Approved: Jan. 20, 1995
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on January 17, 1995 in Room 519-S of the Capitol.

Members present:
Senator Audrey Langworthy, Senator David Corbin, Senator Phil Martin, Senator Richard Bond, Senator Stan Clark, Senator Paul Feleciano, Jr., Senator Janice Hardenburger, Senator Janice Lee, Senator Pat Ranson, Senator Don Sallee and Senator Bill Wisdom.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Elizabeth Carlson, Secretary to the Committee

Conferees appearing before the committee: Karen Herrman, Chairperson, Governor's Commission on Housing and Homelessness
Bill Caton, Member, Governor's Commission on Housing and Homelessness
Steve Stotts, Manager, Research and Analysis, Department of Revenue

Others attending: See attached list

APPROVAL OF MINUTES

Senator Feleciano made a motion to approve the minutes of January 9, January 10, January 11, and January 12, 1995. The motion was seconded by Senator Wisdom. The motion carried.

Senator Langworthy pointed out to the committee a corrected copy of an Attachment H from PVD concerning Collections on IRBs in lieu of taxes. (Attachment 1)

REQUESTS FOR INTRODUCTION OF BILLS

Senator Wisdom made a motion to request the introduction of a bill that would include three items: (1) To upgrade all property that is bought at a delinquent tax sale; (2) to take away the discretion with regard to the delinquent amount as to when the property will be sold at a delinquent property tax sale; and (3) to require that the register of deeds cannot record any transfer of the property which has delinquent tax liens on it. The motion was seconded by Senator Corbin. The motion carried.

Chris McKenzie, League of Kansas Municipalities, requested a bill be introduced to amend the motor vehicle tax law by adjusting the assessment rate. His association has done some study on this subject and they would like to share it with the committee. It would be a phase down of 1% per year over a 10 year period.

Senator Corbin moved to introduce this bill. The motion was seconded by Senator Wisdom. The motion carried.

SB 28 SALES TAX EXEMPTION FOR REMODELING OF RESIDENT SERVICES

PROPONENTS

Karen Herrman, Chairperson, Governor's Commission on Housing and Homelessness, appeared and asked that Jane Young read her testimony today since she is having difficulty with her voice. (Attachment 2) She said sales tax should not be paid for labor for the rehabilitation (or remodeling) of residential buildings.Sales tax often makes the rehabilitation of buildings unaffordable. She also said the repeal of this tax is important in making affordable housing for all Kansans. Sometimes the rehabilitation of property causes property taxes to go up which then discourages the improvement of properties. Rehabilitation of residential buildings often becomes the only cost-effective way to provide housing.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S Statehouse, at 11:00 a.m. on January 17, 1995.

A question was asked from the committee if labor on remodeling on residences should not be taxed without any exception. Mentioned were such luxury items as swimming pools, jacuzzi, underground lawn sprinkling system or an exotic security system. It was felt some definition was needed.

Ms. Herrman said she thought there should be some definition. She said this was not what they were asking for. She thought it would be a good idea that remodeling should be specifically defined. However, she hated to see rehabilitation excluded because the repeal of the sales tax would make housing more affordable.

Senator Langworthy said they would have to be very careful with terminology. Normal maintenance should be separated from rehabilitation.

Ms. Herrman said HUD and HOUSING have various definitions which could be used.

Senator Lee asked what is the definition of the repeal of sales tax on original construction? If these luxuries are exempt in original construction, it should be the same for remodeling.

Senator Feleciano asked about projects that run into millions of dollars in bad areas of large cities. A savings would be generated by driving out the bad elements in the slum areas. He also asked Ms. Herrman to tell about the need across the state.

Ms. Herrman said throughout the state there are communities of all sizes that are having housing problems. The lack of housing is a large economic problem. She said she can get some data for the committee regarding such problems.

Bill Caton, Member, Governor's Commission on Housing and Homelessness, also spoke as a proponent for **SB 28**. (Attachment 3) He said this bill would have a very positive impact on low and moderate income families in Kansas. He gave an example of rehabilitation of three low income multi-family rental projects. He compared new housing units with the rehabilitated units and said the new units rent for 20% to 25% more money than those units which are rehabilitated. The repeal of sales tax on these types of renovation projects is significant enough to have a positive financial impact.

Steve Stotts, Manager, Research and Analysis, Department of Revenue, presented an estimated fiscal impact on **SB 28**. (Attachment 4) He said the $57.2 million includes everything, labor and materials on both residential and commercial buildings.

Senator Martin asked how some of these amounts were arrived at. Mr. Stotts said they do not include the repeal of the sales tax on cars and TV's. Mr. Stotts said these figures are for residential construction only. He also said the $57.2 million may be a little high. The census bureau showed some figures on housing, single or multi-family housing or hospitals which was used for some figures. He said it is really hard to determine what is replacement, remodeling, repairing or renovation.

Senator Langworthy asked the Department of Revenue how easy would this bill be to administer and Mr. Stotts reiterated a definition would be needed for repair and renovation. Senator Corbin asked if a building permit might help define these terms and the answer was that it might, however, not all communities require building permits.

