Approved: March 28, 2001
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 11:05 a.m. on March 27, 2001, in Room 519-S of the Capitol.

All members were present except: Senators Donovan, Goodwin, Haley, Lee, and Pugh – Excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Mike Taylor, City of Wichita
Christy Davis, Kansas State Historical Society
Trudy Aron, American Institute of Architects
Rick Kready, Pioneer Group, Inc.

Others attending: See attached list.

HB 2128–Income taxation; allowing credits for certain historic preservation project expenditures.

Mike Taylor, representing the City of Wichita, testified in support of **HB 2128**. At the outset, he called attention to written testimony in support of **HB 2128** by Kathy Morgan, City of Wichita Historic Preservation Board, who testified before the House Taxation Committee. (Attachment 1) He went on to say that the City of Wichita is experiencing a lot of new growth and development, but not all of the development is on the fringes of the city. The city is also making a deliberate effort to encourage redevelopment within the inner city, and **HB 2128** would benefit the promotion of inner city revitalization. He emphasized that tax incentives for preservation will attract new private investment to historic areas, enhance property values, generate jobs, and augment revenues for state and local governments. (Attachment 2)

Christy Davis, Cultural Resources Division of the Kansas State Historical Society, testified in support of **HB 2128**. Ms. Davis informed the Committee that she is the coordinator for the federal rehabilitation tax credit program for Kansas, which allows for a 20 percent rehabilitation federal tax credit. She noted that, in addition to the federal tax credit, approximately 17 states have a state rehabilitation tax credit. The state credits in other states include tax credits oh historic properties that are used for both income producing purposes and non-income producing purposes. She noted that the majority of rehabilitation projects are undertaken by out-of-state developers, and many of these developers have recently focused their attention in other states, especially in Missouri. In her opinion, a state tax credit in Kansas would encourage rehabilitation projects and would bring more dollars into Kansas. In conclusion, she summarized the testimony in support of the bill given in the House Taxation Committee by persons who discussed benefits the bill would provide for specific rehabilitation projects. (Attachment 3) Ms. Davis also distributed copies of testimony in support of **HB 2128** by Ramon Powers, Executive Director of the Kansas State Historical Society, who was unable to attend the meeting. (Attachment 4)

Trudy Aron, Executive Director of the American Institute of Architects in Kansas testified in support of **HB 2128**. She noted that many cities in Kansas have buildings built in the 1800s and early 1900s which are located in the down town area, and the buildings are often sitting empty, gathering no tax revenues. She pointed out that renovation of these buildings often allows a community to adapt the structure to new uses and encourages others to invest in down town areas and older neighborhoods in the city. She believes that the tax credit which **HB 2128** provides would help make the rehabilitation, renovation, and adaptive reuse of may of these buildings economically possible. She noted that the renovation activities would bring much needed business to down town areas and would promote tourism. (Attachment 5)

Rick Kready, Pioneer Group, Inc., testified in support of **HB 2128**. (Attachment 6) He explained that he specializes in the rehabilitation of older properties, and he is often contacted about historic schools which have been sitting vacant for a long time. Currently, he is in the process of converting Curtis Junior High in Topeka, which has been sitting vacant since 1976, to seniors housing, and town homes will be built on the area that was used for the baseball diamond. However, recently he has primarily been attracted to rehabilitation projects in Missouri, partially because that state has a 25 percent state rehabilitation tax credit. He noted that the tax credit helps clear hurdles when attempting to make a development financially feasible and attract investors. In his opinion, many historic buildings in Kansas remain as eyesores because developers in Kansas and elsewhere are not attracted to Kansas because it does not offer a tax credit for renovation projects. In conclusion, Mr. Kready called attention to a copy of his letter to Representative Shari Weber in which he discusses the fiscal impact of a historical rehabilitation tax credit. In short, he believes that the true fiscal impact of the bill would be "a wash."

Chairman Corbin called attention to written testimony in support of **HB 2128** submitted by Whitney Damron, representing the Unified Government of Wyandotte County/Kansas City. (Attachment 7)

There being no others wishing to testify, the hearing on **HB 2128** was closed.

