending toward a national home life."

After extensive studies of European planned garden cities, Kohler retained the Olmsted Brothers of Boston, famed for designing New York's Central Park, to design the overall village plan. The plan, which followed the typography of the land as carved out by the meandering Sheboygan River, was amazing in its foresight. Among other avant-garde environmental concepts, it was surrounded by a 900-acre green belt that assured, as one executive said, "We will never end at someone else's backyard."

The factory was built on the east side of the village to assure that prevailing westerly winds would settle out particulate from the foundries on open space rather than on homes and people in Sheboygan. It was the earliest example of environmental protection.

In subsequent generations of Kohler family leadership, this environmental commitment has been continued. It is in the Kohler DNA!

When the current Chairman Herbert V. Kohler, Jr. took over the company reins in 1972, he provided the creativity and impetus for embarking on a plethora of environmentally sensitive plumbing products that defied the imagination. He also turned a garden village into a world-renowned hospitality and golf destination with his creation of Whistling Straits along Lake Michigan and Blackwolf Run in a village valley, both sites of professional golf tournaments in recent years.

The American Club®, built originally to house immigrant craftsmen recruited from Austria, Germany and other European countries in 1918, was reimagined as an award-winning hotel and resort, located across the street from the corporate campus. It has received the Forbes Five-Star Resort Hotel recognition and is the Midwest's only AAA Five Diamond Resort Hotel providing unique, luxurious décor that creates a singular quality experience.

David Kohler, Herb's son and now president and chief operating officer of Kohler Co., likewise has continued the commitment with a serious leadership position in furthering the corporation's commitment to water conservancy and sustainable development.

In 2008, David reset the company's strategy to more earnestly drive sustainability. In announcing the approach, he said, "Our sustainability strategy, properly conceived and executed, should not be about compromise or massive tradeoffs. It should be a win for the consumer, a win for the associate, a win for the environment, and a win for the company. Specifically, it must enhance growth and differentiation, while reducing cost."

Wholehearted support of the EPA WaterSense program is a case in point. WaterSense is a voluntary public-private partnership program to protect the future of the nation's water supply

by promoting water efficiency and enhancing the market for water-efficient products, programs and practices. Plumbing fixtures and faucets that qualify for the WaterSense label assure consumers of actual water savings and strict performance standards. EPA reported that WaterSense labeled products have helped Americans save 287 billion gallons of water and $4.7 billion in water and energy bills since the program's inception.

Kohler Co. was recognized by the EPA WaterSense program with the 2012 WaterSense Manufacturer Partner of the Year award for the company's efforts surrounding the education and awareness of water issues across the globe. Kohler was the first company to earn the Partner of the Year award in 2008 and won it again in 2009. The company was recognized further with WaterSense Excellence Awards in 2010 and 2011.

Kohler's 2012 efforts to promote water conservation included product placement in several high-profile projects and locations including ABC's Extreme Makeover: Home Edition; Yellowstone National Park; The House in Innoventions at Epcot, Disney World, Orlando, FL; PUNCHouse, Lisa Ling's personal home focused on sustainable living; and the World Trade Center museum restrooms in New York City.

Kohler Co. offers products that are designed to conserve natural resources while remaining true to a singular quality level.

Whether specifying plumbing products that help buildings earn LEED® water-efficiency points, reducing facility operating costs or accommodating the preferences of homeowners, water-saving Kohler fixtures and faucets address the challenging demands of customers and preserve one of our most precious natural resources.

3. Our third issue is: Fair and equitable treatment for trade channels, including online.

Preferences for Internet sales channels threaten traditional bricks-and-mortar stores and showrooms in our industry. These stores and showrooms provide local support for the plumbing trade, deliver service to consumers, and process product returns and exchanges. They are critical to providing consistent quality products and services, properly delivered and installed for consumers.

We support the Marketplace Fairness Act that levels the playing field between those who sell to customers in the traditional way and those who do so online. As law currently provides, sales tax in states that have imposed it should be paid by customers whether they purchase a product in store or online. MFA simply removes the current practice of sales tax avoidance by most online consumers.

4. Our fourth issue is: The Supply of a skilled and unskilled workforce.

Agreement appears to have been reached in the Senate to pass an immigration reform bill soon that, among other things, addresses the issue of expanding work visas for technical experts from abroad. Kohler Co. supports the intent of the bill, in this respect, and believes that comprehensive immigration reform is overdue.

The homebuilding industry relies on the contributions of a substantial immigrant workforce, which is critical in sustaining the national economy and meeting the needs of the nation's housing industry.

It is estimated that some 20 percent of the building industry's workforce is foreign-born. We believe that a workable system is necessary, but we believe citizenship should be handled as a separate issue. Congress should focus on the direct employer-employee relationship, and responsibility for the identity and work authorization status of employees may properly rest with their direct employer.

By easing the procurement of H1-B visas and liberalizing related visa issues, immigration reform will make it possible for American business and industry to access the skilled workers they need. This is very important to most U.S. industry.

The New York Times on May 25th reported, "While the populations of countries like the United States are aging, the number of innovative young people worldwide has never been higher. Countries like China, India, Brazil and Russia, despite recent slowdowns in growth, still are making progress in improving their educational systems and scientific networks. That increases their ability to supply technological innovations – scientists and entrepreneurs – to the United States. These gains can be reaped in coming decades."

As we face growing shortages in plumbers and other skilled trades, government should be doing what it can to support vocational and trade schools as well as supporting qualified apprenticeship programs. Furthermore, we should be offering work visas to all who graduate from U.S. colleges and universities, particularly those with science and engineering degrees.

Kohler Co. has a unique view of immigration. The company was founded by immigrants from Austria. Many of the early workers emigrated from Europe to work in Kohler, Wisconsin, in the early 20th century. Kohler provided well for the immigrants in housing at The American Club®, health care, recreation, and education. The company encouraged them to learn English, become U.S. citizens, and adopt the American way of life. Many of the decedents of these early employees work for Kohler today and through the generations have made a lasting contribution toward the company's success.

The Company's desire to attract talented immigrants to contribute to American prosperity continues to this day. Herbert V. Kohler, Jr., serves on New York Mayor Michael Bloomberg's Partnership for a New American Economy, a high-level committee of top U.S. corporate executives along with mayors of major U.S. cities, founded to support comprehensive immigration reform.

5. And finally, our fifth issue is: The elimination of onerous government rules and regulations that undermine progress for manufacturing enterprises, their employees and communities.

Kohler Co., like most components of the home building and remodeling industry, faces onerous government rules and regulations that drive up manufacturing costs, often force layoffs and sometimes plant closures, as well as encourage outsourcing.

Kohler Co. has formed a Public Policy Group comprising a cross-section of high-level company executives with a variety of corporate responsibilities impacted by government policies and regulations. This group keeps a close eye on legislative and well as regulatory actions that may result in such onerous government actions.

Among our 2013 priority issues are a series issues related to chemical use. Often when it comes to EPA, the Department of Energy, and other departments and agencies, we do not have sufficient lead-time to prepare for oncoming regulations (Lead and Copper Rule, implementation of the Reduction of Lead in Drinking Water Act, taking effect in 2014). In other cases, good science is missing, and decisions are based on faulty or incomplete studies (hexavalent chromium). In still other instances, contradictions occur between and among federal agencies that have some part of the responsibility of regulation (e.g., styrene: EPA, HHS, and NAS).

One of the more potentially damaging to the company and its employees and communities relates to what's known as "Clay MACT." That stands for Clay Maximum Available Control Technology. Without getting into the complex details, Kohler is in a unique position with its production facilities that can be corrected with the creation of a sub-category under the standard that would mitigate the impact on Kohler while meeting the intent and purpose of the rule.

We currently are working closely with EPA to develop sensible and appropriate standards in this case. Kohler wishes to stress that the manufacture of ceramic tile is substantially

different from the manufacture of sanitary ware, and therefore we urge EPA to use its discretion to establish separate ceramic tile and sanitary ware subcategories.

This will ensure that the resulting MACT floors will have the opportunity to appropriately reflect the differences in these manufacturing processes.

We also are encouraging Congress to formally authorize funding for the very successful, cost-effective EPA WaterSense program, which currently is funded from the EPA Administrator's budget, making it difficult for all concerned to plan ahead.

Kohler Co. supports efforts to prevent expensive, pointless regulations from impeding home building and remodeling, which add unnecessary costs to consumers. (Storm water permit requirements cannot be interpreted so broadly as to regulate puddles under the Clean Water Act!)

IV. Conclusion

In conclusion, I would submit that housing has pulled the U.S. economy out of every recession since the Great Depression. It remains critically important that governments at all levels help create and support an environment conducive to home building. Housing is, by its very nature, a driving force of local economic activity, whether it's new homes, remodeling projects or existing home care and maintenance. Much of the supply chain is local, with the result that all housing activity multiplies its economic benefit throughout the domestic economy.

Kohler Co. is one part of the supply chain to the housing industry, but our company's success illustrates what industrious immigrants can accomplish through free enterprise and a healthy housing sector.

Thank you.

Mr. TERRY. Thank you for your testimony.

Now, Mr. Shaw, you are the founder of William Shaw and Associates, and we look forward to your testimony.

STATEMENT OF WILLIAM SHAW

Mr. SHAW. Thank you. I appreciate the opportunity to testify this morning, Chairman Terry and members of the panel. My name is Bill Shaw. I am the founder of William Shaw and Associates. We are a design-build-remodeling company located in the great State of Houston, Texas.

Few industries have struggled more during the Great Recession than the home building industry. While remodelers have not experienced the extreme highs and lows like single-family home building, the remodeling industry has struggled over the last few years. However, predictions indicate a very gradual yet steady recovery. Fortunately, predictions—remodeling is an industry right now that is heavily regulated, and given the regulatory environment we face as an industry and as small businesses, I would like to share with you my thoughts on some key regulations that could hamper our recovery.

Recent amendments and changes to EPA's Lead Renovation, Repair, and Painting rule are already constraining our businesses. The final rule, which took effect over 3 years ago, requires renovation work that disturbs more than 6 square feet in a home built prior to 1978 to follow the new Lead Safe Work Practices. Poor implementation of the rule by the EPA has resulted in considerable compliance costs and his hindered both growth and energy efficiency upgrades in older homes. The first important change to the RRP was the elimination of a consumer's ability to waive compliance if no children under 6 or a pregnant woman resides in the home, also known as the opt-out provision. This change dismantled everything EPA originally included in the rule to ensure that it was not overly costly to small businesses. For small contractors, these additional costs have to be passed on to the consumer, which increases the chances that the consumer will hire another likely uncertified contractor do the work or, what we are finding a lot in Houston, they are going to do the work themselves, which may increase the likelihood of disturbing lead-based paint.

The 2008 RRP also relied on a new lead test kit. The EPA expected the more accurate test kit to be commercially available by the time the rule went into effect. Three years later, we still don't have a new test kit, and the old test kids can produce up to a 60 percent false positives, meaning that in many cases, consumers are needlessly paying additional compliance costs. We believe the EPA should reopen the rule and redo their cost-benefit analysis.

Another challenge we face is with green remodeling. The green remodeling trend is growing quickly, and I myself am a certified green professional. But one of the major barriers to investing in green construction is that appraisals often do not reflect the increase in construction costs or the value of future energy savings. If my customers cannot realize this value, they won't seek green upgrades. Voluntary green building rating systems, though, have helped demystify the value of green. While there are many in the market, the ANCI-approved ICC 7000 national green building

standard is widely used in residential construction. This standard focuses on energy efficiency, water and resource conservation, and more. There are minimal requirements in each of these categories. It also features an entire section dedicated to remodeling, a key to addressing the inefficiencies found in older buildings which are the real gas guzzlers of the build environment. Federal buildings must now meet green standards, but unfortunately, only one system is allowed: LEED. LEED is not a consensus standard. Agencies are required to use these standards because they allow for all relevant stakeholders to participate while also protecting against special-interest groups hoping to prioritize one particular product or technique. Second, giving one priority organization a monopoly does not promote innovation or cost-effective decision-making. Different rating systems may also be better suited for certain project types. Lastly, no standalone residential green standard was reviewed, even though 16 percent of the federal portfolio is residential space. GSA is currently reviewing this policy, and I hope their recommendation allows choice.

Thank you for the opportunity to testify today and I look forward to your questions.

[The prepared statement of Mr. Shaw follows:]

Testimony of William Shaw,
Founder,
William Shaw and Associates

Before the Subcommittee on Commerce, Manufacturing and Trade
Of the Energy and Commerce Committee

Hearing on "Nation of Builders: Home Economics"

June 4, 2013

Chairman Terry, Ranking Member Schakowsky, members of the subcommittee, thank you for the opportunity to testify this morning.

My name is William Shaw, and I am the Founder of William Shaw and Associates, a design build company located in Houston, Texas. William Shaw and Associates is a full service residential remodeling, design, and build company. We have been serving customers in the greater Houston area since 1984 when I founded the company. We focus primarily on residential renovations.

Few industries have struggled more during the Great Recession than the home building industry. The decline in home construction has been historic and unprecedented. Together, remodelers and home builders have weathered this economic decline. While remodelers have not experienced the extreme highs and lows, like single family home building, the remodeling industry has certainly struggled over the past few years. According to Harvard University's Joint Center for Housing Studies (HJCHS), spending on home improvements and repairs totaled $275 billion in 2011, down 4 percent from 2009 levels and some 16 percent below the market peak in 2007.[1]

The state of the remodeling industry has improved over time. Predictions indicate a very gradual, yet steady, recovery. According to U.S. Census Bureau estimates, home owner spending for improvements increased almost 9 percent last year alone. With the new home construction market still at historic lows, the effort to find work in retrofitting and upgrading older housing has been attractive to many builders. According to a member survey conducted by economists at the National Association of Home Builders (NAHB), 26 percent of their membership reported residential remodeling to be their primary business activity, while another 31 percent reported it to be a secondary activity. This implies that in "all," 57 percent of NAHB members were engaged in residential remodeling one way or another, topping the list as the activity with the highest overall share of builder involvement.[2]

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[1] *Joint Center for Housing Studies of Harvard University, 2013*
[2] *Survey conducted by Rose Quint, National Association of Home Builders, 2012.*

Remodelers have an acute understanding of how the federal government's regulatory process impacts real-world small businesses. Many of these regulations have made it signifigantly more difficult for us to do business and hampers job creation. Housing serves as a great example of an industry that would benefit from smarter and more sensible regulation. Given the regulatory environment we face as an industry and as small businesses, I would like to share with you my thoughts on key regulations that should receive increased federal oversight.

EPA's Lead Renovation, Repair and Painting Rule (RRP)

Recent amendments and changes to the EPA's Lead Renovation Repair and Painting rule (RRP) have further constrained our business. The final rule, which took effect April 22, 2010, requires renovation work that disturbs more than six-square feet in a home built before 1978 to follow new lead-safe work practices supervised by an EPA-certified renovator and performed by an EPA-certified renovation firm. Poor development and implementation of the rule by EPA has resulted in considerable compliance costs and has hindered both job growth and energy efficiency upgrades in older homes.

Elimination of the "opt out" provision

The first important change to the RRP was finalized on July 6, 2010, and eliminated a consumer's ability to waive compliance requirements if no children under six or a pregnant woman resides in the home. Not only does this change further restrict a consumer's choice about critical renovation work in older homes, but it also dismantles everything EPA originally included its original 2008 RRP to ensure that it was not overly costly to small businesses. As a means of regulatory flexibility, the EPA allowed homeowners in pre-1978 homes that do not have young children or a pregnant woman to waive a contractor's compliance obligations, or "opt out" of the RRP, when undertaking renovation work. The EPA stated that the inclusion of the "opt out" provision decreased the number of homes subject to the RRP from 77.8 million down to 37.6 million.[3] Furthermore, EPA states that the removal of the "opt out" costs an additional $507 million for small businesses in the first year alone.[4]

Without even giving the original rule a chance to work, the EPA immediately amended it by removing the "opt-out", thereby taking away a key measure that made it easier for homeowners to absorb the regulatory impact.

