

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairman William G. Mason at 3:37 p.m. on March 2, 2000 in Room 522-S of the Capitol.

All members were present except: Representative Bonnie Sharp - E

Committee staff present: April Holman, Legislative Research Department
Lynne Holt, Legislative Research Department
Rena Jefferies, Revisor of Statutes
Bob Nugent, Revisor of Statutes
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:

Others attending: See Attached List

The Chairman opened the discussion on **HB 2971** and reminded the committee that the bill had been tabled. Representative Kuether moved that the bill be un-tabled. Representative Gatewood seconded and the motion carried.

Representative Aday introduced 15 members of the Ellsworth Leadership class.

Bob Nugent, Revisor of Statutes, referred to the revised bill that included the 10 amendments made to date. (1) He called attention to Representative Osborne's amendment made on February 22, page 7, lines 33, 34, and 35 which struck all the language after the word corporation, and noted that it was moved and passed however was not included in the revised bill. (2) The amendment moved by Representative Vickrey on February 22, which addressed the limitation of the bill to residential only. On page 9, under (c) *In the performance of its duties and functions pursuant to this act, the corporation shall not:* a new #3 amendment was added as follows: (3) participate in lending activities for non residential purposes (KBA). The current 3, 4, and 5 would be re-numbered. (3) On page 1 the language "accessible and integrated," was added to line 41, after the word of, (4) On page 2, sub-section (g) was stricken (5) page 2, new Sec. 2 the following language was added: and to assist Kansas families of low, very low and moderate income in obtaining such housing (6) page 2, lines 35, 40 and page 3, lines 1 and 5 the 70% figure was changed to 80% (7) page 3, lines 22, federal department of housing and urban development would replace department of housing (8) page 3, lines 27 through 31, would be struck (9) page 4, a new section (8) was added: "accessible and integrated" means that dwellings shall be designed, constructed or rehabilitated in such a way which allows for all residents to get into and use the dwelling, integrated in various locations throughout a proposed project, which is not for the exclusive occupancy of specific groups or categories of individuals." (10) page 8, line 26 new section (b) was added: (b) The corporation, to the greatest extent possible, shall hire and utilize private businesses in the performance of its powers and duties as prescribed by this act.

Mr. Nugent reviewed the recommendations submitted by the Kansas Bankers Association. They recommended striking sub-section (C) on page 3 regarding the need for housing in communities to attract new business. Discussion followed regarding the issue of need for and abuse of this section of the bill. Representative Campbell moved to strike sub-section (C) , on page 3, lines 7 - 10. Representative Kuether seconded and the motion carried.

Mr. Nugent reviewed the amendment submitted by Representative Flora. It is New Section 1, that can be added to the end of the bill. The language follows: *The Kansas development finance authority shall enter into an agreement with the corporation through which all control, powers, duties and functions of the authority concerning its subsidiary corporation the Kansas equity fund, inc. are transferred to the corporation.* In addition, on page 8, line 23 a new (28) would be added: *create a housing equity fund for the purpose of purchasing low-income housing tax credits;*. Discussion followed clarifying the existing funds. Representative Aday moved that the amendments from Representative Flora, New Section 1 be added, as well as a new (28), Representative Findley seconded. Discussion followed regarding the importance of KDFFA's opinion and the investors of the fund. The motion carried.

Mr. Nugent reviewed the amendments submitted by the Sedgwick County Housing Office. In summary he stated that the changes would take the corporation out of the business of generating mortgage revenue bonds. They recommended striking several areas regarding financing the construction of residential facilities for resident ownership and left only language that referred to rentals. Representative Aday stated that if the amendments are adopted the corporation is out of the single family housing business and left solely with multi-family dwellings. Discussion followed regarding the impact of the changes on rural communities.

Representative Aday distributed a list of concerns submitted by the Associated Realtors (Attachment 1). The Chairman asked Mr. Nugent to review the suggestions one by one.

Mr. Nugent explained that the *first* recommendation the Realtors made was to remove New Section 1, subparagraph (a), page 1. It is a legislative fact finding section, that was included in almost every state that had adopted a similar bill, thus it was included in the Kansas bill. Representative Campbell moved that on Page 1, New Section 1, subparagraph (a), be struck. Representative Gatewood seconded. Discussion followed regarding previous motions related to this section and the intent of the section. The motion carried.