Chairman Corbin opened a discussion regarding possible action on **HB 2268**, concerning electric public utilities, which was discussed at the March 22 meeting. He reminded the Committee that, although testimony was heard, no action was taken because the bill had not yet been reprinted after being amended by the Senate Committee on Utilities and referred to the Assessment and Taxation Committee.

Senator Clark moved to report **HB 2268** favorably for passage, seconded Senator Taddiken. The motion carried.

The minutes of the March 22, 2001, meeting were approved.

Senator Praeger moved to report **HB 2128** favorably for passage, seconded by Senator Jenkins. The motion carried.

Chairman Corbin informed the Committee that it had been his intent to discuss a previously heard bill which was rereferred to the Committee for further consideration, **HB 2221**, authorizing counties to impose a countywide sales tax for an economic development initiative and for infrastructure purposes. He noted that amendments are necessary with regard to the City of Coffeyville and that the Department of Revenue wants to address the tax uniformity issue. Because the full committee was not present, Chairman Corbin said the bill would be addressed at the next committee meeting to be held on March 28.

The meeting was adjourned at 11:20 a.m.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: March 27, 2001

NAME	REPRESENTING
Rick Kready	Pioneer Group - Topeka
J.C. Long	UtiliCorp United
Richard Cram	KDOR
Ann Durkes	DOB
John C. Bottenberg	West. Res.
Dave Holthaus	W.R.
Bruce Graham	KEPCo
Whitney Damron	WRCo/KCPES / Coffey Co.
Jack Glaves	Duke-PanEnergy, City of Wichita
Mike Taylor	City of Wichita
Larry Kleeman	LKM
Hal Hudson	NFIB/KS
Sandy Braden	Gaches, Braden, Barbee & Assoc.
Laura Johnson	KDOR-PVD
Don K. Miles	KEC
Cynthia Smith	KCPL
Erik Sartorius	K.C. Regional Assoc of Realtors
Colin Hansen	KMU
Ken Peterson	KS Petroleum Council

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: March 27, 2001

NAME	REPRESENTING
Bob Krehbiel	KIOGA
Jean Warta	KDOCH
JOE Dick	BPU KCK
Trudy Aron	Am Inst of Architects
CHRISTY DAVIS	KANSAS STATE HISTORICAL SOCIETY

TESTIMONY

City of Wichita
Mike Taylor, Government Relations Director
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House Bill 2128
Historic Preservation Tax Credit

Delivered March 27, 2001
Senate Assessment and Tax Committee

Kathy Morgan, Senior Planner
Historic Preservation Office
City of Wichita Historic Preservation Board

The City of Wichita has a 20 year track record in supporting and promoting neighborhood and commercial revitalization with financial incentives whenever possible. This can be an onerous task as there are few programs, other than conventional loan packages, that can be accessed to assist with financing. Federal funding sources such as CDBG, Home Funds and others require meticulous attention to reporting details for lead-base paint assessment and abatement, income requirements, environmental assessments and for commercial projects the added documentation of Davis-Bacon prevailing wage requirements. Even with these regulations, the availability of the funds provides incentives to fund projects such as the $16 million Eaton Place development in downtown Wichita and provided revolving loan money for the renovation of the Pratt-Campbell House. It took over 1.5 years to put together the financing package for Eaton Place development.

The City of Wichita has72 individually listed structures, five historic districts with approximately 350 contributing structures, and a historic commercial warehouse district. HB 2128 will provide an additional incentive to rehabilitate older housing stock in the core area of Wichita. Traditionally, the older housing stock is marketed to first time home owners and provides the majority of the 80% median income housing either through rentals or home ownership programs. Delano, one of the oldest neighborhoods in the City is in the process of finalizing a neighborhood redevelopment plan. The historic tax credit would provide a huge boost in getting this plan underway.

