

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Paul "Bud" Burke at _____
Chairperson

~~11:00 a.m.~~ on February 13, 1984 in room 526-S of the Capitol.

All members were present ~~except~~

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Margie Braden, Kansas Manufactured Housing Institute, Topeka
Janet Stubbs, Homebuilders Association of Kansas

The committee held a hearing on SB 596 which would provide that the sales of used mobile homes and 50% of the cost of new mobile homes would be sales tax exempt.

The chairman recognized Margie Braden, KMHI, who told the committee that when the sales tax was first imposed on mobile homes, many were temporary or auxiliary housing which could be moved from place to place; they were considered a part of the vehicle with which they were transported and treated as personal property for tax purposes since they were licensed and titled under the jurisdiction of the Department of Motor Vehicles. Today's manufactured homes are permanent, economical, affordable homes for a great many young first-time buyers and older citizens living on retirement incomes. For those who may be concerned about loss of revenue by the passage of this bill, she said it is possible many more homes will be purchased in the coming years if it is made more equitably accessible. In the case of modular homes, built to local building codes, they are subject only to sales tax on the materials, the same as any site-built home. What they are asking for is only equal treatment with other similar forms of housing, in which only the materials in a new home are taxed and that no tax is imposed on resales. (Attachment #1)

The chairman noted that the fiscal note indicated that the approximate loss of revenue in FY 1985 would be \$1.2 million if this legislation were passed.

The chairman recognized Janet Stubbs, Homebuilders Association, who questioned the sales tax exemption of 50% of the cost of a new mobile home. She said it is difficult to determine what portion of a "stick" home would represent the material upon which sales tax is paid, but most of her builders would guess that materials would be 60 to 70 percent of the cost.

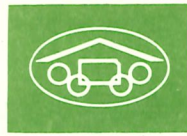
The chairman adjourned the meeting at 11:40 a.m. The committee will meet at 11:00 a.m. on February 14.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb. 13	Melissa Katt	Grainfield, Ks.	Sen. Gannon
	Janice Marcum	Topeka	PVD
	D. Ferrell	"	Budget
	O. Roberts	Shields, Ks.	U.M.W. (West)
	Elizabeth Roberts	" "	" "
	Cleo Shull	Dighton Kansas	" "
	JANET TAYLOR	TOPEKA	KMHI
	Margie Braden	Topeka	KMHI
	Joann Williams	Riley, Ks.	U.M.W.
	Ina Zeisset	Leonardville	U.M.W.
	Merton Zeisset	"	"
	Diana Kaiser	Grainfield	
	Ina Hurley	Kanopolis	" " "
	Virian Steink	Dorrance	" " "
	Hilbert Ruml	STAFFORD	
	Janet Stubbs	Topeka	HBAK
	Ron Caches	Topeka	KCCI
	Laurence Swaddell	Beloit	U.M.W.
	Arvis Swaddell	"	U.M.W.
	Ellen Coster	Auburn	United Methodist Women



KANSAS MANUFACTURED HOUSING INSTITUTE
100 East Ninth Street • Suite 205 • Topeka, Kansas 66612 • (913) 357-5256

Testimony before Senate Assessment and Taxation Committee, Monday, February 13, 1984

Mr. Chairman and members of the committee. I am Margie Braden, Executive Director of the Kansas Manufactured Housing Institute and registered lobbyist for that association. Thank you for allowing me to appear before you today in support of Senate Bill 596. The Kansas Manufactured Housing Institute is a trade association representing all facets of the manufactured housing industry, i.e. manufacturers (of which there are 13 within the state of Kansas), retailers, park owners, suppliers, financial institutions, insurance companies, service companies and transport companies.

On behalf of the association, I thank you for your cooperation in introducing this legislation so that we might have an opportunity to put this sales tax inequity before the Kansas Legislature. Even though the issue has been discussed here from time to time in the past, I have found, through my conversations with legislators, that many of them were not aware that manufactured housing is receiving unfair treatment with regard to sales tax.