According to the U.S. Census Bureau's American Community Survey, approximately 38,317,131 owner-occupied housing units built before 1978 do not have a child under six living there. This is roughly 88.5% of all the housing stock in the U.S. built before 1979.[5] With the removal of the "opt out" provision, those homeowners no longer have the option of foregoing the costs of compliance with RRP when hiring a professional remodeler to work on an older house. For the small contractors, these additional costs have to be passed onto the consumer which

[3] *U.S. EPA, Economic Analysis for the TSCA Lead, Renovation, Repair, and Painting Program Opt-Out and Recordkeeping Proposed Rule for Target Housing and Child-Occupied Facilities, ES-2. (October 2009).*
[4] *Economic Analysis for the 2009 Proposed Rule (page ES-4)*
[5] *U.S. Census Bureau, American Community Survey. 2007 Public Use Microdata Files.*

increases the chances a consumer will hire another, likely uncertified, contractor to do the work, or worse, do the work themselves and actually increase the likelihood of disturbing lead-based paint. The restoration of the "opt out" provision would allow households that do not have young children or pregnant women the chance to undertake professional renovation work – most frequently energy efficiency upgrades – without facing compliance costs for a regulation that legitimately does not apply to anyone in the household.

Lead Test Kits

In addition to incorporating the "opt out" to reduce the number of homes subject to RRP, the 2008 RRP also relied on the existence of a accurate test kit that, at the time the rule was enacted, was not available. Under the rule, if a pre-1978 home is tested and the results indicate there is no presence of lead-based paint, the contractor can bypass RRP compliance. This is a reasonable component to the rule, but it also hinges on the existence of an accurate testing kit.

In drafting the rule, the EPA claimed that an accurate test kit would be commercially available by September 1, 2010. As a result, they explicitly rejected other options to reduce the cost of the regulation because of the anticipated test kit.[6] The new test kit (Phase II) was to supposed to replace the first version (Phase I), which EPA acknowledges has a significantly high false-positive result rate, with false positive rates ranging from 47%-78%.

EPA said it was committed to having more accurate kits, thereby reducing the number of false positives and saving costs on RRP compliance. In fact, EPA's cost calculations rely upon the availability of the Phase II kits beginning in September 2010. As of today, 2 ½ years after the EPA thought they would be on the market, Phase II test kits are still not available. To make matters worse, the EPA has no estimate as to when they will be available.

Although EPA is still allowing contractors to use Phase I test kits, the entire benefit of having better kits that would reduce the compliance costs for small businesses has been entirely overlooked. After months of informal pleas to EPA to adjust the RRP to account for the substantially higher compliance costs, NAHB formally petitioned EPA to undertake a rulemaking and develop a revised economic analysis on September 27, 2010. The EPA has never responded to NAHB's petition or other requests about the test kits. With inaccurate and overly-sensitive test kits, and the removal of the "opt out," there is little opportunity for relief for remodelers undertaking renovation work in pre-1978 homes. Given the unreliability of commerically available lead testing kits, NAHB believes EPA should delay the rule's effective date.

Commercial and Public Buildings Lead Rule

The RRP rule will likely extend to renovation, repair and painting activities on and in public and commercial buildings. EPA is in the process of determining whether these activities create lead-based paint hazards and, if any of them do, it will develop certification, training, and work practice requirements under the Toxic Substances Control Act (TSCA). While we support the goal of reducing lead exposure, we want to fully understand the purpose of this rule and the

[6] *73 Fed. Reg. 21712 (April 22, 2008).*

process EPA is taking to collect relevant data. Of particular concern, EPA has yet to provide the required Section 403 rule to identify "dangerous levels of lead" in public and commercial buildings. I believe that EPA should not move forward with a rulemaking without clear evidence and data showing lead poisoning risks.

Green Building

The green remodeling trend is growing quickly and ranges from basic energy efficiency improvements to installing high-tech solar panels. Remodelers are answering the call for improving the American housing stock by earning their Certified Green Professional (CGP) designation to scoring remodeling projects to green rating systems. Not all consumers are willing to pay a premium for green, however, in those markets with educated buyers with available funds, it can be profitable. It is important to understand that green building encompasses more than just energy efficiency and extends to indoor air quality, resource conservation, etc.

Green Appraisals

One of the major barriers for builders choosing to invest in green construction, which can be in and of itself a risky undertaking, is that appraisers unfamiliar with green construction often neglect to include the true value of this investment in their valuations. As a result, green homes, which can cost the consumer less money in utility bills and long-term operations/maintenance costs, do not always reflect the increase in construction costs or value of these future savings. Unfortunately this has turned some builders away from this market. We still have a long way to go in terms of educating appraisers, ensuring that they have access to the information about the property and urging the developers of appraisal manuals and software to include cost data on green and energy features.

Green Building Rating Systems

One tool that has helped demystify the value of "green" and spurred the awareness of energy efficiency is the use of voluntary green building rating systems. There are many credible systems being used across the country. Unfortunately, the government solely relies on the U.S. Green Building Council's LEED Rating System. This has given USGBC a monopoly in the federal environment and bolstered their reputation as the "authorized" standard. The Energy Independence and Security Act of 2007 (EISA) authorized the General Services Administration (GSA) to review existing green rating systems, make a recommendation for use by federal agencies and revisit this recommendation every 5 years.

Unfortunately, in the initial review, GSA selected the LEED® Rating System as the only rating system to be used for federal buildings. There are a number of problems with this recommendation. Giving one proprietary organization a monopoly for federal buildings does not promote innovation or cost-effective decision making. Furthermore, different rating systems may be better suited for certain project types and allowing agencies the flexibility to select the appropriate rating system for each project is a better approach. For example, GSA has not reviewed any stand alone residential green standards, even though 16 percent of the federal

portfolio is residential space[7] and having a system that targets this type of construction is essential.

LEED® is not a true consensus standard as defined by the American National Standards Institute (ANSI). Federal agencies are required by law to recognize and incorporate existing consensus standards in policy initiatives (National Technology Transfer and Advancement Act of 1995). A true consensus process allows for all relevant stakeholders and experts to participate, while also protecting against special interest groups hoping to prioritize one particular product or technique over another. LEED® does not meet this bar for a true consensus process.

In the residential sector, one of the more widely used rating systems is the ANSI approved ICC 700 National Green Building Standard. This standard applies to all types of residential buildings from single family homes to high rise multi-family buildings and focuses on energy efficiency, water conservation, resource conservation, indoor environmental quality, site design, and home owner education. It also features an entire section dedicated to remodeling, a key to addressing the inefficiencies found in older buildings, which are the real "gas guzzlers" of the built environment.

ICC 700 is unique among national systems for requiring that minimum benchmarks are met for each category, and these minimums increase with each certification level. This means that homes certified to the higher levels of ICC 700 are required to be more energy efficient, more resource efficient, etc. and the independent third-party verification system guarantees that these objectives are met. I was very surprised to learn that GSA did not even consider this Standard in its initial review of green building rating systems.

To comply with the law, GSA must revisit the recommendation every five years, and we are now waiting for their final ruling. I know that Congress is following this issue and many members of this Chamber have already weighed in with GSA. I am hoping that GSA allows the use of multiple rating systems, and in particular will examine residential construction.

Conclusion:

The deep recession that has pervaded all segments of the housing industry since 2008 continues to hold back economic recovery in the United States. The already-battered housing industry, however, cannot successfully face the forthcoming challenges while weighed down by additional regulatory burdens and requirements that provide little benefit.

I appreciate the opportunity to discuss these important issues.

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[7] *United States. General Services Administration. 2010. "The Federal Real Property Council's FY 2010 Federal Real Property Report. An Overview of the U.S. Federal Government's Real Property Assets."*

Mr. TERRY. Thank you.

Mr. Wilhelms, the Vice President of Architectural Sales, Midwest Brick and Block, I appreciate you being here, and you are recognized for 5 minutes.

STATEMENT OF MARK WILHELMS

Mr. WILHELMS. Thank you. On behalf of our company and the concrete masonry industry, I would like to thank you for providing us this opportunity to share our perspective on the importance of a healthy home building industry. My name is Mark Wilhelms and I am Vice President of Architectural Sales for Midwest Block and Brick. Our family business employs over 275 full-time employees at our 21 locations in Missouri, Kansas, Oklahoma, Arkansas, Tennessee, Kentucky and Illinois. We manufacture and sell concrete block, concrete landscape products and distribute a wide range of masonry and landscape materials to the residential market segment. However, only about 90 percent of our companies typically operate a single plant and in a local market and remain family owned. Nationwide, there are approximately 350 block manufacturing companies operating about 600 plants. In other words, we typically make and ship our products in about a 60-mile radius due to the heavy weight of our materials. This local market focus means that our employees, our suppliers and our customers are local. We are truly the ultimate American business model.

I am pleased that your subcommittee is holding this hearing today on the value of the home building industry. The construction industry has suffered a lot these past 6 years. At our company, this recession forced us to cut over 30 percent of our workforce. When this poor construction market is combined with the ripple effect of the banking industry, a major increase in medical insurance costs, it becomes very difficult for producers to stay in business. In fact, over the past 15 years, we have seen close to 300 producers close their doors.

Like most producers, our company began with the production of concrete block for the construction of basements in new homes during the 1940s. Back then, as the demand for homes grew, so did our company. The demand for homes created jobs in the local communities where our companies started. It is the same residential construction market that has led to every growth cycle experienced in our company.

In fact, other construction sectors are driven by the residential market. We will begin to see longer delays in the construction of retail centers, schools, hospitals and municipal buildings as we wait for the housing market to recovery. We know a strong housing market is the stimulus for most all other building sectors.

Looking beyond the effects of a poor housing market, we must also recognize the changing construction industry and our ability to adapt. The method and materials used to build buildings is changing quickly. The market is demanding more energy-efficient building materials, green building products, more education of architects and engineers, and a larger number of workers to move into the skilled trades. Each of these demands requires a consistent and substantial level of investment to remain competitive.

Within our industry, we recognize the need to invest in our products. However, with block being a relatively low-margin commodity-type product with many small producers, maintaining that consistent level of funding in our own research, education and promotion becomes difficult.

For this reason, our producers overwhelmingly support an industry-led funding program. We have solicited the leadership and assistance of Representative Brett Guthrie and Representative Kathy Castor to introduce bipartisan legislation in the form of H.R. 1563 to create a commodity check-off program for the concrete masonry industry. This legislation, which has been referred to this subcommittee, would not create the check-off program but simply authorize our producers to conduct a referendum, and if a majority support, then enact the program. We believe that this private industry approach, which requires no federal resources, is the only way to enable our industry to effectively promote itself and to continue to provide valuable building solutions for the public and generate the jobs that will naturally follow.

In closing, our company and our industry sit with production capacity in reserve, and we are ready and anxious to support badly needed growth and development to compensate for pent-up demand. We encourage this subcommittee to play its role in supporting policies and legislation that will ultimately stimulate construction growth, stabilize property asset values, free up investment capital, and reduce the cost to operate domestic construction and manufacturing businesses.

Thank you again for this opportunity.

[The prepared statement of Mr. Wilhelms follows:]

Summary of Testimony by:	Mark Wilhelms Vice President of Architectural Sales, Midwest Block & Brick Former Chairman (2011) of National Concrete Masonry Association
Hearing before:	Subcommittee on Commerce, Manufacturing, and Trade "Our Nation of Builders: Home Economics." Tuesday, June 4, 2013, at 10:00 a.m.

Mr. Wilhelms represents Midwest Brick Block

- Family-owned business with 275 full-time employees at 21 facilities in MO, KS, OK, AR and IL
- Recession impact: loss of 100 employees (27%), sales revenues down 43%.
- Manufactures concrete block, retaining walls, and paving stones for residential and commercial construction markets. Since 1940.
- A "Hometown USA" business. Due sheer product weight, Midwest sources local sand, gravel and cement to produce at local plants concrete masonry products that are transported by local truckers for use by local mason contractors who hire local masons to build local homes and infrastructure owned and enjoyed by the local public.

Concrete Masonry and Residential Construction

- Residential construction is a principal market for concrete masonry products.
- Other principal markets are driven by residential markets – schools, hospitals, fire stations, libraries, community centers, churches, retail centers, etc. These also impacted by downturn.
- Products serve both functional and architectural home construction roles: basements, foundations, safe areas, walls and firewalls, stairwells, patios, sidewalks, driveways, retaining walls, decorative exteriors, fireplaces and chimneys.
- "Functionally resilient." Concrete masonry systems produce strong and durable structures that provide protection in natural disasters and achieve energy efficiency and sustainability objectives.
- Concrete block manufacturing is dominated by small producers that operate in all 50 states. The downturn has accelerated consolidation and plant closures, closing nearly half of family-owned plants over last 20 years.
- Concrete masonry is a commodity product with low profit margins, effectively limiting the ability to brand products and support needed investment in research, education and promotion.

Legislative authorization needed for our industry to help itself

- *"Concrete Masonry Products Research, Education, and Promotion Act of 2013"* (H.R.1563), introduced by Mr. Guthrie of the Subcommittee and Ms. Castor of the full Committee, would give the concrete masonry industry the (required) federal permission to assess itself to research, educate and promote concrete masonry technologies for the good of the American public.
- Commodity nature of the concrete masonry industry makes this commodity check-off approach the most effective means of achieving objectives.
- This program would require no financial investment from the federal government.
- The program would be funded by and managed by nominated and appointed representatives from the industry with minimal government involvement - oversight only by a reimbursed Department of Commerce.
- The legislation does not create the program, rather provides the opportunity for the industry to implement (and if necessary subsequently terminate) through referendum.

Closing comments:

- As small business in construction market, we desperately need the housing industry to rebound. This protracted downturn has hurt us and others dramatically.
- We request this committee and Congress to help businesses address availability of lending capital, burdensome liability protection and legal expenses, and dramatic increases and uncertainty of health care costs.
- We request support in the pursuit of our check-off initiative, to help ourselves as the economy slowly recovers.

Testimony of Mark Wilhelms

At Hearing of "Our Nation of Builders: Home Economics" – June 4, 2013

Of the House Subcommittee on Commerce, Manufacturing, and Trade

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I am Mark Wilhelms, VP of Architectural Sales for Midwest Block & Brick Inc. and am testifying on behalf of the National Concrete Masonry Association. I am pleased to offer this written testimony for today's discussion on home building within the United States.

Like the majority of concrete block producers, our company's beginnings started with the production of concrete block to build basements and homes for builders in St. Louis, Springfield and Jefferson City, Missouri in the mid 1940's. As the demand for homes grew over the next twenty years, so did our original companies. The demand for homes created jobs in the local communities where we started. This same residential construction cycle has led every growth our company has experienced throughout our 67 year history. Like many associated with the construction industry, we have contracted greatly with the housing downturn, and without a strong residential housing sector, our potential to grow and re-hire employees will be nominal over the next few years.

Midwest Block and Brick manufactures concrete block and several types of concrete retaining walls and concrete paving stones for the residential and commercial construction markets. In addition to the products we manufacture, we serve as a distributor for clay brick, stone and most of the accessory items that complement the installation of the materials. We sell these products directly to mason contractors, builders, landscape contractors, local specialty dealers, national supply chains as well as retail trade customers.

Midwest Block & Brick, currently based in Jefferson City, Missouri, operates 21 separate facilities in Missouri, Kansas, Oklahoma, Arkansas and Illinois. To operate our production and sales facilities, we employ over 275 full time employees. Despite rosy construction forecasts, our sales over the past few years have remained relatively flat at around $68,000,000.

This current status compares poorly to our peak sales volume and highest number of employees that we experienced when the housing sector was at its strongest in 2004-2007. From a historical perspective, we employed approximately 400 people and had sales near $100,000,000 at our peak. Simply put, we provide a vivid example that a growing housing sector generates local job opportunities.