The *second* recommendation was to change the language in New Section 2, Subparagraph (a) on page 2. It is a question of terminology, and Mr. Nugent suggested that their language clarified the intent of that section. Representative Aday moved that the language in New Section 2, Subparagraph (a) be changed to read “The purpose of this act is to ensure, as businesses locate to Kansas and as existing businesses continue to expand, that there is a sufficient supply of housing within the state.” Representative Kuether seconded and the motion carried.

The *third* suggestion was no longer necessary as the committee adopted the Bankers Association’s amendment, which eliminated that language.

The *fourth* recommendation on page 6/7, New Section 4, Subparagraphs 16 & 17 concerns the state being involved in uninsured mortgages. He spoke about silent second mortgages and noted that the language was adopted from another state’s program. Representative Gatewood suggested that they pass over this particular suggestion awaiting further clarification. Without any objections, Chairman Mason agreed to pass over that suggested amendment.

The *fifth* recommendation on page 9, New Section 4, Subparagraph (c), line 12 places restraints on the corporation, saying the language was too soft. The language was taken directly from the Governor’s Task Force report. They recommended a “housing needs study” be produced by any entity seeking assistance from the housing corporation. Mr. Nugent noted that the language could be inserted after line 26 as a new subparagraph (5). Representative Vickrey moved that a housing study be produced by any entity seeking assistance from the housing corporation as a new subparagraph (5). Representative Aday seconded and the motion carried.

The *six* recommendation on page 9, subparagraph (3), line 21 questioned the definition “for long periods of time”. Mr. Nugent pointed out that the same section defines that term as within 18 months or as quickly thereafter as possible, which was adopted from the South Dakota bill. Discussion followed regarding time frame requirements.

In summary the Realtors support the bill, however they cautioned that the suggested program is too broad and perhaps Kansas should start with a core set of identifiable objectives and then after a positive evaluation, add additional programs as needs are identified.

Attention returned to the *fourth* recommendation discussing examples of uninsured loans. Chairman Mason asked Randy Speaker to elaborate on the issue. He explained industry standards of loans. Representative Campbell moved a conceptual motion that they get out of the uninsured mortgage business for the first mortgage. This should be done wherever noted throughout the bill. Representative Vickrey seconded. Discussion followed regarding silent second mortgages. The motion was carried.

Representative Campbell called the committee’s attention to page 8, line 5, section (24) and questioned possible abuse due to the broad language, *persons and families in distressed communities of any income level etc.* Discussion followed regarding the intent of the bill and the likelihood of abuse.

Representative Vickrey questioned the issue of the state competing with the community banks; page 9, line 16 addresses that subject. Mr. Nugent explained that the language allows the corporation to make two different kinds of loans, one for distressed communities and the second for other geographical areas. In the first case the loan is made to build a residence for families of any income level while the second type provides for land development for residential housing.

Representative Campbell referred to page 9, lines 16 and 17 regarding the language. He moved that they strike *in the opinion of the corporation*, and substitute the following language: *the requirement that applicants must produce two turn down letters from banks before applying for the program* Representative Thimesch seconded. The motion carried.

Representative Kuether called attention to page 8, line 16. She moved a conceptual motion to cross apply the term *very low* after the word *low*, throughout the bill to provide consistency. Representative Osborne seconded and the motion carried.

Discussion followed regarding the corporation not being subject to state purchasing laws. Mr. Nugent clarified the rules and regulations.

Representative Osborne moved that Representative Flora’s New Section 12, be added to page 13, with the repeals re-numbered afterward. Representative Beggs seconded and the motion carried.

The committee discussed private ownership listed on page 9, line 23. Representative Vickrey moved that the corporation be excluded from private ownership of land or property except in cases of re-possession, take-over of federal property, gifts and donations. There would be an eighteen month or less time frame on those exceptions. Representative Gerringe seconded the motion Discussion regarding scenarios that may take place requiring private ownership occurred. The motion was defeated.

Representative Kuether moved that they pass out favorably a substitute bill for **HB2971** as amended. Representative Aday seconded. The motion carried.

Representative Aday moved, seconded by Representative Kuether that the minutes from the February 15, 17, and 22 be approved. The motion carried.

The next meeting is Tuesday, March 7, 2000.