The commercial warehouse district known as Old Town has several underdeveloped structures that would be prime candidates for using the state historic tax credit. We have had a project on the boards waiting for gap financing to launch another housing project in this area. The Eaton Place project has provided a solid

Senate Assessment + Taxation
3-27-01 Attachment 1

tr on from Old Town into the historic central business district for which the City has plans for redevelopment westward approximately 1.5 miles.

Wichita is poised for adaptive reuse of historic structures, both commercial and residential. The City is in the stage of draft review of the Wichita Existing Building Code which will provide predictability and adaptability of life safety codes for redevelopment projects. The state historic tax credit in conjunction with existing financing packages will provide the opportunity to make a significant impact in the core area of Wichita.

Donovan Rypkema, a nationally known real estate and economic developer says, "Dollar for dollar, historic preservation is one of the highest job-generating economic development options available. In Michigan, \$1,000,000 in building rehabilitation creates twelve more jobs than does manufacturing \$1,000,000 of cars. In West Virginia, \$1,000,000 of rehabilitation creates twenty more jobs than mining \$1,000,000 of coal. In Oklahoma, \$1,000,000 of rehabilitation create twenty-nine more jobs than pumping \$1,000,000 of oil. In Oregon, twenty-two more jobs than cutting \$1,000,000 of timber. Historic Preservation creates jobs."

"Suppose a community is choosing between spending \$1,000,000 in new construction and spending \$1,000,000 in rehabilitation. What would the differences be? \$120,000 more dollars will initially stay in the community with rehabilitation than with new construction. Five to nine more construction jobs will be created with rehabilitation; 4.7 more new jobs will be created elsewhere in the community with rehabilitation; household incomes in the community will increase \$107,000 more with rehabilitation." Donovan Rypkema.

A study in the State of Washington in 1994 found that after a housing project involving almost 60% vacant and abandoned properties in blighted neighborhood were fully occupied.

The state historic tax credit will provide the means to effect the same results in our Kansas communities and neighborhoods.

Kathy Morgan holds a master's degree in Cultural Geography and has been involved in preservation, including academic pursuits, local and state government. She spent 11 years involved with the Main Street program at the local level as a project manager and at the state level as the state coordinator for the Louisiana Main Street Program. She has been with the Wichita/Sedgwick County Metropolitan Area Planning Department for two years as the senior planner of the Historic Preservation Office.

TESTIMONY

City of Wichita
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House Bill 2128
Historic Preservation Tax Credit

Delivered March 27, 2001
Senate Assessment and Tax Committee

The City of Wichita is experiencing exciting new growth and development. But that development is not all happening on the suburban edges of the city. The City of Wichita is making a deliberate, meaningful effort to encourage redevelopment in the inner city. House Bill 2128 would be a great benefit in promoting this inner city revitalization while at the same time, helping Wichita preserve its past.

Our support for this bill comes from more than a sentimental nostalgia for old buildings. Tax incentives for preservation attract new private investment to historic areas. They also generate jobs, enhance property values, and augment revenues for State and local governments through increased property, business and income taxes.

Several completed projects which could have benefited from the Historic Preservation Tax Credit:

Eaton Place: A landmark renovation to turn the famous hotel into modern downtown apartments was allowed a 20% Federal Tax Credit on $13 million of the project cost. This would equate in State tax credits to $3.25 million which would have more than helped close the financing gap in this project. As it was, construction design had to be scaled back to reduce the overall budget by $2 million.

Hotel at Old Town: An amazing transformation of a crumbling warehouse into a first class hotel in the heart of the Old Town entertainment district. This $7.6-million project would have received $1.9-million in state tax credits. This project did receive the 10% tax credit.

Innes Station Apartments: A commercial condominium project in Old Town would have received $1.1-million in state tax credits.

Pratt-Campbell House: A residential project worth $90,000 would have received $22,500 in state tax credit. This project was not eligible for any federal historic tax credit.

Telegraph Building: A pending project in Old Town to create condominium housing could cost $10- million. This would result in $2.5-million in state tax credit. At this time, this project would not be eligible for the federal historic tax credit.