My employment with our company spans 27 years. I began working at F. F. Kirchner Inc. when I graduated from college with my B.S. Degree in Business Management from Missouri State University. With a strong family tradition in construction, I knew I wanted to be involved in the construction industry and found the "Small Business Values" at F.F. Kirchner to be similar to my own standards. Seven years into my employment I met and married the granddaughter of the company founder, Frank Kirchner. My wife, Karen, is the daughter of Dale Kirchner who was a co-owner at that time with Ron Ohmes, who was also Frank Kirchner's son-in-law. Spending the following 20 years growing with the family company I've learned to appreciate the real value that family-run, small businesses add to our local economy. Midwest Block & Brick today remains a family owned company lead by Patrick Dubbert, Michael Farmer and Elliot Farmer families. The "Small Business" values that were present in the past remain as a strong foundation for how our company operates today.

One value instilled in me throughout my employment is a commitment to support the industry as a whole. Locally in St. Louis, I am a past president and member of the Construction Specification Institute, past

chairman of the Missouri Concrete Masonry Council and involved with industry promotion at the Masonry Institute of St. Louis. Nationally, I have been active on many committees at the National Concrete Masonry Association and served as the association Chairman in 2010. (In fact, I was the fourth person from our company to act as Chairman for NCMA. Dale Kirchner 1986, Ron Ohmes 1993 and Pat Dubbert 2002.)

It is as a representative of the industry that I submit my testimony to the Subcommittee today. The evolution of our company is representative of many companies that remain in business producing concrete block and other products today. The depressed building industry has suffered greatly over the last six years. Within our company, this recession has led to ownership changes within our company and many other producers throughout the U.S. Within the past six years, the ripple effect of the banking industry has made it very difficult to operate. Wildly fluctuating asset values have forced ourselves and many others to spend money on attorney and professional fees as we are required to review processes for bank refinances. And changing health care costs which once averaged 10% of typical compensation, are now averaging 20%+ and will be a growing challenge as we operate in the future. Efforts by this committee to support a strong housing industry will be important to our growth in the next few years.

I would also like to address some specifics about the products that our company manufacturers and the value of those products to our homes and communities. Specifically, I would like to address the one product that dominates our production volume: concrete block. Many still refer to this product as "cinder block," a term which hearkens back to days when it was once manufactured from lightweight cinders that were a by-product of coal combustion. The concrete block is ubiquitous, and has had an instrumental role the building of America.

Like most products, the concrete block has evolved in both its manufacturing and its use: new shapes, new materials, new architectural colors and textures. But, in many ways, the traditional gray concrete block continues to have relevance in the building of America today.

Concrete block and related concrete products are used in many different ways within residential construction. They are used to: build basements and foundations; create outdoor living spaces; achieve decorative sidewalks and driveways; expand and enhance properties through the use of retaining walls; decorate and protect the exterior of homes with manufactured stone and brick veneers; craft fireplaces and chimneys; provide firewalls and stairwells for multi-family buildings; and serve as a structural load-bearing walls in single-family homes and multi-family structures.

The impact of a declining or rising residential market deeply affects not only us, but also many other companies and individuals in our geographic markets both upstream and downstream.
We estimate that for every dollar of revenue that we collect on the sale of a concrete product, it generates at least $ 9 in revenue across all of our partners that are engaged in the stream of bringing these products to market and installing them: our suppliers of raw materials used in the manufacture of the product; the equipment and services providers that keep our plants running; our transportation providers that deliver both raw materials and finished products; the contractors and craft workers that install our products.

And it is important to note that concrete masonry is not only an American industry, it is a LOCAL industry. Concrete block are manufactured locally (typically within 50 miles of the construction project), using locally extracted plentiful raw materials, and installed by local masons. Where is local? Today there are approximately 350 concrete block manufacturing companies operating about 600 plants across America. Our industry has a manufacturing presence is every state of the country and likely within most of the

districts of the members of this subcommittee. Those plants, our customers, and our suppliers are also local constituents.

While we have focused on residential construction today, it is also important to acknowledge that our industry is also engaged greatly in other sectors of construction that are so heavily tied to the success or failure of the homebuilding industry. New development brings the demand for other construction such as schools, retail, community centers, fire stations, and more. In 2012, over $10 Billion dollars was invested nationally in the construction of new schools, additions, and renovations. While this is a very large number, consider that it is approximately half of the $20 Billion average from 2000-2008. Most of these schools are constructed using concrete masonry as a primary building material. As such, declining school construction means further declining business and jobs for us as well.

Concrete masonry inherently possesses many advantages to support needed performance objectives for the homes and structures in which it is used. It's strength and permanence are becoming increasingly valued for providing protection against storms such as hurricanes; its impact resistance makes it ideal for the construction of safe rooms for protection against tornados; it is a material that is less impacted by exposure to water from rains and floods since it will not rot or support the growth of mold; it is not only non-combustible, but it also is used effectively to contain fires from spreading. The investment in "functionally resilient construction" provides not only increased life-safety protection, but also protects property in a manner that enables communities to better function in the wake of a disaster and to rebuild more quickly.

However, despite these material strengths, the future of the concrete block industry is cloudy. Over the past two decades, our industry has experienced a loss of about 300 family-owned concrete block producing companies, nearly half of the all U.S all producers in the U.S. Why? Beyond the natural evolution of

consolidation, I would point directly to the nature of our industry and our product. The ubiquitous nature of the concrete block that I referred to earlier also contributes to our inability to adequately compete in the market place. We operate in a commodity product environment, in which is it impractical to effectively brand concrete block. Over ninety percent of the concrete block manufactures in our industry operate a small single plant, most of which are family owned. Such companies are not able to generate enough profit on these commodity products and do not have the capital to support efforts need to properly fund the research, education, and promotion needed for the industry to advance.

Our industry is realistic in our view that the housing decline is not exclusively responsible for the reduction in sales by our industry. The construction industry and the way products are made and installed are changing quickly. More energy efficient building materials, "green" building trends, lower number of workers moving into the skilled trades, education of architects and engineers on the use of longer life resilient construction materials and promotion for our commodity product requires a consistent and substantial level of investment . These issues I have listed are best solved by our own industry working to modify and adapt our products to fit within the changing construction environment.

Because concrete block are not a direct consumer product, the programs supported by this proposed check-off program are envisioned to be directed more towards researching new and better ways to build structures, educating engineers and architects how to best design using the attributes of masonry, and promoting the value of these resulting structures. I expect that we would invest in new ways to incorporate recycled materials into manufacturing; develop more sophisticated computer software design programs to yield state-of-the-art masonry buildings that are more energy efficient, more sustainable, and more cost effective; ensure that future design

professionals are exposed to masonry materials and design strategies before graduating from universities; cultivate an adequate supply of trained craft workers to safely and professionally install masonry products; and support research initiatives to advance provisions within building codes and standards to appropriately reflect the ability for masonry structures to protect life and property and create a more sustainable built environment.

It is for this reason that our industry has solicited the leadership and assistance of Representatives Brett Guthrie and Kathy Castor to introduce bi-partisan legislation in the form of HR 1563, the Concrete Masonry Products Research, Education, and Promotion Act of 2013, to create a commodity check-off program for the concrete masonry industry. The legislation, which has been referred to this subcommittee, would not create the Check-Off program, but simply authorize presentation of the opportunity to the rest of our industry and allow us to conduct a referendum to enact the program. We believe that this approach, which requires no federal resources, is the only way to enable our industry to effectively promote itself and to continue to provide valuable building solutions to the public and to generate the local jobs that will naturally follow.

In closing, I would like to add my voice to that of other panel members that have addressed you today and the voice of our segment of the construction industry to help stress the impact and value that the housing industry has on not only the country's gross domestic product, but also directly on jobs. Our company and our industry sit with production capacity in reserve and we are ready and anxious to support badly needed growth and development to compensate for pent-up demand. We encourage this subcommittee to continue to play its role in supporting policies and legislation that will ultimately stimulate construction growth, stabilize property asset values, free up investment capital, and reduce the cost to operate domestic construction and manufacturing businesses. Thank you for the opportunity to address you.

Mr. TERRY. Thank you. Well timed.

Now, Ludy Biddle is Executive Director, NeighborWorks of Western Vermont, and somebody that Peter Welch is very fond of. You are recognized for 5 minutes.

STATEMENT OF LUDY BIDDLE

Ms. BIDDLE. And it is mutual. Thank you, Chairman Terry and Ranking Member Schakowsky and all of the members of this subcommittee. This is a great honor, and thank you, Representative Welch, for making this possible.

I am here to share with you the benefits that the residents of a small county in Vermont are enjoying from an investment made in energy efficiency and to encourage you to consider how the whole country could benefit from a similar investment.

In 2010, NeighborWorks of Western Vermont, a small, nonprofit housing organization, joined an august group of cities and States to receive a Better Buildings grant from the Department of Energy. The purpose of the DOE program was to wrap up demand for energy-efficiency measures in the residential sector. We were the only housing group to apply. We said we would encourage 1,000 households in Rutland City to go through the retrofit process in 3 years, and no one thought we could do it because to put that into perspective, only 26 Rutland households had gone through the process in 2009. Rutland County is the second poorest country in Vermont subject to all the social ills and economic challenges that our stressed communities are, so we were not the typical demographic for efficiency programs, but we heat our homes 6 months of the year. Our housing stock is some of the oldest in the country. Our low- and moderate-income residents, the least likely to participate, were the most likely to benefit from this program, and our mission, our experience is about helping make home ownership affordable.

What better way to achieve savings and stability and comfort and health and safety for homeowners than to add air sealing and insulation and the occasional boiler and new roof to their homes? I will share some of the results and then tell how we accomplished this and what our hopes for continuing.

As of the close of this year's heating season, 570 households just in Rutland County had completed retrofits on their homes. The average homeowner is saving 386 gallons of fuel per year, which times about $3.85 a gallon equals about $1,500 a year, every year from now on. This means that this past winter because these 570 homes were using less fuel, about $850,000 did not leave Rutland County to buy oil. Eight hundred fifty thousand stayed in this little county to fuel our own economy, and it will stay with us every year from now on. Actually, it will be even more significant because we hope another 400 households will finish their retrofits by the end of this summer.

Another way we have contributed to the economy of Rutland County is in creating jobs. Most of the contractors, who are specially trained and Building Performance Institute certified through Efficiency Vermont, were, when we started, a one-man operation, often an independent builder who had been trying to augment his income during the recession. Since we began, every one of the 13 or 14 independents have added people to their companies. We actu-

ally have the names and addresses of 62 people who have jobs created around our program, so we are not just relying on statistics to indicate this. One of our One of our contractors, for example, went from three retrofit customers in 2009 to 40 retrofit customers in 2011 and 2012, producing a gross income just for his company of $300,000. At one point all the contractors were so busy, a 3-month backlog, that we created a small company of our own called LaborWorks for NeighborWorks. We now maintain a pool of workers we can loan out to the contractors when they need help keeping up with demand.

How did we do this? We are and always have been a housing organization. We know that you don't advertise or announce programs and they will come. For example, in Shrewsbury, we enlisted the five volunteer conservation commission members to call all 400 residents. While incentive payments and rebates for efficiency measures are essential, we used our grant money to provide people to help other people understand this process, and we simply provided old-fashioned customer service, something we call the Melanie factor after the head of our coordinating team. We provided help with understanding the technical and financial choices. We like to tell people we will let the dog out, we will let the contractor in and we will help you understand all of the information you need in between. Because we were concerned and there was concern, of course, that providing these services was expensive and adding to the already existing efficiency programs, we engaged the Cadmus Group, a research firm that is highly regarded in the energy industry, to conduct an industry standard cost-benefit analysis. They found lower income households earning below 80 percent of area median income were 164 percent more likely to install measures. Our Heat Squad program, which is what we call it, is cost-effective for the societal cost test of 1.72, and the Heat Squad with Efficiency Vermont programs is even more cost-effective. In other words, not only is the added cost of the Heat Squad producing more benefit than it is costing, but also the NeighborWorks Heat Squad is providing non-monetized value to society in that significantly more people in the low- to moderate-income homes are benefiting.

I will stop now and hope that you will have questions that would address the rest of my testimony.

[The prepared statement of Ms. Biddle follows:]

One page summary from Ludy Biddle testimony 4 June 2013

I am here to share with you the benefits that the residents of a small county in Vermont are enjoying from an investment made in energy efficiency and to encourage you to consider how the whole country could benefit from a similar investment.

As of the close of this year's heating season 570 households just in Rutland County, had completed retrofits on their homes. The average homeowner is saving 386 gallons of fuel per year, which times $3.85 a gallon equals about $1,500 a year, every year from now on. This means that this past winter because these 570 homes were using less fuel, about $850,000 did not leave Rutland County to buy oil. $850,000 stayed in this little county of 56,000 people to fuel our own economy. And it will stay with us every year from now on.

Another way we have contributed to the economy of Rutland County is in creating jobs.

While Efficiency Vermont staff are the experts in energy issues and manage the training certification and quality control of the BPI certified contractors we as a housing organization make a point of talking directly to the homeowner until she understands that the money she would save on her monthly energy bill will, in most cases, be MORE than the monthly cost of a loan to get the work done and that after only a few years the whole savings would stay in her pocket.

Because we heard concerns that our customer service model, adding to the costs of the Efficiency Vermont program, was too expensive, UN economical, we engaged the Cadmus Group a research firm that is highly regarded in the energy industry to conduct an industry standard cost benefit analysis of our program. They found as follows:

- Lower-income households (earning below 80% AMI) who received H.E.A.T. Squad messaging are 164% more likely to install measures
- H.E.A.T. Squad program is cost-effective with a Societal Cost Test of 1.72

We will continue to partner with Efficiency Vermont and with many other community based organizations to achieve our state goal of 80,000 retrofits by 2020. Our HEAT Squad hope and next step plan is not only to share our experience with anyone interested but also to expand from one county in Vermont to the entire state of Vermont through our four sister NeighborWorks organizations that do the same customer based programming on which we built our program.

We calculate that if we invest $5million to support the statewide HEAT Squad for the next three years, we would help to engage 10,000 households in retrofits. That five million investment would result in $75million in new business income for the contractors and save $15million from being spent on fuel. That's a worthy investment and it doesn't even include the incalculable benefits of health and comfort that accompany this effort.

Testimony from Ludy Biddle, NeighborWorks of Western Vermont

4 June 2013

I am here to share with you the benefits that the residents of a small county in Vermont are enjoying from an investment made in energy efficiency and to encourage you to consider how the whole country could benefit from a similar investment.

In 2010 NeighborWorks of Western Vermont, a small nonprofit housing organization joined an august group of cities and states to receive a BetterBuildings grant from the department of energy. The purpose of the DOE program was to ramp up demand for energy efficiency measures in the residential sector. We were the only housing group to apply. It's pretty funny to read the reviewers' comments on our proposal; essentially they say, "what the hell, give them a chance." We had said we would encourage 1000 households in Rutland County to go through the retrofit process in three years and no one thought we could do it because, to put that into perspective, only 26 Rutland households had gone through the process in 2009.

Rutland County is the second poorest county in Vermont, subject to all the social ills and economic challenges that our stressed communities are, so we were not the typical demographic for efficiency programs. But we heat our homes six months of the year, our housing stock is some of the oldest in the country, our low and moderate income residents, the least likely to participate, were the most likely to benefit from this program and our mission and our experience is about helping make homeownership affordable. What better way to achieve savings and stability and comfort and health and safety for homeowners than to add air sealing and insulation and the occasional boiler and new roof to their homes.

I will share some of the results of our program, and then tell how we accomplished this and what our hopes are for continuing and sharing our experience.

As of the close of this year's heating season 570 households just in Rutland County, had completed retrofits on their homes. The average homeowner is saving 386 gallons of fuel per year, which times $3.85 a gallon equals about $1,500 a year, every year from now on. This means that this past winter because these 570 homes were using less fuel, about $850,000 did not leave Rutland County to buy oil. $850,000 stayed in this little county of 56,000 people to fuel our own economy. And it will stay with us every year from now on. Actually it will be even more significant because another 400 plus households will complete their retrofits by the end of this summer. We hope.