Much of what I have prepared for you here is the information which I presented to you at the time I asked that this legislation be introduced. I have also provided each of you with a small packet of information regarding the manufactured home product which I hope will provide answers to additional questions you may have regarding our industry and our homes. The manufactured home which is built on a steel frame with wheels and axles for transporting it to a homesite, and which is known to many of you as a "mobile" home, is subject to sales tax in Kansas on the entire retail sale price of the home at the first sale and to the same sales tax on each subsequent sale price if it is not placed on a permanent foundation and subsequently sold with land.

2/13/84 Atch. 1

This is in contrast to housing built on site or even to modular housing which is factory-built, because sales tax is collected only on the cost of the materials used in such construction--never on any other portion of the cost. And, of course, there is no sales tax collected on the subsequent sales of such homes.

A word here regarding "mobile" homes. We are hoping to eventually have the term "manufactured" replace "mobile" in the Kansas statutes but for the present the terminology in those statutes which we propose to amend is still "mobile". Thus, the bill before you contains the term "mobile". Please consider that synonymous with "manufactured" as it appears in my testimony.

When this sales tax to which I refer was first imposed, it was probably not considered an inequity. Mobile homes, or trailer houses, as they were often called then, were many times temporary housing or auxiliary housing which was moved from place to place with some frequency. They were almost considered a part of the vehicle with which they were transported. They were personal property and it seemed logical to treat them as such for purposes of taxation, since they were licensed and titled under the jurisdiction of the Department of Motor Vehicles.

Today's manufactured homes are simply not vehicles--they are homes. And, they are permanent, economical, affordable homes for a great many young first-time home buyers and older citizens living on retirement incomes. For many of these people, particularly those in the low and middle income ranges, manufactured homes represent the only affordable new home. (You may be aware that the average cost of a new site-built home has now topped \$80,000 nationally) Certainly, in many cases, manufactured housing represents the best buy in housing for these people. I'm sure you are also aware that manufactured housing has not only made great strides in the quality of the product but also in public acceptance and demand. Hardly a week goes by that a newspaper or magazine with national circulation doesn't contain

an item on manufactured homes. In many parts of the country where site-built housing has become particularly prohibitive, legislatures and local units of government are re-examining their planning and zoning practices to correct laws which may have prohibited manufactured homes in the past, based solely on shape and perceived appearance.

A number of large home-building companies, particularly subdivision developers, are either buying into the manufactured housing industry in order to take advantage of the product or are adopting the factory-built method of homebuilding. Just last August at the NCSL meeting in San Antonio I sat in on a session on affordable housing in which a volume subdivision developer described his company's use of the factory-built method of producing low-cost housing. If these homes are modulars, i.e. built to whatever local building code exists, if any, they are subject only to sales tax on the materials--the same as any other home. In fact, I have two member manufacturers in the state of Kansas who fall in this category. However, if the developer chooses to use the factory-built manufactured home built on a chassis to a federal building code, in Kansas that home is classed as a mobile and the entire retail price is subject to sales tax at the retail level. I make this point to emphasize the fact that we are probably going to see more and more of the manufactured product--particularly as we attempt to keep our young people in our state and in our local communities and as we try to meet the housing needs of our older citizens.

I want to emphasize that we are not asking for special treatment or for the elimination, entirely, of a tax--only for equal treatment with other similar forms of housing.

Numerous studies in recent years have emphasized the need to eliminate roadblocks to homeownership which are not specifically related to health and welfare. The Report of the President's Blue Ribbon Housing Commission in April, 1982, advocated making manufactured housing more readily available to all who desire it. The U.S. Savings and Loan League, in a recent position paper on Housing in the 80's, stated that 42 million Americans will enter the prime first-time home-buying age of 30 in this decade--that is 10 million more than entered the marketplace during the 1970's. Yet, based on construction costs and income levels, fewer of these will ever be able to own any home, certainly not a new home, unless they turn to manufactured housing.