The Historic Preservation Tax Credit proposed in House Bill 2128 can help promote renovation of abandoned or underused schools, warehouses, factories, churches, retail stores, apartments, hotels, houses and offices. With House Bill 2128, these buildings can be restored and given new life, again making them useful contributions to the community, instead of eyesore, dangers and financial liabilities.

Senate Assessment & Taxation
3-27-01
Attachment 2

Testimony, House Bill 2128
Christy Davis
3/27/01

Chairman Corbin, members of the committee, I am Christy Davis from the Cultural Resources Division of the Kansas State Historical Society. I help preserve historic buildings for a living. When I discuss my profession with them, fellow Kansans often assume I have big plans to move to the east coast. "There must be many buildings to preserve there," they say. A fifth-generation Kansan, I have little interest in preserving our nation's earliest examples of Colonial architecture. Instead, I have dedicated my life to preserving what I appreciate about my home state - wheat fields, barns, kid-friendly neighborhoods, and, yes, fantastic examples of late nineteenth century and early twentieth century architecture.

For the past year and a half, I have coordinated the federal rehabilitation tax credit program for Kansas. The program is administered by the National Park Service, IRS and State Historic Preservation Offices nationwide. It allows property owners to take a federal income tax credit equal to 20% of qualified rehabilitation expenses on income-producing historic properties. Since 1980, property owners have spent more than 40 million dollars rehabilitating historic Kansas properties through this program.

Seventeen states have state rehab tax credit programs that parallel the federal program. A thorough review of these programs, coupled with my experience with the federal program, has lead me to conclude that Kansas would reap two principal benefits from a state rehabilitation tax credit. First, a state rehabilitation tax credit will allow Kansans to make better use of the federal rehabilitation tax credit. Secondly, a state credit would provide an incentive for rehabilitations that are not eligible for the federal tax credit program.

Senate Assessment + Taxation
3-27-01
Attachment 3

Our state could better benefit from the federal tax credit program if a state rehab tax credit program was established. There are no limits on the amount of dollars Kansans receive through the federal program. Yet, consistently Kansas is on the bottom of the list of the number of federal rehabilitation tax credit projects approved and the total dollars expended on tax credit projects.

There is evidence to show that the federal rehabilitation tax credit alone does not provide incentive enough for rehabilitation. Those projects that are completed by large developers are nearly always eligible for more than one financial incentive program. The lion's share of the money expended on rehabilitation in Kansas during the past ten years has been spent converting historic schools and other large buildings for use as low-income and senior housing. One out-of-state development firm, MetroPlains Development, has spent more than 20 million dollars on such projects including the rehabilitations of Sabine Hall in Garden City and the Stillwell Hotel in Pittsburg. The reason they specialize is simple. Developers couple the federal rehabilitation tax credit with the low income and senior housing credits available through the Kansas Department of Commerce and Housing.

Unfortunately, a second rehabilitation incentive does not exist for other types of rehabilitation projects. Therefore, developers rarely tackle projects on smaller retail or office buildings. A state rehabilitation tax credit would make it more economically feasible for developers to expand into other markets. Without a state credit, these developers will continue to focus their attention and dollars on projects in other states that have state rehabilitation tax credit programs.

The second principal benefit of a state rehabilitation credit is its promise to provide an incentive for rehabilitations that do not qualify for the federal rehabilitation tax credit program.

Only substantial rehabilitation projects, those whose project amounts exceed the adjusted basis of a property, qualify for the federal rehabilitation tax credit program. Smaller projects, those that cost less than $100,000, typically do not qualify. In other words, small businesses do not benefit from the program. House Bill 2128 would allow owners of historic building to receive a tax credit on qualifying projects which exceed $5000.