Another way we have contributed to the economy of Rutland County is in creating jobs. Most of the contractors, who are specially trained and BPI certified through Efficiency Vermont, were, when we started, a one man operation, often an independent builder who had been trying to augment his income during the recession. Since we began every one of the 13 or 14 independents have added people to their companies; we actually have the names and addresses of 62 people who have jobs created around

our program so we're not just relying on Implan or statistics to prove this. One of our contractors, for example went from three jobs in 2009 to forty jobs in 2011 and 2012 producing a gross income of $300,000. At one point all the contractors got so backed up, a three month back log of customers, that we created a small company of our own called LaborWorks for NeighborWorks. We now maintain a pool of workers we can loan out to contractors when they need help keeping up with demand.

How did we do this? We are and always have been a housing organization. We know that you don't advertise or announce programs and they will come... they don't. People get their information and their call to action from a trusted source and we know how to work through the trusted source network. So, for example, in Shrewsbury, we enlisted the five volunteer conservation commission members to call all 400 residents in the town. Speaking to someone they knew they explained the financial benefits to an individual homeowner. It was easy from there.

While incentive payments and rebates for efficiency measures are essential to the overall effort, we did not use our grant money to give extra payments to customers because we already had the Efficiency Vermont program in place. We used our grant money to pay people to talk to more people about the specific benefits of the very fine program established by Efficiency Vermont, our efficiency utility. While they are the experts in energy issues and manage the training certification and quality control of the BPI certified contractors we as a housing organization make a point of talking directly to the homeowner until she understands that the money she would save on her monthly energy bill will, in most cases, be MORE than the monthly cost of a loan to get the work done and that after only a few years the whole savings would stay in her pocket. And of course, soon she is telling her family and co-workers so the education process pays off twice. More and more people come to us through word of mouth, something that did not happen in 2009.

A one on one education is the first step in our process. The Second is simply old fashioned customer service, something dubbed the Melanie Factor by an observer, named for our project coordinator. Melanie Paskevich and her team, called the NeighborWorks HEAT Squad, help an interested customer find an appropriate contractor, because this is still a rather esoteric business, not like putting in granite counter tops, schedule the audit; help with understanding the technical and financial choices a customer has to make; arrange for a loan from our own revolving loan fund, and oversee the construction for those who need help - elderly homeowners living alone, for example. We like to tell people, we will let the dog out and the contractor in if that's what you need in order to go ahead with this work.

Because we heard concerns that our customer service model, adding to the costs of the Efficiency Vermont program, was too expensive, UN economical, we engaged the Cadmus Group a research firm that is highly regarded in the energy industry to conduct an industry standard cost benefit analysis of our program. They found as follows:

- H.E.A.T. Squad increased retrofit uptake in Rutland County, compared to Efficiency Vermont's program alone
- Customers who received H.E.A.T. Squad messaging are 46% more likely to install measures
- Lower-income households (earning below 80% AMI) who received H.E.A.T. Squad messaging are 164% more likely to install measures
- H.E.A.T. Squad program is cost-effective with a Societal Cost Test of 1.72
- H.E.A.T. Squad on its own is cost-effective and also cost-effective combined with EVT's Home Performance with Energy Star program

In other words, not only is the added cost of the HEAT Squad producing more benefit than its costing but also the NeighborWorks HEAT Squad is providing non monetized value to society in that significantly more people in the low to moderate income homes are benefitting from the savings. This is the most important point for people to take away from this discussion today. This program achieves all the goals of money and energy savings and job creation that many others are working on around the country but it also provides those benefits to low and moderate income households in a way that has not occurred historically so far.

We are coming to the end of our DOE grant period. Some of our grant funding went into a loan fund that will be available for future customers; some went into permanent infrastructure such as software; some went into training for the contractors including business planning and Dale Carnegie Sales training all of which has been put to very good use; some went into heavy duty reporting and analysis for the government which is all good; and some went into learning, including by mistakes, the best teacher, how to deliver real value to a community that has real needs.

We will continue to partner with Efficiency Vermont and with many other community based organizations to achieve our state goal of 80,000 retrofits by 2020. Our HEAT Squad hope and next step plan is not only to share our experience with anyone interested but also to expand from one county in Vermont to the entire state of Vermont through our four sister NeighborWorks organizations that do the same customer based programming on which we built our program. Green Mountain Power, our electric utility has already granted us $500,000 to expand into the neighboring four counties; our State Treasurer Beth Pearce received approval from the legislature to establish the Vermont Clean Energy Loan Fund with NeighborWorks, and on the recommendation from DOE we will join the Clinton Global Initiative working group on energy efficiency at their meeting this month where we hope to enlist more interest and support for our statewide program. So we're working on all fronts to continue our project.

Here's how we see the possibilities. Based on immediate past experience in a county where everyone said it couldn't be done, we have evidence to show that people are eager to improve their homes to save money and energy if they understand the process, get a little help with the process, and have access to financing if needed.

We can expand on the experience from Rutland County where 62 people already have new jobs and 570 households together are already saving $850,000 every year to invest in Rutland County instead of fuel costs. Extrapolating from those figures, we calculate that if we invest $5million to support the statewide HEAT Squad for the next three years, we would help to engage 10,000 households in retrofits. That five million investment would result in $75million in new business income for the contractors and save $15million from being spent on fuel. That's a worthy investment and it doesn't even include the incalculable benefits of health and comfort that accompany this effort. That would take up another hour of your time. We sincerely hope you will consider these benefits when you consider where to invest our funds to improve the lives of our residents.

Thank you for this opportunity to share our excitement and gratitude for the chance we, as a housing organization bringing efficiency programs to our residents, were given to improve the lives of many and find a way to improve the lives of many more.

Mr. TERRY. I think you can bank on that.
Mr. Bovio, did I say that right?
Mr. BOVIO. Yes, you did.
Mr. TERRY. Fantastic. Operations Manager, Bovio Advanced Comfort and Energy Solutions. You are recognized for 5 minutes.

STATEMENT OF BRIAN BOVIO

Mr. BOVIO. Thank you. Thank you, Mr. Chairman, and distinguished members of this subcommittee for this opportunity to offer my perspective on the role of home performance contracting in home economics and energy policy. My name is Brian Bovio and I am Vice President of my family's business—I gave myself a promotion—Bovio Heating, Plumbing, Cooling, Insulation located in New Jersey. We are a third-generation HVAC contracting company that has also transitioned in a whole-house energy efficiency retrofit company. We offer heating, air conditioning, plumber, insulation, weatherization and energy auditing services. Essentially, we work with homeowner to increase their home's energy performance, comfort, health and safety.

I come to this subcommittee both as a licensed contractor and as Chairman of the Board of Efficiency First. Efficiency First is a national nonprofit trade association of nearly 800 member companies, most of which are small businesses employing five to 50 people. We have membership in all 50 States and aim to support the policies that will support a sustainable and scalable home retrofit market.

Efficiency First contractors work every day sitting at kitchen tables across America helping homeowners to understand why their energy bills are so high, why their daughters' bedrooms are so cold or why their son's asthma acts up when the furnace is on. Americans understand that energy efficiency is about their home economics and comfort and their ability to raise their families there.

The average American family spends over $1,800 per year on energy, which equates to over $200 billion across the Nation. This represents 22 percent of all U.S. energy consumption, 35 percent more than is used for passenger cars and trucks combined.

Energy efficiency is unique in that it creates its own cash flow. Less money spent on energy means more money to purchase groceries and save for college. So why don't all American homeowners undertake the energy efficiency upgrades they need? One key reason is the upfront costs. Efficiency First and I would like to thank Congress and Congressmen David McKinley and Peter Welch for their leadership on homes, home performance and for introducing H.R. 2128, the Home Owner Managing Energy Savings Act, or HOMES Act. This bill would help address the hurdle of those upfront costs by providing incentives for homeowners with rebates to help cover the cost of home energy efficiency upgrades. The rebates are earned. The size of the rebate is based on the energy savings the upgrade will provide, not the type of product they purchase, and homeowners will always pay at least half of the upgrade cost.

Why should tax dollars be used to offset efficiency costs? Believe me, I understand the need to use public dollars wisely. As a small business, we understand the need to budget our own funds wisely so I am not asking for a handout. This country needs the energy savings that the HOMES Act provides. Saving energy is a public

good. Homeowners are being asked to provide that public good to save energy and make expensive efficiency investments because we want them to save money on their utility bills and because the country needs them to reduce cost across the energy system as a whole and help achieve the broader goals of energy independence, pollution reduction and job creation.

We are not properly valuing the very real public and resource benefits energy efficiency provides. Instead, we are asking homeowners to pay for the full burden and cost of these improvements often upfront and out of pocket. The HOMES Act fixes that.

Mr. Chairman, retrofitting inefficient homes will also create hundreds of thousands of U.S. jobs in some of the hardest-hit industries including construction and manufacturing. These new jobs are primarily jobs that cannot be outsourced. You cannot hire a contractor from China, and the materials used in improving homes average 90 percent made in the United States. Shipping insulation is as smart as shipping air.

My business and employees know personally how home performance can create jobs. Bovio's has been able to grow its business thanks to making the transition to a home performance company. Despite horrendous economic conditions, we have more than doubled our workforce in the past few years. All of these employees are working 40-plus hours a week, no short weeks and have full benefits. Revenues are also up dramatically from before we started in home performance. This change in my business and the businesses of many others across the country was made possible with the help of public dollars and incentive programs, incentive programs like the HOMES Act put forward by bipartisan policymakers at the State level, who saw the need and acted.

Mr. Chairman, the major players we need to make the home performance industry economically sustainable over the long haul are already here. We are just not yet to scale. Those that claim the industry should stand up without incentives are not acknowledging that every other resource receives incentives despite already being at scale. Energy efficiency is an undervalued resource, and home performance deserves investment. We believe that a smart national incentive coordinated with local infrastructure will enable a transformation in the residential energy efficiency market. This subcommittee can help by supporting the passage of the HOMES Act.

I want to thank the subcommittee on behalf of the thousands of contractors who are working every day to help homeowners invest and improve their homes. I thank you again for the opportunity to testify and look forward to your questions.

[The prepared statement of Mr. Bovio follows:]



Testimony to the

United States House of Representatives

Energy and Commerce Committee

Subcommittee on Commerce, Manufacturing, and Trade

Hearing on

"Our Nation of Builders: Home Economics"

2123 Rayburn House Office Building

Washington, DC

June 4, 2013, 10:00 AM

Statement of

Brian Bovio

Chair, Efficiency First

Vice President, Bovio Heating Plumbing Cooling Insulation



Thank you, Mr. Chairman and distinguished members of this subcommittee, for this opportunity to offer my perspective on the role of home energy retrofit contracting in home economics and energy policy. My name is Brian Bovio and I am the Vice President of my family's business, Bovio Heating Plumbing Cooling Insulation, located in New Jersey. We are a third generation heating and cooling contracting company that has also transitioned into a whole house energy efficiency retrofit company. We now consider ourselves what is commonly called a "Home Performance Contractor", offering Heating, Air Conditioning, Plumbing, Insulation, Weatherization, and Energy Auditing Services – essentially, we work with homeowners to increase their home's energy performance, comfort, health and safety.

I come to this subcommittee both as a licensed contractor and the Chairman of the Board of Efficiency First. Efficiency First is a national business association of over 750 member companies, representing member companies in all 50 states, that unites Home Performance contractors, building product manufacturers and related businesses and organizations to forward policies that will support a sustainable and scalable home retrofit market. If it pleases the Chair I would submit a list of the Efficiency First members.

Efficiency First and Home Performance

Efficiency First contractors work every day with homeowners, sitting at kitchen tables across America, helping them understand why their energy bills are so high, their daughter's bedroom is so cold, or their son's asthma acts up when the furnace or air conditioner is on. American's understand that energy efficiency is about their home economics, but it is also about their home's comfort and their ability to safely raise their families there.

The average American family spends over $1,800 per year on energy, which equates to over $200 billion annually. This represents 22 percent of all US energy consumption[i], 35 percent more energy than is used for passenger cars and trucks combined[ii]. Energy efficiency is unique in that it creates its own cash flow - less money spent on energy means more money to purchase groceries and save for college. Simply put, saving energy pays for itself.

Retrofitting inefficient homes will put energy savings back into the wallets of American families and communities. It will also create hundreds of thousands of US jobs in some of the hardest hit industries, including construction and manufacturing. These new jobs are primarily created by small businesses - jobs that cannot be outsourced, and the materials used in improving the energy efficiency of homes are more than 90% made in the USA[iii].

My business and my employees know this personally.

Despite horrendous economic conditions over the past few years, Bovio Heating Plumbing Cooling Insulation has been able to grow its business thanks to our transition to a Home Performance contracting company – retrofitting for energy performance. During these unprecedented economic



times, we have more than doubled our workforce. All of these employees are working 40+ hours a week, with no short weeks, and full benefits. Revenues are up dramatically from before we started in Home Performance. And profitability has never been better for us.

Transitioning our business to a whole house energy efficiency firm from a strictly heating and air conditioning company came with substantial investments of both time and capital, but has proven to be a more than worthwhile investment. This success was made possible with the help of public dollars and incentive programs that have had bi-partisan support in New Jersey. Incentive programs have proven to be an important part of scaling this industry, and the HOMES Act will make that success national.

The HOMES Act

Residential energy efficiency incentives remain smart policy that will stimulate private investment and job creation, while driving savings directly to American households.

Historically, energy efficiency incentives have largely been targeted at specific technologies and individual improvements. Rather than a piecemeal approach, a performance-based incentive links incentives to actual savings, allowing for technology and business model neutrality. Rather than attempting to maintain an exhaustive, up-to-date list of equipment specifications, offering incentives based on savings at the meter can allow the rebate to keep pace with an ever-changing industry and react to market forces. Most importantly, it creates a system that is flexible and rewards innovation.

Efficiency First thanks Congressman David McKinley (R-WV) and Peter Welch (D-VT) for their leadership on home performance and for introducing HR 2128, The Home Owner Managing Energy Savings Act. This bill provides incentives for homeowners with rebates to help cover the cost of a home energy efficiency upgrade. Homeowners begin by hiring an accredited contractor to perform the work so they know they are properly trained. Prior to the start of the project a home energy audit will be performed. The audit will allow the home owner to elect the desired energy savings for the home and scale the project according to their budget and their home's needs.

A qualified retrofit under the HOMES Act will be carried out by the contractor and the homeowner's rebate will be based on their predicted energy savings -- beginning at $2,000 for a 20–24 percent reduction in home energy use up to $8,000 for a 50 percent or more reduction in home energy use. Rebates may not exceed 50 percent of expenditures so the homeowner will always be paying for at least half of the upgrade. It is important that any tax dollars spent are spent responsibly, toward acquiring a public good – energy savings. And the HOMES Act does just that.

Energy Efficiency as a Resource

Energy efficiency is America's greatest and most abundant energy resource. My small business taps this resource every day, providing heating, cooling and hot water in American homes at a fraction of

the energy used before I got there. Efficiency First believes that this resource can and should be tapped for America.

Advancing energy efficiency in homes is critical to the American economy and its energy security. If we tried to run today's economy without the energy-efficiency improvements of the last 40 years, we would need nearly 50 percent more energy than we use now. Energy efficiency policies and measures have produced more energy in the form of savings than the energy we get from oil, natural gas, coal, or nuclear power[iv]. Energy efficiency policies have also resulted in a more stable grid, as is the case in the Northeast where the ISO-NE has forecasted sufficient supply for summer 2013 because of energy efficiency measures[v].