The committee requested Mr. Stotts to further refine his figures and he continue to do all he can to give the committee all the information possible.

Senator Langworthy said further hearings will be held on this bill. The committee would like to hear from commercial builders.

The meeting adjourned at 12:00 noon.

The next meeting is scheduled for January 18, 1995.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: January 17, 1995

NAME	REPRESENTING
HAROLD PITTS	
Donald Snodgrass	Ks. Food Dealers Assn.
Jane Young	Gov. Commission Housing & Homelessness
Bill Caton	Gov Commission on Housing & Homelessness
Noelle St. Clair	Gov. Commission on Housing & Homelessness
[illegible], Chairperson	Gov Commission on Housing & Homelessness
Hal Hudson	NFIB/Kansas
[illegible] Wilkerson	"
Bill Fuller	Kansas Farm Bureau
Christy Young	Topeka Chamber of Comm.
PHILIP HURLEY	PATRICK J. HURLEY & CO.
RICHARD BODEWALD	TAXPAYERS
Larry Cowdin	Gov. Comm. of Housing & Homelessness
Bob Totten	Ks Contractors Association
Steve Horner	Sen Langworthy - intern
[illegible]	KDOT
Trudy Perkins	CPAK
Don Miller	Taxpayer - Gov's Comm. Housing & Homeless
KEVIN T. STAMPER	INTERN - SEN. J. MORAN

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: Jan 17, 1995

NAME	REPRESENTING
Steve Stotts	Revenue
Mark Ciardullo	Revenue.
Shannon Peterson	KBA
Karen France	KAR
Roger Franzke	FFC
Matthew Martin	KAR
Christine Kotwica	Felecino
Christy Bailey	Karr
Tom Whitaker	Ks Motor Carriers Assn
Gerry Ray	Johnson County Comm & City of Overland Park
Chris McKenzie	League of Ks Municipalities
[illegible]	KS. Governmental Consulting
Ed Brown	Mid-America Lumbermens Assn

ATTACHMENT H
REVISED 1/11/95

COLLECTIONS ON I.R.B.'S IN LIEU OF TAX

COUNTY NUMBER	COUNTY NAME	I.R.B.'S IN LIEU OF TAX
001	ALLEN	
002	ANDERSON	
003	ATCHISON	53,048.72
004	BARBER	
005	BARTON	25,000.00
006	BOURBON	
007	BROWN	
008	BUTLER	
009	CHASE	
010	CHAUTAUQUA	
011	CHEROKEE	
012	CHEYENNE	
013	CLARK	
014	CLAY	
015	CLOUD	6,000.00
016	COFFEY	
017	COMANCHE	
018	COWLEY	20,259.23
019	CRAWFORD	13,135.88
020	DECATUR	
021	DICKINSON	
022	DONIPHAN	
023	DOUGLAS	529,461.78
024	EDWARDS	
025	ELK	
026	ELLIS	
027	ELLSWORTH	
028	FINNEY	185,004.00
029	FORD	22,801.32
030	FRANKLIN	29,203.59
031	GEARY	
032	GOVE	
033	GRAHAM	

COUNTY NUMBER	COUNTY NAME	I.R.B.'S IN LIEU OF TAX
034	GRANT	
035	GRAY	
036	GREELEY	
037	GREENWOOD	
038	HAMILTON	
039	HARPER	
040	HARVEY	
041	HASKELL	
042	HODGEMAN	
043	JACKSON	
044	JEFFERSON	
045	JEWELL	
046	JOHNSON	
047	KEARNY	
048	KINGMAN	
049	KIOWA	
050	LABETTE	
051	LANE	
052	LEAVENWORTH	34,242.00
053	LINCOLN	
054	LINN	
055	LOGAN	
056	LYON	
057	MARION	5,089.94
058	MARSHALL	2,030.13
059	MCPHERSON	12,911.97
060	MEADE	
061	MIAMI	
062	MITCHELL	4,243.24
063	MONTGOMERY	2,236.34
064	MORRIS	
065	MORTON	
066	NEMAHA	2,200.00

Senate Assess + Tax
Jan. 17, 1995
attach 1-1

COLLECTIONS ON I.R.B.'S IN LIEU OF TAX

ATTACHMENT H
REVISED 1/11/95

COUNTY NUMBER	COUNTY NAME	I.R.B.'S IN LIEU OF TAX
067	NEOSHO	1,500.00
068	NESS	
069	NORTON	
070	OSAGE	
071	OSBORNE	
072	OTTAWA	
073	PAWNEE	
074	PHILLIPS	
075	POTTAWATOMIE	
076	PRATT	
077	RAWLINS	
078	RENO	81,000.00
079	REPUBLIC	
080	RICE	
081	RILEY	
082	ROOKS	
083	RUSH	
084	RUSSELL	
085	SALINE	9,258.24
086	SCOTT	
087	SEDGWICK	1,069,702.79
088	SEWARD	75.68
089	SHAWNEE	364,305.11
090	SHERIDAN	
091	SHERMAN	107,455.13
092	SMITH	
093	STAFFORD	
094	STANTON	
095	STEVENS	
096	SUMNER	7,610.98
097	THOMAS	11,700.00
098	TREGO	
099	WABAUNSEE	