Lastly, a state credit would provide incentive for the rehabilitation of owner-occupied residences, properties that do not qualify for the federal program. This would allow communities to make better use of existing housing stock. In 1991, one out of every twelve homes in the United States was vacant. While these historic housing areas deteriorated, developers continued to construct new homes in sprawling subdivisions. Meantime, core areas, like the neighborhood surrounding Topeka's Monroe School, part of the Brown vs Topeka Board of Education National Historic Site, sit abandoned and threatened with demolition. A state rehabilitation tax credit would help these neighborhoods while at the same time providing a correction to the 20th-century bias toward suburbanization. It would help ensure a future for historic Kansas properties already served by existing infrastructure.

Brief summary of Testimony given in House Taxation Committee 2/1/2001

Janette Bump, Legislative Area Coordinator, Western Kansas Regional Economic Development Association

Ms. Bump spoke of how this bill would assist with rural Kansas communities, especially the town of Nicodemus, a National Historic Landmark with privately owned buildings

Deanne Linn, Housing and Neighborhood Development Director, City of Liberal

Ms. Linn discussed the impact this bill would have in helping convert a vacant high school into much-needed senior housing.

Henri Coeme, St. Ann's Bed and Breakfast, St. Paul, Kansas

Mr. Coeme related how his rehabilitation of a historic mission building in the small town of St. Paul, Kansas changed the entire community, inspiring a visitor's guide to the region.

As you ponder the benefits of a state rehabilitation tax credit, please consider the following:

1. A state rehabilitation credit would bring more dollars into Kansas - money from developers and money in the form of federal tax credits. When a vacant warehouse is restored, a new building need not be built in a wheatfield.

2. A state tax credit would provide an incentive for small rehabilitation tax projects. When a building is rehabilitated rather than demolished, tons of waste is not added to the local landfill.

3. Finally, a state rehabilitation tax credit will encourage the rehabilitation of historic residences. When an existing neighborhood is revitalized instead of razed, waterlines, sewer lines, roads, curbs, gutters, fire and police stations and schools do not have to be built on undeveloped land.

A state rehabilitation tax credit would not only help ensure a future for our state's architectural resources, but also enhance the state's economy.

Testimony on HB 2128
Ramon Powers
3/27/01

Chairman Corbin and members of the Committee, I am Ramon Powers, Executive Director of the Kansas State Historical Society. The name "Kansas State Historical Society" undoubtedly evokes images of the collection and preservation of artifacts that relate to Kansas History and their display in the museum. Objects placed in the society's care are in effect taken out of use and henceforth handled with gloves - treated as artifacts. Yet there are some objects of Kansas history whose continued use our agency promotes. These are the state's historic buildings, from the Ness County Bank to the Byre and Bluff Barns in Doniphan County, each representing a piece of Kansas history. True, the historical society does provide assistance on projects at house museums whose caretakers place their buildings within the "artifact" category - The house museum as artifact. But the majority of property owners the preservation office assists are those who wish to maintain their buildings - whether residential, commercial or governmental - for continued use or reuse. Sympathetic rehabilitation allows these buildings to rise from derelict status and once again contribute to the community's economy, in turn enhancing business activity, attracting visitors and improving the sense of place.

Successfully rehabilitated historic properties have a unique place within the Kansas economy. These buildings, typically located within the cores of Kansas communities, can fulfill residential and commercial needs in areas already served by existing infrastructure thus lowering costs for local governments. The lower levels of downtown buildings provide retail and office space. Upper levels can be converted into housing, thereby establishing a market for locally owned businesses. Collectively, a community's rehabilitated buildings can also attract visitors.

Some might question whether rehabilitation should be placed within the category of

Senate Assessment & Taxation
3-27-01
Attachment 4

economic development. Recent reports, including one recently issued by the Kansas Economic Development task force entitled "Economic Development: Refocusing Strategy for the Next Decade," emphasize the role history plays in economic development and tourism. It states, "there is an interest in visiting Kansas for its historical and aesthetic value." In addition to providing a base for heritage tourism, rehabilitation creates jobs. Rehabilitation creates more jobs than new construction. In fact, the National Park Service reports that every $1.5 million spent on rehabilitation creates 43 jobs (1999 Rehab Credit Annual Report). These jobs are more likely to be local jobs, and better-quality jobs, than those created by new construction.