The HOMES Act addresses significant market barriers that prevent this vital resource from being utilized more effectively. Homeowners are being asked to make these investments not only because we want them to save money on their utility bills, but because this reduces costs across the energy system as a whole; helps to achieve broader goals such as energy independence; reduces pollution; and enables job creation. However, we are not properly valuing these very real public and resource benefits energy efficiency provides. Instead, we are asking homeowners to pay for the full burden and cost of these improvements, often upfront and out of pocket. With dropping energy prices in the short term, the projected monetary value of the energy savings is typically modest with much of the value of these energy savings unrealized. Rebates and other incentives can change these calculations and allow homeowners to share in the often overlooked value of their efforts, the value of the public good.[vi]

One of the key shifts to begin accounting for the multiple, undervalued benefits of energy efficiency, is to move towards accounting for energy efficiency as a resource -- the demand reduction equivalent of supply-side energy production. Funds used to provide rebates for homeowners are funds not needed to build power plants, ship fuel, or lay new power lines because those energy savings homeowners create through doing retrofits will make those investments unnecessary. Reducing demand on the grid through energy efficiency is akin to building power plants, only cheaper – and it's 100 percent domestic, and completely clean.

However, we know how to finance power plants. Due to the legislative, regulatory and market structures, protections, and oversight in place, power plants supply a stable and predictable amount of energy to an established and reliable market. Utilities can raise capital to make investments in projects to increasing the nation's energy supply; however, we lack the same mature capital sources and markets for energy efficiency, even though it is widely understood to be the most cost effective resource for meeting our energy needs.

Why Congress Must Act

The major market structures and players we need to make the home performance industry economically sustainable over the long haul are already here, only not yet to scale. Those that claim the industry should stand up without incentives, are not acknowledging that every other energy

resource receives incentives, despite already growing to scale. Home performance is just getting there.

A growing segment of the contracting industry is actively moving toward performance-based approaches. Dedicated home performance companies have grown in markets across the country with Efficiency First membership in all states -- and we are seeing leading contractors in more traditional markets finding success moving to home performance, like my own company. Major manufactures and contractor organizations are investing in initiatives to provide home performance training and resources to HVAC, Insulation, and other trade contractors. The concepts of home performance and the science behind it have taken root beyond early adopters. For example, many states are now adopting the 2009/2012 IECC code, which include diagnostic testing similar to that called for in the HOMES Act.

To support this transition, we have seen public investment in energy efficiency increasing dramatically in the States. This includes infrastructure for workforce training, quality assurance, and other necessary infrastructure to ensure quality service delivery. These systems are in place across the country and provide a strong foundation for future growth.

Similarly, we see investments in energy efficiency in the utility sector ramping up beyond even some of the most optimistic projections. From 2005 to 2011 utility energy efficiency programs have increased by an average growth rate of 19.3 percent per year to $4.74 billion[vii]. According to research being conducted by Lawrence Berkeley National Laboratory, utility sector investment is expected to continue to rise faster than inflation.

We believe that a combination of smart national incentives driving the market toward performance, coordinated with local infrastructure, will enable a transformation in the residential energy efficiency market. This subcommittee can help set this process in motion by supporting consideration of the HOMES Act and/or ensuring the inclusion of this bill in energy or jobs legislation that moves before this committee.

I want to take the time to thank this subcommittee on behalf of the thousands of contractors who are working everyday to help homeowners invest in and improve their homes -- all while growing their small business in these uncertain economic times. These home contracting companies were hit hard during the last recession, with unemployment levels that have hovered above 20 percent. Supporting jobs in this uniquely American industry drives investment directly into communities spread across all corners of the country, while supporting American small businesses and manufacturing.

The HOMES Act is truly a unique opportunity to give homeowners another option for making deep energy efficiency improvements to their home, build wealth in American households, support small contracting businesses and its US-centric manufacturing and supply chain and create jobs, all while helping the country meet its climate and energy security goals.



We appreciate the ongoing efforts of this subcommittee and look forward to continuing to support your important work.

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[i] US Energy Information Administration: Annual Energy Review 2011

[ii] US Energy Information Administration: Annual Energy Outlook 2010

[iii] Home Performance Resource Center: Manufacturing Shares of Common Energy Remodeling Products, 4/29/13

[iv] Alliance to Save Energy: Energy Efficiency: America's Greatest Energy Resource

[v] ISO-NE: ISO-NE Forecasts Adequate Resources for Summer.

[vi] National Home Performance Council: Bringing on the Boom and Beating the Bust, April 2013

[vii] Consortium for Energy Efficiency: State of the Efficiency Program Industry: Budgets, Expenditures and Impacts, 2006, 2011

EfficiencyFirst
America's Home Performance Workforce

SUPPLEMENTAL TESTIMONY

The following is additional comment of Efficiency First and is offered to give Committee members some context of the environment in which many small business-contracting companies find themselves. While the below may be outside of the reach and scope of this committee's focus, it should none-the-less be informative with respect to the role a performance incentive could play in helping these small businesses grow and thrive.

WHAT CONTRACTORS WANT

While the focus of this committee hearing is on the residential construction industry and rebates for energy efficiency, it's critically important to understand the context in which a performance rebate would be used and the marketplace in which contractors that deliver goods and services to homeowners often operate. With an understanding of the marketplace dynamics, this committee will have a better understanding of how a federal rebate program such as the HOMES Act would genuinely help the industry.

Though all well intended and very much appreciated, there is a great deal that is lacking in current local, state and federal energy efficiency retrofit programs for homes. Here is what contractors want in energy efficiency home retrofit programs:

1. A seat at the table as programs are being conceived, developed, deployed and refined
2. Program consistency & stability
3. Lean and waste free program attributes and requirements
4. Programs that are free of price setting and other anti-free market barriers
5. Programs that serve the consumer's interest and not driven by fuel types, flawed cost-effectiveness math, or artificial barriers or drivers
6. Programs that reward performance and actual savings
7. A level playing field related to contractor qualifications
8. Programs that allow multiple business models to compete
9. Programs with meaningful quality assurance to protect the consumer and investor/taxpayer

A Seat at the Table

Programs fail when contractors are not embedded in the process from design to implementation and refinement. As a party that is directly and materially affected by programs, designers and sponsors needs to embrace a policy that ensures contractors have a seat at the table at all phases of program design, roll-out, and refinement.

One imperative that program champions and sponsors need to be anchored in, and acknowledge and understand, is that all federal, state, local and utility energy efficiency programs impacting existing

homes generally flow down and end up in the lap of Efficiency First's core members – the contractors and energy auditors. These are the individuals and companies that are charged with selling these programs in the living rooms or across the kitchen table of homeowners. These are the companies that deal with the myriad of program requirements related to energy modeling, eligible measures, completion of related forms and paperwork, and report generation back to the program sponsor or administrator. And in some cases, it's the home performance contractor that acts as a bank waiting for consumer or other rebates or other incentives to be processed and approved. Additionally, these are the companies that invest their precious resources in their own capacity with respect to training, certification, and required continuing education of their personnel so as to be eligible to participate in such programs. In short, these are the companies that experience the pain that may exist in programs and processes that are not lean, efficient, and contractor and market friendly.

Program Stability & Consistency and Free From Complexity & Waste

Currently, there is a patchwork of energy efficiency programs across the country – each with different program requirements, funding cycles and levels, applicability to fuel types used in homes (gas, electric, fuel oil, propane, etc.). In part this is due to statutory and regulatory preconditions that establish the baseline for what a program looks like. Regardless of the root cause, at the state and local levels, contractors feel like they are trapped in a game of "musical chairs" as program ground rules change, often annually. Additionally, the reporting requirements in many programs creates a ripple affect where contractors are forced to collect and report layers of data that they feel never gets looked at or used. Finally, available energy modeling software is so varied and divergent with respect to how each treats individual and combination of energy efficiency improvements that the contractors lose faith in their outputs. Currently, there is no nationally applicable program for contractor to embrace – there is just fragmentation.

This fragmentation, instability and lack of consistency, and complexity in programs results in a colossal economic waste in the market as contractors have to build and constantly refine internal processes to comply with these various programs. Equally important, the current situation is a motivation destroyer and forces some contractors to capitulate and leave these local programs. One of the benefits of a federal performance based incentive would be the uniformity and consistency that it would offer contractors. Additionally, Efficiency First feels that new or existing local programs would embrace the architecture of a federal performance rebate, thus helping to mainstreaming a common set of requirements across multiple programs or offerings. Standardization breeds efficiencies and the ability to scale efforts, thus a federal performance rebate could positively affect the design of new and existing programs at the State and local levels.

A Level Playing Field Related to Contractor Qualifications

Nothing can do more damage to an industry than where there is a free for all with respect to who can enter and operate in a given space. If there is not a level playing field with respect to the qualifications and caliber of work done by contractors in homes, consumers and others could be harmed.

Our industry cannot afford to have a program go bad and set us back. As such, Efficiency First is supportive of programs that "do no harm" to occupants and workers and have consistency with respect to:

1. Qualified Auditors & Contractors (the right people)
2. Quality Standards & Specifications (doing the right work)
3. Qualified Software and other Tools (using the right tools), and
4. Oversight by a Credible and Robust Quality Assurance Infrastructure (verification)

Allow Multiple Business Models to Compete

Consumers vary in their preference with respect to using either contractors that are vertically integrated and can offer turn-key home performance services, or a group of professionals (auditor/HERS rater, insulation contractor, and HVAC contractor) that work collaboratively as a team to offer a similar solution. Other hybrid models exist in markets where a home performance contractor acts as a general contractor and works with trade allies to do a variety of work (air sealing, insulation, HVAC, windows). Additionally, each marketplace varies with respect to the level of contractor experience and know-how related to applied building science and health and safety issues that are inherent in home and building performance work. Efficiency First supports program architectures that do not choose winners with respect to business models, but instead rely on establishing a level playing field linked to credible standards. This will allow the consumer, and by default the marketplace, to choose which model or models are the best fit for them and their needs but get the same level of quality work done in the home. Additionally, this will allow individuals and companies following the BPI, RESNET, ACCA or other models to compete openly.

Industry Standardization Needed

Generally speaking, Efficiency First is supportive of standardization through all the layers of our industry because we know this reduces waste and blows away barriers to growth and profitability. Just as the Board for the Coordination of the Model Codes in the 90's facilitated the alignment of the building codes promulgated by the four model code organizations (CABO, ICBO, SBCCI, and BOCA), resulting in a single set of model codes – which eventually lead to the formation of a single model code organization (International Code Council), our members seek the mainstreaming and standardization of key elements impacting our industry. While code adoption and enforcement still remains a State and local matter, moving to one model code allowed the elimination of much of the waste created by competing and often redundant code requirements. This then allowed home builders, various trades, product manufacturers, suppliers and distributors, design professionals and governments to shift to a generally mainstreamed set of requirements, which over time became more uniformly and consistently applied and enforced. We need the same evolution to happen in our industry and we need competing standards to be mainstreamed and harmonized into a single suite of standards that all can draw from.

Efficiency First supports the development, adoption, and consistent application of credible standards for:

1. Workers and Companies,
2. Specifications for the Physical Improvements Done in Homes and Buildings,
3. Energy Modeling, Data Collection and Reporting (HP XML), and Related Protocols, and
4. Quality Assurance Infrastructure

When credible standards are in place and utilized, the by-product is the following:

1. Avoided program costs (administrative, training, etc.), resulting from the need to re-create the wheel each time a new program needs to be designed and launched, can flow to consumer incentives or education and awareness, and possibly make programs more "cost-effective" per certain utility cost tests.
2. Contractors are better able to expand into new markets without having to learn a new language, a new set of written or unwritten rules, yet another energy modeling tool, and take on new paperwork and back-office pain.
3. Individual workers may move freely between markets.
4. Contractors have a pool of workers to choose from that generally have the same qualifications and skill sets, thus avoiding substantial hard and soft costs of re-training.
5. Contractors can pick and choose which energy modeling software's to use, based on their needs and the interoperability of these tools with other operational tools, and have confidence that the required data transfer to the program will be pain-free and possibly instantaneous.
6. Consumers are hopefully exposed to the same general messages and value proposition regardless of market or program sponsor.

The good news is that the standardization effort has been underway in the industry and inside different groups at DOE, EPA, HUD and at the state level. Better coordination and alignment of those efforts would be productive and eliminate waste.

FEDERAL POLICY AS A CATALYST FOR CONSUMER ACTION ON ENERGY EFFICIENCY RETROFITS

The members of Efficiency First believe that performance-based incentives do not need to be perpetual. Rather, they can run for a number of years to jump-start our industry and introduce a leveling element into the market. Over time, as our industry grows and other market actors begin to fill in critical gaps, these incentives can eventually be allowed to sunset. Basically, as the market matures and consumers see and understand the value of making energy efficiency improvements to their homes, the need for a catalyst begins to diminish. In the meantime, the homeowners that our members work with everyday would see the HOMES Act as a little relief for their much larger out-of-pocket investment in their most precious asset – their home.

Mr. TERRY. Thank you very much.

I will start with you, Mr. Shaw. It is interesting as a remodeler that I guess many of us, I didn't think about the lead rule and how it would impact, and I would assume most of the remodeling is in older homes. So when the EPA eliminated the opt-out, what notice was there? Why did they do that and how specifically did it impact a typical remodeling job for a home built before 1978?

Mr. SHAW. Wow, I don't even know where to start on that.

Mr. TERRY. Yes, and you have to do it in about a minute.

Mr. SHAW. Yes. Thank you. You know, as an industry, and remodelers in particular, we were at the table with putting this whole thing together, and we are very serious about lead poisoning so I don't want to imply that what happened after this thing went into effect in 2010, I think it was in July 2010—what happened was is that we didn't get to the table to a change that occurred, I think it was in September, when because of a lawsuit and a settlement with the environmentalists, the EPA all of a sudden threw this opt-out and took it off the table.

Mr. TERRY. So to interrupt. Was that part of the settlement agreement is to eliminate the opt-out?

Mr. SHAW. Yes, it was. So what happened to us is, is that we went from 36 million homes to almost 80 million that were now included, and we also added about $336 million in compliance costs. So for us, it was a huge impact, probably one of the biggest things that took the ability of the consumer to make a choice.

Mr. TERRY. Just real quickly, by eliminating that opt-out for a home that could opt out, what was the additional cost for a typical project, generally speaking?

Mr. SHAW. What happened is, is that, you know, when you took the opt-out, then every single household that was in a home prior to 1978 became eligible, and now you take a test kit that doesn't work, and what happens with most of the remodelers that I take that even want to get involved with this is that you have to assume every house has lead, so there is no alternative.

Mr. TERRY. All right. Mr. Bovio, your company seems to be maybe not to the level of remodeling but certainly you will make some changes to a home under your program.

Mr. BOVIO. Absolutely.

Mr. TERRY. What is the typical assessment, assessment meaning conclusion, of what has to be done to a house that you will work on? What is the average cost? You mentioned incentives, and does that cover the cost and where do the incentives come from?

Mr. BOVIO. Currently, I work in a program in New Jersey that covers up to half the costs. I am a third-generation HVAC contractor so most of our leads come in as someone that needs heating and/or air conditioning. So most of our jobs are starting them and then we convert them into a home performance project and we talk to them about upgrading their building shell, which would be air sealing, making the home tighter, performing insulation upgrades to reduce the BTU load of the heating and air conditioning equipment we need to put in, reduce the equipment sizing. Those projects can range around $15,000, generally speaking.