The Chairman adjourned the meeting at 4:55 p.m

**HOUSE ECONOMIC DEVELOPMENT COMMITTEE
COMMITTEE GUEST LIST**

DATE: March 2, 2000

NAME	REPRESENTING
SHERRI HAWKINS	
Deborah Bartz	
Allene Nash	
Don Cook	
Marilyn Hollamby	Ellsworth County
Paul A. Bohm	" "
Steve Stued	" "
Stephanie Buchanan	DOB
William Holland	Ellsworth County
BRENDA ELDREDGE (BSW)	Independent Living
Don Seibert	City of Olathe
Marcie King	Sedgewick County
Marsha Sue Smith	KMHA
Matt Goddard	HCBA
Michael D. Brooks	Ellsworth County
Lorel Jones	Ellsworth Co.
Steve Pappas	Smart + Assoc.
[Signature]	Mid-America Unions (M.A.)
Whitney Damron	KS Securities Industry Assn.

Res. Cdr

(M.A.)

Conceptual changes to HB 2971

Page 1

New Section 1

Subparagraph (a) should be removed completely—do we really want to paint this picture of Kansas? Is it true? Do you, as a legislator, think we are really headed down a path of “slums, blight and substandard housing”? While there are gaps in the housing arena in Kansas, isn't this a little extreme? This paragraph can be dropped completely without damaging the intent of the bill.

Page 2

New Section 2, Subparagraph (a)

First, this appears to be the definition section, what is this language doing here? Second, do we really want to say that the State will provide a sufficient supply of adequate, safe and sanitary residential housing in all geographic locations within the state? Why not amend it to say, “The purpose of this act is to ensure, as businesses locate to Kansas and as existing businesses continue to expand, that there is a sufficient supply of housing within the state.”

Subparagraph (3)

The median household incomes need to be looked at closely. It would be good to see what these currently are on a statewide basis. If the intent of the bill is to not compete with the private sector, we need to make sure these income levels aren't already being serviced in many communities. Subparagraph (C) is particularly broad—“a municipality which has attracted or is negotiating to attract an employer”. How will this be determined, how far along in the process will the negotiation need to be before this is all triggered? Could it be based on just a phone call from the employer who says they might be interested? Perhaps the negotiation language should be eliminated altogether.

Page 6/7

New Section 4, Subparagraphs 16 and 17

This is part of the list of powers the Housing Corporation would have. In these two paragraphs, the corporation would have the authority to “make or participate in the making of uninsured or federally insured construction loans”. Do we want the state involved in making **uninsured** mortgages? Doesn't that sound pretty risky? Perhaps they are contemplating offering the silent second mortgages” which other states offer. With these types of loans, the corporation would loan the homebuyer a portion of the closing costs necessary to get into the home, and this amount would act as a second mortgage. If the borrower makes their mortgage payments faithfully over a set period of time, for example two years, the second mortgage is forgiven. These programs are particularly good where a buyer is cash poor, but is paying a rent level as high as or more than the mortgage for a home would be. If this is the intent of the language, then why not put that in the bill, instead of a broad “uninsured mortgage” authority. Other states that have these programs should be able to provide a definition.

Page 9

New Section 4, Subparagraph (c), line 12

While it appears this paragraph was included to create parameters for the corporation, in fact, it gives very little definition as to exactly how far the corporation can go. There are no statutory guidelines for how any of this will be measured. For example, subparagraph (5) prohibits them from “participating in any housing function which can be handled economically or efficiently by private industry”? How will it be determined whether this is the case? There is no requirement for a “housing needs study” to be produced by an entity seeking assistance from the housing corporation. Housing needs studies are required for lots of other housing programs, including the utilization of the new tax increment finance for housing programs. At a minimum, housing needs studies should be done before the corporation becomes committed to a project.

In subparagraph (3), line 21 the corporation is prohibited from owning real property “for long periods of time”. What does that mean? Perhaps we should look to the limitations for banks to hold real estate as some sort of guide.

Summary:

The concept behind the bill is good. There are gaps in various housing markets in many parts of the state. However, any legislation should be geared toward public/private partnerships, rather than an approach that makes the state the primary focus of housing development. Other states have similar programs in place and they may look similar to this bill. However, those other states probably did not start out with a program as broad as this. It is better to walk before we run. We can start with a core set of identifiable objectives and then evaluate the program to see if it works. If it does, great, we can then see what the demand for additional programs is at the time and see if any changes need to be made in order to take on the new tasks. If it doesn't work, we can and see whether the statute needs to be changed to accomplish the objectives.