COUNTY NUMBER	COUNTY NAME	I.R.B.'S IN LIEU OF TAX
100	WALLACE	
101	WASHINGTON	
102	WICHITA	
103	WILSON	
104	WOODSON	
105	WYANDOTTE	2,830,083.23

STATE TOTALS	5,429,559.30

SENATE BILL 28

TESTIMONY OF
KAREN HERRMAN, CHAIRPERSON
GOVERNOR'S COMMISSION ON HOUSING AND HOMELESSNESS

January 17, 1994

Labor should not be subject to sales tax for the rehabilitation (or remodeling) of residential buildings. This is particularly true of the larger multi-family projects. However, the State should not participate in the cost burden of improving any property or neighborhood, no matter what the size of the project.

Both single family and multi-family housing are already the sources of a major portion of state and local revenue, through the application of property taxes. Further inequity results because property taxes go up after improvements are made. These additional costs discourage the improvement of property, particularly in deteriorated neighborhoods. Social problems and security concerns concentrate in blighted areas and actually increase the cost of state services. Any and all efforts to encourage building rehabilitation have numerous residual benefits.

Rehabilitation of residential buildings often becomes the only cost-effective way to provide housing. With a changing financial market and the high cost of materials, it is often the only way to provide decent apartment buildings. Because remodeling is so labor-intensive, including both the removal and the replacement of portions of the buildings, the cost burden of a tax on labor is magnified. An analysis of two current apartment rehabilitation projects discloses the following:

City Location:	Large Eastern Kansas	Medium-sized Central Kansas
Improvements:	$ 3,675,000	$ 1,640,000
Labor:	$ 2,205,000	$ 984,000
Sales Tax on Labor:		
State:	$ 108,045	$ 48,216
Local:	$ 35,280	$ 22,140

Senate Assess & Tax
Jan 17, 1995
attach 2-1

SENATE BILL 28

Obviously, sales tax can sometimes be the straw that breaks the camel's back! Like sales tax on the construction of new homes, this is often what can make the building unaffordable.

Rehab work has a similar impact in smaller communities. One organized effort, remodeling eight homes in a tiny western Kansas community, provided the "comparable values" needed to allow the local banks to finance the construction of new homes.

The Governor's Commission on Housing and Homelessness endorses the removal of sales tax on labor for all types of housing construction. It is a significant component in making affordable housing for all Kansans.

Karen Herrman, CPM
111 West 11th Street
Hays, KS 67601

Testimony for Senate Bill 28
by Bill Caton
Governor's Commission on Housing and Homelessness
January 17, 1995

Thank you for the opportunity to testify before you on Senate Bill 28. I am here to provide information about the impact this bill would have on low income multi-family housing renovation projects. I believe it will have a very positive impact on low and moderate income families in Kansas.

KDFA is currently in the process of providing bond financing for the purchase and renovation of three low income multi-family rental projects in Johnson County and considering two other renovation projects. These combined projects consist of over 1,500 units and total $28 million. The renovation portion of these projects is approximately $7 million. These projects will be financed with Private Activity Bonds and equity will be provided by Low Income Housing Federal Tax Credits. These renovation projects will increase local property taxes significantly and upgrade the quality of living quarters for many families.

Many of our multi-family projects were constructed before 1980 and are in need of renovation. The financial feasibility of renovating these projects is usually dependent upon increasing rents to offset the additional taxes and costs. The cost of new construction is presently $10,000 to $15,000 per unit higher and new units rent for 20 to 25% higher than renovated, older units.

The repeal of sales tax on these type of renovation projects is significant enough to have a positive financial impact. The financial success of the project depends on the ability to maintain rent levels at or below market level, and many times renovation costs exceed the financial feasibility. Since the cash flows are built to provide a projected rate of return for the owner, lower costs usually result in lower rents to the tenants. If the projected rents are at or below market level and all other pieces of the financing are in place, the project will probably happen if it finds a good banker.

As much of our single and multi-family housing stock continues to age and deteriorate, reducing renovation costs by repeal of sales tax will provide additional incentive to homeowners and landlords to perform the necessary renovation to keep our housing stock in adequate living condition.

Senate Assess + Tax
Jan 17, 1995
attach 3-1

Kansas Department of Revenue
Senate Bill 28 Estimated Fiscal Impact

		FY 1994
Sales tax collections at 4.9%		$57.2
Sales tax collections at 2.5%		$10.7
New construction materials taxed at 4.9%		$14.0
Sales tax at 4.9%		$57.2
Less: Original construction materials		$14.0
Remodel construction labor and materia		$43.2
Remodel construction labor and materials		$43.2
Labor assumed to be 60% of total		60%
Remodel construction labor		$25.9
Remodel construction labor		$25.6
Estimated Residential lab	50%	$12.8
	40%	$10.2
	30%	$7.7

Senate Assess + Tax
Jan 17, 1995
attach 4-1