Mr. TERRY. And the incentives program for New Jersey will cover $7,500 of a——

Mr. BOVIO. Up to $5,000.
Mr. TERRY. Up to $5,000?
Mr. BOVIO. Yes.
Mr. TERRY. Is there a financing mechanism for the rest?
Mr. BOVIO. New Jersey does have a financing mechanism for the rest, a $10,000 zero percent loan, which is why I told you that average job comes in about $15,000.
Mr. TERRY. Interesting. But Mr. Robinson, real quickly, you make a lot of products but I don't figure or see where the energy efficiency occurs in the use of your products. Is there an energy-efficiency component to your products?
Mr. ROBINSON. Well, you have to remember we do more than make toilets so on——
Mr. TERRY. Well, yes, that is where I usually get reminded of your products, though.
Mr. ROBINSON. You know, our name appears in all the best places, as they say. We also, on the power side of our business, make home gen sets, and, you know, this is becoming a less and less luxury and more and more something that as our population ages in place and they are expected to receive their health care needs in their home, we have—part of the spec of these homes often includes a backup power source because the power goes down and your dialysis or whatever machinery in your home doesn't work, that is a real issue when you only have so much batter life.
So I think, you know, when you look at energy and just broadly speaking energy issues in this country, we need to be looking more and more about the security, the infrastructure for energy delivery to homes as we look at homes more and more to accomplish more things. They will, as I say, become mini-hospitals for most of us as we age and they will also raise children and send people to college, et cetera. So I think the breadth of what we are asking this, you know, capital to do, this home on the ground to do is expanding and expanding and at the same time we are being asked to comply with far more, you know, detailed and I would say in certain circumstances say onerous regulations at all levels.
Mr. TERRY. All right. Thank you very much, and m time is expired and I will recognize the gentlelady from Illinois, Ms. Schakowsky, for her 5 minutes.
Ms. SCHAKOWSKY. Thank you. First, let me say, Mr. Robinson, I have been to the American Club. You spoke about immigration reform. Don't you call it The Immigrants?
Mr. ROBINSON. Yes, it is The Immigrant.
Ms. SCHAKOWSKY. Great restaurant.
Mr. ROBINSON. Thank you.
Ms. SCHAKOWSKY. I wanted to just comment on the lead renovation and repair. I have been addressing the lead issue for a very long time in toys and homes, etc., and I have to say I am a big supporter of that rule because let us face it: these homes after renovation often are sold, flipped, people are moving in and out, and lead is one of the most dangerous toxins that affect more than 1 million children. I have met some of those children, and it is really devastating. Even exposures to very low levels of lead harms the development of children's brains, causing learning disabilities, behavioral problems, etc., but it is also a concern for the workers who

can suffer cardiovascular damage, kidney damage, damage to central nervous system, and the National Institute for Occupational Safety and Health has found that construction workers bring lead dust home, leading to higher blood levels in the children of construction workers and in their neighbors. So I think the LRRP is an important tool in reducing these exposures and ensuring that renovations and repairs that disturb lead paint are done with basic safeguards by trained and certified professionals. It is very important. It has been supported by public health groups, by the International Union of Painters and Allied Trades, and it is being implemented. Renovation firms have been certified. Workers have been trained. In Illinois, there are over 5,000 firms certified for lead-safe renovations, and I just think that changing it to an opt-out would undermine important protections for workers, for future homeowners and their children and visitors to homes.

But I want to turn to another subject for some questions. Mr. Bovio, in your testimony you wrote, "Efficiency First contractors work every day with homeowners sitting at kitchen tables across America helping them understand why their energy bills are so high and that "retrofitting homes will put energy savings back in the wallets of American families and communities and create hundreds of thousands of jobs," et cetera. So I understand that your company has seen success lately. So yes or no, has it been your experience that if more consumers knew how much energy they could save and how much money they could save through retrofitting that we would see a lot more people improving the energy efficiency of their homes?

Mr. BOVIO. Absolutely.

Ms. SCHAKOWSKY. And Ms. Biddle, your testimony stressed the importance of informing homeowners of the money that they could save. Can you talk about the methods in your experience that have been the most effective and successful in helping people understand how they can save money and convincing them that these are really important things to do in their home?

Ms. BIDDLE. Yes. As I said, as a housing agency for 26 years, we have known how to talk to people about their specific challenges or questions or needs. So we have addressed the efficiency measures in the same way. It is very much a one-on-one conversation or, where possible, two-on-one. But it is explaining the specifics. In most cases, you know, we can indicate that the cost of the loan—if a loan is necessary, the cost of a loan is less than the savings that would be accomplished on a monthly basis, and once a person understands that, you know, using their own numbers wherever possible, it is a very easy project to understand for anyone, and everyone benefits from it. It is a matter of making it very clear. It is still an esoteric kind of proposition to households. It is not, you know, like buying a granite kitchen counter. They don't know yet what it involves and how to get it accomplished.

Ms. SCHAKOWSKY. So you don't wait for people to come to you, you go out to them?

Ms. BIDDLE. No, we very definitely go out. We have outreach coordinators. One example I gave in Shrewsbury, five members of our town called 400 fellow residents and just explained, you know, I did this in my house and if you did this in yours, this is where you

would be this time next year. We are very definitely talking to people specifically about their homes similar to mine, that kind of thing.

Ms. SCHAKOWSKY. So Mr. Bovio, you were talking about the legislation, the HOMES Act.

Mr. BOVIO. Yes.

Ms. SCHAKOWSKY. Are you saying that some States already have something similar to that and that this has proven to be a good model nationally? Could you explain?

Mr. BOVIO. Yes. I mean, some States do have programs and some have very successful programs, New Jersey being one of them, that has had a lot of success for me and we have had a lot of energy savings in New Jersey with that program. If there was a national model that rolled out and could take home performance nationwide, that would definitely benefit the Nation's energy independence.

Ms. SCHAKOWSKY. Thank you very much. I yield back.

Mr. LANCE. [Presiding] Thank you very much. Before recognizing Mr. Long, Mr. Bovio, where are you from in New Jersey?

Mr. BOVIO. Southern New Jersey. I live in Williamstown.

Mr. LANCE. Gloucester County or——

Mr. BOVIO. Yes, sir.

Mr. LANCE. I live in Hunterdon County, which has even fewer people than Gloucester County, in the northwest, however.

Mr. BOVIO. OK.

Mr. LANCE. And to all of the panel, welcome, and of course to you, Mr. Bovio from New Jersey.

Mr. BOVIO. Thank you, Mr. Lance.

Mr. LANCE. Mr. Long from Missouri, you are recognized.

Mr. LONG. Thank you, Mr. Chairman, and thank you all for being here today and for your testimony. My friend, Ms. Schakowsky, as she always does, made some very good points about the dangers of lead and lead-based paint, and it is a very serious concern, as we all know. I come from a 30-year background as a real estate broker and I hail from the town of Springfield, Missouri, that is the third largest city in the State, founded in 1838, so we are not as old as towns out on the East Coast but we do have a lot of older homes, and a lot of those homes are rental homes. They are starter homes for people that buy the older homes and things, and it is a very, very serious concern, and these rules that they come up with, the repair and painting rule I think what they referred to it as, we stand a chance of people—they don't have to paint their house and they can let them rot down, they can let the 25 years or whatever since 1978 or however many years it has been since 1978, they can just let that paint come off and then you get back to the thick lead-based paint that we all know chips. That is what children will eat and peel off the windowsill. So that is why we are so very concerned about it. I would like all of us to work together on both sides of the aisle and you all to come up with some kind of a rational program that will work and prevent that from happening because the danger of this paint coming off. The non-lead-based paint that people have used over the years that covered up, kind of acted as a pretty good protective coating, but now these houses are in need of painting. I know in Springfield they can't even find anybody. In Illinois, Ms. Schakowsky said that

there are lots of people, but trying to get a house repainted in a town that has been there since 1838 is a serious problem.

So Mr. Shaw, let me direct my first question to you. It is my understanding, and correct me if I am wrong, that the EPA is not even complying with their own rule by not providing a commercially available, accurate test kit. Do you know of any steps that they have taken—I am talking about the EPA—to satisfy the need for these test kits in the near term?

Mr. SHAW. Well, first of all, the EPA wrote the lead test standards into their rule, number one. So NHB has asked them repeatedly to get a response from the EPA on what they are going to do with this lead test kit problem, and we have never received a response. We need to have a lead test kit that works. I mean, for us in Houston, 90 percent of our work are homes that are pre-1978. This rule really has a direct effect on us. And what we have been told by our attorneys time and time again is, we cannot take the risk of a false positive or a false negative. So if we think the house does not test for lead and it does and we don't do the lead safe work practices, we are liable.

Mr. LONG. Well, what does EPA tell you when you tell them, "Hey, you know, you have got this written into the law and we need these test kits?"

Mr. SHAW. Well, you are not going to believe this, but what they tell us——

Mr. LONG. Yes, I would.

Mr. SHAW. They tell us that there is another way of doing this—that you can send the paint chips to their approved laboratories. Well, there are not enough of them. And then if I came into your house and tore your kitchen and your bathroom up and then did this testing and said, "You know what, you are going to have to wait 6 to 8 weeks for us to get the results back," and people just—my customers are not going to wait. It is unreasonable.

Mr. LONG. It is not just remodeling problem because you are in the remodeling business. It is, like I say, landlords that own these older homes that paint them every 3 or 4 years—but now with this new rule, they can't go in there and paint over what they have been painting over since 1978 for these pre-1978 homes, so it is a very serious concern and I hope that we can get some help from everybody on this issue.

Mr. Wilhelms, thank you for giving me a tour of Midwest Block on May 1st of this year in Springfield, Missouri—and very impressive operation there—I think that we both agreed things are kind of upturning in the economy and things are getting a little better around there, so again, I appreciate that. I know that you mentioned when I was down there about a check-off program that you all are interested in, and I know in Washington we are wanting to try to do less instead of more. So what would be the government's involvement in a check-off program? I understand it is like the Got Beef or the cattle check-off program, things like that. Can you in 1 second explain yourself?

Mr. WILHELMS. Government involvement is minimal. Just give our industry the chance to see if it is a right fit for us—but with commodity product, we just need that authorization to allow our industry to take a vote.

Mr. LONG. OK. And I have to ask Mr. Bovio one question even though I am out of time. You have already admitted here before this committee that you gave yourself a promotion. Did you also give yourself a raise at the same time or was it just a title?

Mr. BOVIO. I did not.

Mr. LONG. OK. I yield back.

Mr. LANCE. You have a right to remain silent, Mr. Bovio. Thank you, Mr. Long, especially for that last question for the gentleman from New Jersey. The chair recognizes Mr. Welch.

Mr. WELCH. Thank you very much. I am going to ask a few questions and get to Ms. Biddle in a few minutes, but I want to ask Mr. Shaw a question first. How does the National Green Building Standard compare to some of the other rating systems with regards to energy efficiency?

Mr. SHAW. One thing that is unique about the national Green Building Standard is that unlike the other main program, the LEED program, there is a minimum number of points that you have to score in every category including energy efficiency. Every category, you have to meet a minimum score. And if you look at the different levels of the National Green Building Standard, just to get a bronze is 15 percent above the 2009 energy code. So if you go into the emerald, that is 50 percent, and that is every single category, where if you compare it to the LEED program, and which I did a LEED project about a year and a half ago, a LEED gold, it was—the two architects that I did this particular work for, it was a game of picking and choosing out of different pots to try to get the points, so it became all about the points and really not about the energy efficiency across the board of a home.

Mr. WELCH. Thank you. And then for Mr. Bovio. I appreciated your kind words about the HOMES Act, and we are pleased that we have the support of Efficiency First for that legislation. What would that legislation mean for the home performance contracting industry?

Mr. BOVIO. It would mean a universal standard across the country, which we have never had, a program to put a firm footprint in the home performance place across the Nation, not a small program in this utility and, you know, that State that we have to deal with and it is hard to scale up, nationwide when you are dealing with 50 different programs across the country. If we had one program to shoot for, it could really build the industry up rapidly.

Mr. WELCH. Thank you.

Mr. BOVIO. Thank you.

Mr. WELCH. Thank you. And Ms. Biddle, tell us a little bit about the contracting jobs. I mentioned in my opening remarks, it was just amazing to me to be there seeing all these folks getting training to be able to go out and work, and it was nice to see the kind of bounce in their step because times were pretty rough in Rutland then and these folks had been laid off, and they really had prospects. So I think it would be worth it for all of us to hear more about the contracting jobs that you have been able to create.

Ms. BIDDLE. Well, as I said, we really started at the beginning of our grant period, which was 2010, with about 12 or 13 independent contractors, one-man companies, and as the demand increased, they were overwhelmed so we offered some assistance and

some encouragement for them to hire new people, and we provided the training because it is intensive, technical, advanced training that is required to be a BPI-certified contractor, and I think that is probably what you were part of. And as I said, 62 people now have new jobs that were created in the process of this 3-year period, some of them with even advanced specialties as well. It is a pretty amazing thing, and as I also said, we created a labor pool to augment those companies because they didn't want to necessarily grow any faster or further than demand was building. But yes, you are right, it has been important.

Mr. WELCH. What has been the practical impediment for homeowners to make the plunge?

Ms. BIDDLE. Well, I think there are three things that we have addressed. One is the upfront cost of an audit. Traditionally, it had been $350, $450. One of the first things we did was to defer the cost so the cost remained the same but we took it out of the end check they got as an incentive, so the entry level was $100 rather than $450, and then there was concern that they wouldn't—they get a cheap audit or a free audit and not convert to a retrofit, but with assistance from just sort of understanding the process, our conversion rate is 44 percent, and that is pretty high nationally. But it is about talking to them and explaining it.

Mr. WELCH. Direct one-on-one interaction?

Ms. BIDDLE. Absolutely. And then we offer construction management where that is important. Some people are working and don't have time to be at home for the work to be done so we will actually provide that service, and then we have a very affordable loan product that is also in the minds of a lot of people. Financing is an obstacle. We find it is less of an obstacle once the process is understood by the individuals.

Mr. WELCH. Great. Thank you very much. I yield back.

Mr. TERRY. Thank you, and now to the gentleman from Kentucky, Mr. Guthrie, you are recognized for 5 minutes.

Mr. GUTHRIE. Thank you, gentleman from Nebraska. I appreciate that.

Mr. Chairman, H.R. 1563 that Mr. Long talked about just as he was concluding, he left you about, I think, 3 seconds, Mr. Wilhelms, to discuss it. I want to use my time discussing it, if that is OK with you. You know, it is questionable, which is interesting. You said it this way, what does the government have to do, and the one thing is, and for good reason actually, the government actually prevents some people from coming together to promote because they want to ensure competition in the marketplace and the system. My understanding is, as I have spent a lot of time with this issue, is that most concrete masonry businesses, or almost all are small, a lot of mom-and-pop shops that are local. Most masonry is distributed within 50 miles of where it is produced. So you don't have the big players. You have a lot of small players in order to come together to promote their product. You just couldn't run a national campaign from Springfield nor could you do national research from Springfield. And so the idea is to allow you all to choose if you so choose, and not being anti-competitive, but let you come together for the idea of not promoting your business but promoting your product, which is a commodity. So it is not like you are promoting

one or the other. The other thing I think is even more important, quite honestly, is that you get to do research and development on products that may be more appropriate for New England. We have a wonderful State of Vermont, talking about Mr. Welch, that I enjoyed when I was in New England in college going up there, and—but are hurricane resistant or hopefully someday tornado resistant as is very much on our minds today.

So why is the concrete masonry business so small and so fractured and just disparate like it is?

Mr. WILHELMS. I think you addressed a lot of it. It was for small family businesses operating in local areas.

Mr. GUTHRIE. The ones the market kind of forced that structure.

Mr. WILHELMS. Yes, the market has forced it, and you bring up some good points, and our ability to adapt and really get our word out. You know, my pet peeves are on the research and education side of it, you know, with the green building and energy code compliance we have heard so much about today, there is really a huge opportunity out there for our materials whether it be utilizing fly ash in our materials, a higher percentage of fly ash, whether it be using crumb rubber waste in our materials. There is opportunity to improve our energy efficiency but lacking that opportunity to get in and really do the testing and how does it affect performance in terms of energy or fire protection, you know, those are all things that require money and a consistent level of funding that we need over time. So a check-off program for our industry would provide the consistent level of funding we need to advance, you know, our industry really and education, research and promotion.

Mr. GUTHRIE. My understanding is, it is hard for one player to come in. A lot of industries—I have a family business and we sell automotives for U.S.-based companies. There are a lot of other companies, the Big Three as we call them, have massive research and development. But it is difficult for you to do because you are so small, and I understand the reason you are small is because it is so expensive. You couldn't just have one plant in Springfield, Missouri, and ship to New York or to Vermont and try to produce because it is so expensive to do so, so they perform in the local—that is kind of why you are disparate and small, right?

Mr. WILHELMS. Yes. Shipping product that far would not be energy efficient. That is true, and the check-off program for us, you know, we see good support throughout our industry, over 70 percent through a third-party survey have indicated that yes, we need this and it would be right for us. So the fault we have is, we are not a product that grows so we don't fall under the Department of Agriculture. We are doing this right, belong under Energy and Commerce, and unfortunately, being the first program that would get set up, we need to go through the proper steps.