The National Conference of State Legislatures in its recently published booklet on affordable housing stresses the need to remove the barriers which may be preventing or making more difficult the purchase of manufactured homes. Indeed, for those who may be concerned about loss of revenue by the passage of this bill, it is possible that many more homes will be purchased in the coming years if it is made more equitably accessible. Just this week, I read that, according to Chase Econometrics, the rate of household formations is increasing rapidly--up by 960,000 in the past three months in contrast to a new gain the 12 months prior to March, 1983 of only 391,000. It is anticipated that it will be up by a record two million by the time a new count is taken.

I mentioned earlier that there is a discrepancy in the area of this sales tax in that, if the home is placed on owner-owned real estate, it is then treated as real property and is no longer subject to sales tax at the time of any future sale (one reason for this being the fact that the title is retired and it is no longer titled through the Department of Motor Vehicles). I believe the Legislature showed an intent to consider all such homes as real estate, even those on rental space in parks, when it passed legislation

in the 1982 session providing for equal treatment of all manufactured homes with regard to property taxes. Specifically, calling for appraisal and assessment for property tax purposes the same as real estate. That bill, I believe, originated in this committee.

I would like to comment on the possible fiscal impact of this legislation. I realize that most, if not all of you, sympathize with the discriminatory aspects of the present sales tax system with regard to manufactured homes. I realize that the greatest barrier to achieving equity with other housing, and with other manufactured housing, is the possible loss of revenue at a time when the state as well as local units of government are in a financial crunch. On two occasions since I began working with KMHI in May, 1982, I have inquired in the Sales Tax Division as to the amount of revenue generated by this sales tax. Unfortunately, they inform me that they do not keep any separate records which will provide that information. Retailer members of my association inform me that they do have to submit to the Department of Revenue a separate accounting, which also breaks down new and used homes, but the information I am able to obtain from the Sales Tax Division indicates that once the information is received, it is filed in some numerical system from which it cannot be retrieved as a separate accounting.

Therefore, I was contacted by Planning and Research and asked to provide figures on the number of homes sold in Kansas in 1983. My figures come from a national reporting service which indicated that a total of 2,794 homes were shipped to retailers in Kansas through November, 1983. This might be a close estimate as to the number sold in 1983. I also provided them with a figure of \$18,000 as the average cost of a new manufactured home in Kansas. We do not have any figures on the number of used homes sold so, therefore, any figure there would have to be even more of an estimate. As I understand it, also, when a used home

is traded to a retailer for a new home, the sales tax is collected only on the price difference between the new and used home, since sales tax is also expected to be paid on the used home price. If the sales tax is eliminated from the sale of the used home, as proposed by this legislation, it would seem that the sales tax would then be paid on 50% of the new home price, regardless of trade-in, if that portion of the legislation were also adopted. I don't know whether this would make a difference in the fiscal impact but it might be something to consider.

One further word regarding the revenue loss. I realize that a portion of lost revenue will be to those cities and counties having local sales tax. It might be well to consider the fact that people in my industry and people living in manufactured homes, have become more and more active in opposing such sales tax issues. I am sure they will feel compelled to continue to do so as long as they feel the tax is being imposed unfairly on this one segment of housing. I feel, too, that there is the strong possibility that at some future date the sales tax at the state level will need to be increased. I think that my industry would feel less inclined to oppose such an increase, indeed, might even support it, if they felt it was being applied in a fair and equitable manner.

Finally, the manufactured housing industry is an important segment of the Kansas economy and has the potential to become even more so. We would certainly appreciate receiving a boost in that direction which we feel is possible through a more equitable application of sales tax on our product. Specifically, we ask that you give favorable consideration to passage of Senate Bill 596 which would, in its present form, apply the sales tax to 50% of the retail price of a new manufactured home and eliminate the sales tax on second and future sales of manufactured homes. Thank you.