Mr. GUTHRIE. Well, thanks for doing that. So the proper steps—this bill does not create a check-off program, does it?

Mr. WILHELMS. No.

Mr. GUTHRIE. What does the bill actually do?

Mr. WILHELMS. It gives us the authority to take a vote within our industry, and if it is approved by the majority of locations around the United States, then it would be enacted and overseen—

there would be government oversight but no costs would go into monitoring that program.

Mr. GUTHRIE. And if you looked at other check-off programs, is this different or is it similar?

Mr. WILHELMS. Very similar, yes. There's over 35, I believe, check-off programs through the Department of Agriculture. The bill that is entered into the House is identical in the Senate, and they are based on that logic that has been argued before the Supreme Court and follows that same legislative process.

Mr. GUTHRIE. You can't do it if you are only promotional in nature, you have to also move your industry forward.

Mr. WILHELMS. And the good part about this, just real quick, is that 50 percent of the funds go back to the local market so the person in Springfield or Bowling Green or whatever would have that opportunity to get back what they put in.

Mr. GUTHRIE. Yes, Springfieldian, Mr. Hammonds, had a hotel in Bowling Green. I know you lost him this week, and that is a big loss to your community, and our prayers are with you all and his family.

Mr. WILHELMS. Yes, a very philanthropic individual.

Mr. TERRY. Thank you. Sorry, but there is no one else to ask questions, so that means our hearing is concluded. I remind you that there may be written questions submitted to you, and a timely response would be greatly appreciated. So you are dismissed and we are adjourned.

[Whereupon, at 12:48 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. HENRY A. WAXMAN

Today, the Subcommittee examines homebuilding, remodeling, and relevant supplier industries.

In recent years, these industries have faced massive turmoil and hard times. The financial crisis—triggered by a massive housing bubble—caused millions of people to lose their jobs or take mandatory pay cuts. Some Americans held mortgages they could no longer afford. Others had to put on hold their dream of owning a home. Demand collapsed, leaving contractors, builders, and suppliers in the worst shape they had been in decades.

It's important to remember how Congress responded. In 2010, this Committee crafted and passed the Home Star Energy Retrofit Act of 2010, introduced by Representative Peter Welch. The bill had the support of a remarkably broad coalition that ranged from local contractors to environmentalists to organizations like the National Association of Manufacturers and the Chamber of Commerce.

Many groups supported Home Star because it would have created 168,000 jobs that wouldn't be outsourced overseas. They would have been construction jobs in our neighborhoods and our communities. And they would have been manufacturing jobs for workers at factories in America. The bill also would have allowed 3 million families to retrofit their homes, increasing the homes' energy efficiency significantly.

But the Republicans on this Committee and in the House overwhelmingly opposed the bill. The Senate Republicans blocked its consideration there. They had a simple message. No amount of pain in the housing sector would cause them to lend a hand if it might be a victory for the President.

Now, the homebuilding industry is improving. Building permits for new homes is up 35% in the last year. In my home state of California, the residential construction industry now contributes 120,000 jobs and over $20 billion per year to the state's economy.

Recent increases in home prices—around 20% year-on-year in some metropolitan areas—are welcome for many homeowners. But millions of Americans are still facing foreclosure or are struggling to make their monthly payments, particularly in California, where almost one-third of borrowers owe more than their home is worth. More can and should be done to help. For instance, the Federal Housing Finance

Agency (FHFA) should allow Fannie Mae and Freddie Mac to establish principal reduction programs to help underwater homeowners reduce their debt burdens.

While the most important factor is the broad economic wellbeing of consumers, there are policies that can help spur growth in residential construction.

With 2012 now behind us and a new residential energy efficiency bill by Mr. Welch and Mr. McKinley pending, I hope that the Committee can do the hard work to pass legislation. We need to craft legislation supported by a broad coalition of stakeholders. We know it's possible because we did it in 2010. Such legislation would support jobs, support consumers, and support the environment.

There are clear benefits of improved residential energy efficiency and I urge my colleagues to support these legislative efforts, as well as similar efforts by independent standards-setting organizations, the Department of Energy, and the states.

Thank you.

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

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House of Representatives
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September 25, 2013

Mr. Rick Judson
Chairman
National Association of Home Builders
1201 15th Street, NW
Washington, D.C. 20005

Dear Mr. Judson,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions for the record, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and (3) your answer to that question in plain text.

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Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment

Additional Questions for the Record

The Honorable Jan Schakowsky

1. I recently reintroduced H.R. 2352, the Eleanor Smith Inclusive Home Design Act, legislation I have sponsored for more than a decade. My bill would require homes built with federal dollars to meet inclusive design standards, including:

   - At least one accessible (or "zero step") entrance into the home;
   - Doorways wide enough for a wheelchair on the main level;
   - One wheelchair accessible bathroom; and
   - Light switches and thermostats at reachable heights from a wheelchair.

   In previous meetings with NAHB, I have been told that your organization will not support this legislation in any form. Does the NAHB believe that we should seek ways to increase incentives for building accessible homes? How would an NAHB inclusive home design bill differ from H.R. 2352? Are there any levers the federal government could use to increase housing accessibility that the NAHB would support?

2. At the Subcommittee hearing on June 4, 2013, I discussed H.R. 1706, the Mortgage Settlement Monitoring Act of 2013, which is a bill introduced by Representative Cummings to help ensure transparency in a federal review of mortgage servicers' unsafe and unsound practices. As an original co-sponsor of this legislation, I was pleased that you said the concept of the bill "is certainly supportable," and that you would be willing to examine the legislation in the time following the hearing.

   a. I fully understand that your industry does not issue, underwrite, or service mortgages. Nevertheless, after having a chance to review the legislation, does the National Association of Home Builders support H.R. 1706? Will it commit to support Representative Cummings' work?

   b. Are there changes to the mortgage industry that you would you like to see banks or mortgage servicers adopt that would benefit homebuilders? For example, through helping bring about a more stable, transparent system of housing finance?

3. At the Subcommittee hearing on June 4, 2013, a member of Congress expressed concerns at the affordable housing shortage in the United States and asked witnesses on your panel to share ideas on addressing this crisis. I share this member's concerns. The National Low Income Housing Coalition has documented that for every 100 extremely low income renter households – those with income at or below 30% of area median income – there are just 30 affordable and available units. For every 100 renter households at or below 50% of area median income, there are only 57 affordable and available units. Disproportionately

represented among these households are the elderly and disabled, black and Hispanic residents, and single women with children. Other than the comments you mentioned regarding regulations, what else does the National Association of Home Builders believe could be done to address the affordable housing shortage?

4. Contaminated Chinese drywall entered the United States housing market beginning in the mid-2000s. After initial complaints of foul smells, afflicted homeowners found themselves with irritated and itchy eyes and skin, breathing problems, asthma attacks, persistent coughs, bloody and runny noses, and recurring headaches. Complaints also included reports of blackened and corroded metal components in the home. As a home often is a family's largest financial investment, flawed building materials can lead to financial disaster.

   On January 14, 2013, President Obama signed into law the bipartisan Drywall Safety Act of 2012 (Pub. L. 112-266), which sets sulfur content limits for domestic and imported drywall, requires all new drywall to be marked with a permanent label that identifies who manufactured a particular drywall sheet, and ensures disposal, instead of reuse, of this drywall. This Act included changes made to earlier legislation following discussions in the Senate with stakeholders – including the National Association of Home Builders (NAHB) – which resulted in changes to the bill to address certain concerns that had been raised.

   Yes or no, can you provide written assurance that NAHB is working with the ASTM International C11.01 committee to ensure that the drywall sulfur content standard required by section 4 of the Drywall Safety Act of 2012 is developed quickly and in a manner that will protect homeowners from future imports of problem drywall?

5. Passing comprehensive immigration reform is vital to the nation's homebuilding industry and to strengthening the economy. According to the U.S. Census Bureau, foreign-born workers make up 22% of the construction industry's workforce. However, without a viable path to citizenship, companies in the industry cannot compete on a level playing field.

   Today, large states like California, Florida, and Texas are experiencing an increase in both new immigrants and new home construction. In a February 2013 report, the Worker's Defense Project estimated that 14% of construction workers nationwide are undocumented, nearly 1 million people in total. The same report estimates that in Texas – the nation's largest and fastest growing construction market – undocumented workers represent 50% of all construction workers, or as many as 400,000 people.

   These numbers highlight the desperate need for immigration reform, particularly for the sake of our country's homebuilding industry, which is a major contributor to national GDP and needs the ability to hire workers legally.

   a. According to the website of the National Association of Home Builders, a priority of your organization is to "Enact Comprehensive Immigration Reform." Yes or no, does your organization support a path to citizenship?

b. What are your views on legislation focused on increasing H1B visas?

6. Drawn by the prospect of double-figure profit margins on rents and the resale of homes whose prices plummeted in the crash, hedge funds and other large Wall Street investors are investing in the individual home real estate market. A recent article in *The Washington Post* explained that large investors accounted for as much as 70 percent of new home purchases. While the initial investment may be beneficial, the influx of Wall Street investors into the private home real estate market has made it difficult for lower and middle income Americans to build their own wealth through homeownership. Additionally, many are concerned about the prospect of another Wall Street-fueled bubble that won't be sustainable and will depress the consumer market for homes even further.

   a. What role are large investors currently playing in the private home real estate market and what effects do you think this will have on homebuilders, remodelers, and related suppliers?

   b. Yes or no, do you believe that these investor purchases of homes are adversely affecting middle-class Americans' ability to achieve home ownership?

   c. What are the best ways to take advantage of the influx of capital from Wall Street without creating additional hurdles for homeownership for middle income Americans?

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

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September 25, 2013

Mr. Curt Stevens
CEO
Louisiana-Pacific Corporation
414 Union Street
Nashville, TN 37219

Dear Mr. Stevens,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions for the record, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and (3) your answer to that question in plain text.

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Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment

October 7, 2013

Kirby Howard, Legislative Clerk
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

Question from the Honorable Pete Olson:

What needs to be done in order to encourage America's youth to be interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc.?

Reply from Curt Stevens, CEO, Louisiana-Pacific Corporation:

Reintroducing "shop" or trades education in high schools would be a good start. Just a few years ago, students could learn the basics of drafting, welding, woodworking, landscaping and electronics among other trades, in high school. Learning a bit about trades is a good life skill for anyone and also could encourage students to pursue a fulltime career in one of them.

We also need to change the negative perception of careers where you work with your hands. These professions are basic to running an advanced economy and should be respected. We should talk about the stable careers that such skills lead to with steady, middle-class income, health care and other benefits, and opportunities for advancement.

Improving the affordability of trade schools is another way to encourage youth. Where possible, create work-study opportunities for the students that will help defray the cost of training.

In addition, encourage unions to reintroduce apprenticeship programs.

Finally, though not a direct answer to the question, comprehensive immigration reform that includes provisions for skilled "guest workers" will provide the labor necessary to build the houses that America needs.

LOUISIANA-PACIFIC CORPORATION
414 Union St., Suite 3000 Nashville, TN 37219 T 615.986.5600 F 615.986.5666 LPCORP.COM

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FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States
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September 25, 2013

Mr. Thomas S. Bozzuto
Chairman and CEO
The Bozzuto Group
National Multi Housing Council
And National Apartment Association
1850 M Street, N.W., Suite 540
Washington, D.C. 20036

Dear Mr. Bozzuto,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions for the record, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and (3) your answer to that question in plain text.

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Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment



RESPONSE TO QUESTION FOR THE RECORD
THOMAS S. BOZZUTO

CHAIRMAN AND CHIEF EXECUTIVE OFFICER
THE BOZZUTO GROUP

ON BEHALF OF THE
NATIONAL MULTI HOUSING COUNCIL
AND THE
NATIONAL APARTMENT ASSOCIATION

HOUSE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON COMMERCE, MANUFACTURING AND TRADE

FOR THE HEARING
"OUR NATION OF BUILDERS: HOME ECONOMICS"

HELD JUNE 4, 2013

1850 M Street, NW, Suite 540 ■ Washington, DC 20036 ■ 202.974.2300 ■ FAX 202.775.0112 ■ www.nmhc.org ■ info@nmhc.org

The Honorable Pete Olson

Question

What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc?

Response

The apartment industry is a robust economic force with the capacity to drive spending and job creation in communities nationwide. However, we are still in a financial recovery period and continued economic growth in the housing sector relies in part on the availability of a trained workforce. The apartment industry employs 200,000 people (121,000 on-site and 79,000 off-site) in the construction and development of apartment buildings annually. We directly employ an additional 686,000 people in property operations and maintenance. Our industry is dependent on skilled workers during all phases of a building's life including initial construction, operations and maintenance, and renovation. Unmet labor needs therefore present a significant obstacle to cost-effective and timely development and improvement of apartment communities.

While there are numerous factors contributing to the decline of individuals entering the skilled trades, we believe there are several means available to motivate entry into these fields and the building sector in particular. Outreach is a critical component in recruiting both students and younger workers into skilled trades. These groups can benefit from information about the career opportunities available in skilled fields, including insight into emerging or non-traditional areas. For example, in the building sector, information on the linkages between skilled work and fields like green building and energy efficiency can drive interest in up-to-date applications for traditional skills.

In addition, job placement and mentor programs can help attract and encourage new workers in skilled fields. Such programs can also be tailored to target specific groups with unmet employment needs. For example, my firm is proud to hire military veterans for service positions. Programs targeting veterans and other populations with transferable skill sets can increase the success of career development programs in skilled trades.

I have outlined several specific recommendations below:

1) Raise Public Awareness. Consider a public awareness campaign touting the benefits of skilled labor jobs. These are high-paying, stable professions, with significant opportunity for career advancement. Such a campaign should highlight career development and progression from entry level work, to management possibilities and entrepreneurship.

2) Reevaluate Education Policies. Federal and state education policies now focus almost entirely on college preparation. In fact, we have heard from several state educators that school administrators and guidance counselors are evaluated on student acceptance rates at four-year colleges and universities. Our education goals and policies should address the nation's diverse workforce needs, and provide opportunities to pursue technical apprenticeships, community college or vocational training and direct workforce preparation in lieu of a one-size-fits-all higher education pathway.

3) Promote Career and Technical Education Schools. Improvements to the nation's network of Career and Technical Education schools (CTE centers) can greatly increase interest and opportunities in skilled professions. CTE centers, formerly known as "Vo-Tech," must overcome the perception that workforce skills training is inferior to college preparation programs. CTE centers also face challenges including old or outdated facilities and a physical separation from general education facilities necessitating off-site transportation. Integrated CTE centers, such as one in St. Mary's County, Maryland provide students with a rewarding educational opportunity. Suggestions for improving CTE centers include: 1) Capital improvement plans; 2) Creation of strong and sustained industry partnerships; 3) Modernization efforts for equipment and educational resources; and 4) Guidance on apprenticeship, community college and university program opportunities.

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

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September 25, 2013

Mr. Steven Nadel
Executive Director
American Council
For An Energy-Efficient Economy
529 14th Street N.W, Suite 600
Washington, D.C. 20045

Dear Mr. Nadel,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions for the record, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and (3) your answer to that question in plain text.

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Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member. Subcommittee on Commerce, Manufacturing, and Trade
Attachment

Responses of Steven Nadel, American Council for an Energy-Efficient Economy to Questions for the Record

Oct. 5, 2013

The Honorable Pete Olson

1. **What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc?**

Response:

We need more technical training programs for these types of positions – starting in high school to give students basic skills and interest them in these professions, but continuing in community colleges for more skilled workers for these professions. We also need to expand apprenticeship and other on-the-job training programs.

The Honorable Jan Schakowsky

1. **In 2010, Congressman Welch, with bipartisan support and the support of several other Committee members, introduced the Home Star Energy Retrofit Act of 2010. If enacted, this legislation would have provided rebates to homeowners who retrofit their homes with energy efficient equipment, as well as grant money to states for complementary financing programs. According to the Home Star Coalition, the legislation would have created 168,000 jobs, saved Americans more than $10 billion dollars on their energy bills over 10 years, and reduced global warming by the equivalent of taking 615,000 cars off the road.**

   The nation is still in need of policies similar to Home Star that create jobs and reduce consumer cost and consumption of energy. Responding to this need, Representatives Welch and McKinley have introduced several new bills to achieve the goals originally intended by the Home Star Energy Retrofit Act. H.R. 1616, H.R. 2126, and H.R. 2128 provide funding to states that implement guidelines and policies to improve residential energy efficiency, facilitate collaboration between landlords and tenants to establish best practices for energy efficiency, and provide for the establishment of a Home Energy Savings Retrofit Rebate Program, respectively.

   Additionally, according to the White House, legislation similar to Home Star is intended to be part of the President's larger goal to establish a Clean Energy Standard (CES) for the country.

   Please discuss H.R. 1616, H.R. 2126, and H.R. 2128 and the effect you think they will have on the housing industry as well as on the nation's energy efficiency. What other opportunities are there for improvement in residential energy efficiency that is not captured in the aforementioned legislation?

Response:

H.R. 1616 is the Energy Savings and Industrial Competiveness Act. We strongly support this bill. In particular we note the building code section of this bill which works with consensus code organizations and the states to develop and implement up-to-date building codes that help reduce the cost of home ownership. New homes are almost always funded with a mortgage. As long as the value of energy savings from energy efficiency improvements are greater than the increased mortgage costs to finance those improvements, more efficient building codes can reduce the cost of home ownership. ACEEE recently prepared a detailed analysis on the Senate version of this bill (see **http://www.aceee.org/white-paper/shaheen-portman-2013**).

H.R. 2126 is the Better Buildings Act. We also support this bill. It will help improve the efficiency of leased spaces, primarily in the commercial sector. We examined this bill as part of the report referenced in the paragraph above.

H.R. 2128 is the HOMES act. It would establish a program to provide incentives to residential homeowners to undertake comprehensive home energy retrofits. Incentives begin for retrofits that reduce home energy use at least 20%, and increase for higher levels of savings. We believe this bill will encourage increased retrofit activity and will also encourage more contractors to offer comprehensive energy efficiency retrofit services, creating jobs and making it easy for homeowners to find competitive contractors to perform these services. However, this bill does have a cost and we recognize that finding federal funds to support this program might be difficult.

I would also draw your attention to S. 1106 — the Sensible Accounting to Value Energy Act (SAVE). S. 1106 was recently introduced by Senators Bennet and Isakson. The bill would encourage energy efficiency upgrades to homes by: (1) encouraging efficiency improvements at the time of purchase; and (2) recognizing the value of efficiency upgrades, and the operating cost savings they provide, when buildings are assessed and qualification for mortgages determined. Specifically, this bill instructs the Department of Housing and Urban Development (HUD) to issue updated underwriting and appraisal guidelines for borrowers who submit a qualified home energy report. The bill would cover any loan issued, insured, purchased, or securitized by the Federal Housing Administration and other federal mortgage loan insurance agencies or their successors. These agencies collectively guarantee more than 90% of all new loans. The bill removes an impediment to home energy efficiency from federal mortgage policy by recognizing how energy efficiency can increase home value and reduce operating costs, freeing up more income to pay a mortgage. In addition, the bill would allow American homeowners to finance cost-effective home energy upgrades as part of a traditional mortgage, improving access to the comfort and money-saving benefits of efficiency without increasing the cost of homeownership. The result is improved and lower cost access to capital to invest in making homes better.

The SAVE Act has support from a broad, diverse coalition including the National Association of Manufacturers, U.S. Chamber of Commerce, National Association of Realtors, National Association of Home Builders, ACEEE, the Institute for Market Transformation, the Alliance to Save Energy, and the Natural Resources Defense Council.

2. **Energy efficiency improvements put money back into the hands of consumers while having a positive impact on the environment, but the benefits do not end there. In addition to helping industry become more productive, increasing asset values for properties, and yielding positive health effects for society, being energy efficient creates jobs.**

a. **Your organization, the American Council for an Energy Efficient Economy (ACEEE), reports that jobs are created not only through direct expenditures on energy efficient technology, but also through the adjustments in spending habits as a result of those expenditures. Please explain this finding. Are there other findings from your work on job creation that you would like to share with the Subcommittee?**

Response:

Energy efficiency creates jobs in four main ways. First, there are the direct jobs manufacturing efficient products, designing efficient buildings and production lines, and installing energy efficiency measures. Second, there are the indirect jobs to support these direct jobs, such as jobs at retailers and wholesalers that sell energy-efficient products. Third, the workers and companies that benefit from these direct and indirect jobs spend their income in ways that support further jobs, such as jobs at a lunch counter down the street from a new factory or construction site. And fourth, as people and companies reduce their energy bills through energy efficiency, the money they save is generally re-spent, creating further jobs. I would also note that energy efficiency jobs tend to be in such areas as construction and services that are particularly labor intensive. ACEEE has a fact sheet explaining these considerations that can be downloaded at http://aceee.org/files/pdf/fact-sheet/ee-job-creation.pdf .

b. **Three pieces of bipartisan legislation – the Home Owner Managing Energy Savings (HOMES) Act, the Energy Savings and Industrial Competitiveness Act, and the Better Buildings Act – were recently introduced in the House. The HOMES Act would give homeowners rebates for investing in energy efficiency improvements based on how much energy they save. If money saved is reinvested across multiple sectors of the economy, do you believe that this strengthens the jobs-creation case for energy efficiency? Do you have any thoughts on other pending energy-efficiency legislation?**

Response:

ACEEE recently completed an analysis of the Senate version of the Energy Savings and Industrial Competitiveness Act (S. 1392). Our analysis also included a number of potential amendments to this bill, including the Better Buildings Act. Overall, we found that the core bill would support about 164,000 jobs by 2030 and the amendments would add another 10,000 jobs. Net annual financial savings in 2030 (energy bill savings minus the annualized cost of efficiency improvements) would total about $13.7 billion for the core bill and $15.2 billion including the amendments. Our full analysis can be found at **http://www.aceee.org/white-paper/shaheen-portman-2013** .

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6115
Majority (202) 225–2927
Minority (202) 225–3641

September 25, 2013

Mr. James M. Robinson IV
Senior Vice President
General Counsel
Kohler Company
444 Highland Drive
Kohler, WI 53044

Dear Mr. Robinson,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

Pursuant to the Rules of the Committee on Energy and Commerce, the hearing record remains open for ten business days to permit Members to submit additional questions for the record, which are attached. The format of your responses to these questions should be as follows: (1) the name of the Member whose question you are addressing, (2) the complete text of the question you are addressing in bold, and (3) your answer to that question in plain text.

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Thank you again for your time and effort preparing and delivering testimony before the Subcommittee.

Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment

Kohler Co., Kohler, Wisconsin 53044 Founded in 1873 920-457-4441 Fax 920-459-1583 buddy.robinson@kohler.com

KOHLER.

James M. (Buddy) Robinson IV
Sr. Vice President - General Counsel
and Corporate Secretary

SENT VIA E-MAIL
AND CONFIRMED BY U.S. MAIL

October 9, 2013

Dear Mr. Chairman:

Thank you for the opportunity to testify before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 at the hearing entitled "Our Nation of Builders: Home Economics". I am honored to provide further information to the Subcommittee in response to the question raised by The Honorable Pete Olson and transmitted to me by your letter of September 25, 2013. The Honorable Mr. Olson inquired:

> **What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc.**

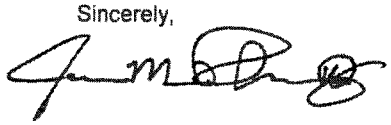
Based on Kohler Co.'s experience, America's youth are misinformed about skilled trade occupations and the quality of life these positions bring. We support recent efforts to emphasize science, technology, engineering and math (STEM) curriculum starting in elementary school and continuing through middle and high school. This focus is very important to ensuring America stays competitive with other countries in terms of technological development and economic growth, but along the way we need to show other career paths for those not inclined to pursue a college education, including career paths in industrial arts. We would recommend that schools do more to expose students to "shop" or industrial arts classes so they can discover hands-on whether they have a desire to pursue technical occupations.

It is our opinion that STEM and industrial arts curriculums should be seen as complementary and not in competition for funding with each other. Schools can do more to relate STEM teachings and their practical application within industrial arts to increase the awareness that technical occupations are not "dirty", "blue-collar" or "unprofessional", but occupations where an individual can gain job satisfaction through cutting-edge technology, design and fine craftsmanship. We believe there is a need to recognize that not every student will have the ability or desire to go to a traditional four-year college, and we need to provide an alternative path than a traditional college education.

Technical colleges deserve more resources and need to be highlighted as an alternative to a four-year traditional college that offers a path to a rewarding lifelong career. We would also endorse policies that encourage and reward apprenticeship programs. Such programs should provide incentives for skilled laborers to pass their knowledge to a new generation. Support for students willing to enter into defined apprenticeship programs is also needed.

The Bureau of Labor Statistics shows the labor force participation rate for 16 to 24 year olds has declined since 1990 from 67.3% to 55.2% in 2010, and the BLS expects this decline to continue and reach a new low of 48.2% by 2020. We suggest that this highlights the need for more to be done to promote an alternative to a college education, and industrial arts or "shop" classes provide the tools and education necessary to drive students to technical skilled labor occupations.

Sincerely,



The Honorable Lee Terry
Chairman
Subcommittee on Commerce, Manufacturing and Trade
Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515-6115

JMR/sf

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September 25, 2013

Mr. Bill Shaw
Owner
William Shaw and Associates
4206 Law Street
Houston, TX 770051036

Dear Mr. Shaw,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

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Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
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Additional Questions for the Record

The Honorable Pete Olson

1. What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc?

The Honorable Gregg Harper

1. Can you comment on the fact that the "Green Building" standard currently in use by our government, the LEED standard, is biased against the use of wood?

2. Are these standards increasing building costs?

3. Are there other standards whose bias against wood ensures a more costly or less reliable product is used?

4. Do you have suggestions on what Congress might do to remedy this situation?

FRED UPTON, MICHIGAN
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September 25, 2013

Mr. Mark Wilhelms
Vice President
Architectural Sales
Midwest Brick and Block Company
12901 Saint Charles Rock Road
Bridgeton, MO 63044-2485

Dear Mr. Wilhelm,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

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Lee Terry
Chairman
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Follow-up Testimony of Mark Wilhelms

At Hearing of "Our Nation of Builders: Home Economics" – June 4, 2013

Of the House Subcommittee on Commerce, Manufacturing, and Trade

Question from Representative Olson Addressing the Growing Need for Youth in Construction Trades.

Dear Representative Olson,

Thank you for recognizing this critical issue that exists within the construction trades. According to the Bureau of Labor Statistics, over the next decade, the job growth in this sector is expected to grow at a rate of 20%. This is faster than the overall rate of 14% for all careers. For some industries, such as brick masons, the rate is higher still at 41%. And in addition, a McGraw Hill / Dodge industry survey, 69% of Architects / Engineers and General Contractors expect a shortage of skilled trades as early as 2014. The issue of finding people to fill construction related jobs is a real concern that needs our attention now.

Our industry has had a long history with the Skills USA Challenge (Skills USA is a partnership of students, teachers and industry working together to ensure America has a skilled workforce), over those many years, we have seen a decrease in schools offering career and technical education. As dropout rates continue to climb and college graduation rates remaining flat, our society should realize the need for different education paths for our students.

High school children need to know that skilled trade careers are valued in our society. The expectation that all students should go onto college is not realistic. Our high schools should recognize and equally support this as a parallel path of education. Canada has begun addressing this issue by assessing students early in their high school education and encouraging students with the right skill set to pursue education in technical education. And further more, they equally fund schools teaching the skilled trades. This recognition of different skill sets in students has resulted in lower dropout rates among high school students in Canada.

Previously, the U.S. has recognized the need to support funding of career and technical education by passing the Carl Perkins Vocational Act in both 1984 and a revised Act in 2006. New versions of this Act are supported by organizations such as Skills USA. Increased funding for career and technical education is needed. However, our industry feels that funding for these programs should not be limited to tax dollars alone. This is why as part of HR 1563, the Concrete Masonry Check-Off Bill, education is a primary part of our program. Many within our industry see that once a Check-Off program is established, an early investment will be at the state level to support career and technical education where masonry trades and design skills are taught.

Our country needs to work on changing the belief that, vocational education is a "second-choice" alternative by parents and students. For many students, career and vocational training will provide an above average salary with opportunity for a skill that offers lifetime employment.

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September 25, 2013

Ms. Ludy Biddle
Executive Director
NeighborWorks of Western Vermont
110 Marble Street
West Rutland, VT 05777

Dear Ms. Biddle,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

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Sincerely,

Lee Terry
Chairman
Subcommittee on Commerce,
Manufacturing, and Trade

cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment

Additional Questions for the Record

The Honorable Pete Olson

1. What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc?

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September 25, 2013

Mr. Brian Bovio
Operations Manager
Bovio Advanced Comfort
and Energy Solutions
101 Summit Avenue
Sicklerville, NJ 08081-5101

Dear Mr. Bovio,

Thank you for appearing before the Subcommittee on Commerce, Manufacturing, and Trade on Tuesday, June 4, 2013 to testify at the hearing entitled "Our Nation of Builders: Home Economics."

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Lee Terry
Chairman
Subcommittee on Commerce,
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cc: Jan Schakowsky, Ranking Member, Subcommittee on Commerce, Manufacturing, and Trade
Attachment



Chairman Lee Terry
c/o Kirby Howard, Legislative Clerk
Committee on Energy and Commerce
Kirby.Howard@mail.house.gov
2125 Rayburn House Office Building
Washington, D.C. 20515

Re: Responses to additional questions submitted for the Subcommittee on Commerce, Manufacturing, and Trade hearing on Tuesday, June 4, 2013: "Our Nation of Builders: Home Economics."

Dear Chairman Terry, Ranking Member Schakowsky and Congressman Olson,

I appreciate the opportunity to respond to additional questions submitted following the Subcommittee's June 4th hearing. This answer is in response to the following question, asked by The Honorable Pete Olson:

Question:
"What needs to be done in order to encourage America's youth to get interested in jobs that involve skilled labor, such as electricians, plumbers, HVAC technicians, welders, machinists, carpenters, painters, drywall, brick masons, etc?"

Answer:
There is a misperception that skilled labor jobs are not as interesting, experience-building or knowledge-based as jobs that require four year college degrees. So, when youth look for careers that will help them achieve success and provide rewarding experience, they may look away from skilled labor professions. When our company's crews go out to homes and buildings, they use sophisticated equipment to dissect the problems in each home and look at ways to optimize the energy and water systems. Everything they do is based on building science, which has its roots in physics. Not only that, but the work my crews are doing also contributes to the greater good – we are making the grid more efficient, boosting our local economies by helping people save money, and reducing greenhouse gases and other pollutants while we're at it.

The solutions are not as easy to identify and implement, but here is a start:

1. Value high-level training in the trades: As home performance contractors, much of our work involves fixing work in homes that was previously not done correctly. We know that there are lots of projects getting done by people who are not qualified enough to do the work. They low-bid their projects and they spread the misperception that the work we do is simple and does not require advanced training. Our technicians, because they are highly trained, operate at an entirely different level. The more we promote (and require when appropriate) high level certifications and accreditations, the more the public will understand and appreciate the level of knowledge required in our lines of work.

2. Purpose-driven work: Many young people are drawn to work that makes an impact, and that is exactly what our company's work does -- but that is not the image that jobs in the construction trades have. Our company's employees know that the work they are doing produces lots of benefits for our



customers, our community and our country. The more we can spread that message to those who are potentially interested in the trades, the better.

Please do not hesitate to contact me with any questions.

Brian Bovio
Chairman of the Board, Efficiency First
Vice President, Bovio's Heating, Plumbing, Cooling, Insulation