Our agency has seen firsthand the economic impact of rehabilitation. A $141,000 rehabilitation in Oberlin, Kansas turned a charming yet deteriorated downtown bank building into a successful bed and breakfast. A $3.5 million rehabilitation converted Topeka's declining Jayhawk Hotel into a successful office building.

The recent report on economic development urges the state to make a financial commitment to economic development and challenges state agencies to work pro-actively to establish economic development programs. The report also urges that "The priority of this mission should be elevated to a level at which interested Kansans from the private sector are eager to participate." A state rehabilitation tax credit program would provide an incentive for private citizens - from historic homeowners to large-scale developers - to rehabilitate historic properties, thereby enhancing both the Kansas economy and quality of life.

The Kansas State Historical Society fully supports House Bill 2128.

AIA Kansas
A Chapter of The American Institute of Architects

March 26, 2001

TO: Chairman Corbin and Members of the Senate Assessment and Taxation Committee

FROM: Trudy Aron, Executive Director

RE: Support of HB 2128

Good morning, Mr. Chairman. I am Trudy Aron, Executive Director, of the American Institute of Architects in Kansas (AIA Kansas.) Thank you for the opportunity to address your committee today regarding our support for HB 2128.

AIA Kansas is a statewide association of architects and intern architects. Most of our 700 members work in over 100 private practice architectural firms designing a variety of project types for both public and private clients including justice facilities, schools, hospitals and other health facilities, industrial buildings, offices, recreational facilities, housing, and much more. The rest of our members work in industry, government and education where many manage the facilities of their employers and hire private practice firms to design new buildings and to renovate or remodel existing buildings.

HB 2128 allows a tax credit on income tax liability for the renovation and/or restoration of historic buildings. Kansas has a large inventory of buildings built in the 1800s and early 1900s. They are located in the downtowns or near the cores of cities and towns. Many of these buildings sit empty or near empty generating little or no tax revenues and often become unusable and dangerous. The renovation and/restoration of these houses and/or commercial buildings can, and often do, revitalize our downtowns. They create jobs during the renovation, but more importantly, they encourage others to invest in downtowns and older neighborhoods.

The renovation and restoration of these buildings often allows the community to adapt the structure to new uses. Old churches become office buildings, former manufacturing buildings become fashionable residences, and obsolete train stations become city attractions.

It is not easy or inexpensive to renovate or adapt an old structure. Many times the cost of renovating is more than the cost of a new building. But, new buildings are rarely built in our downtowns and older neighborhoods. They are built on the fringes of our cities and towns. The tax credits in HB 2128 will help make the rehabilitation, renovation and adaptive reuse of many of these buildings economically possible. This will help stabilize our downtown core and bring much needed business, shopping, entertainment and living. These activities will increase tax revenues, promote tourism, and make our communities thrive.

Thank you, we urge your support for HB 2128. If you have questions, I'll be happy to answer them.

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Senate Assessment & Taxation
3-27-01
Attachment 5

State Rehabilitation Tax Credit for Kansas
HB 2128

What is a tax credit?
A tax credit differs from an income tax deduction. An income tax deduction lowers the amount of income subject to taxation. A tax credit, however, lowers the amount of tax owed.

What is a state rehabilitation tax credit?
A rehabilitation tax credit is a credit on a person's or corporation's income tax return equal to a percentage of qualifying expenses for rehabilitating eligible historic properties. A federal program, in place since 1977, allows a property owner to receive a federal tax credit equal to 20% of qualifying rehabilitation expenses on historic properties. HB 2128 is modeled after similar legislation in our neighboring state of Missouri, and would allow persons or other tax-paying entities to receive a tax credit on their state income tax return equal to 25% of their total rehabilitation expenses. The program would "piggyback" the federal legislation.

Why does Kansas need a state rehabilitation tax credit?
Competition: Seventeen states currently have state rehabilitation tax credit programs. Among them are Colorado and Missouri. Many potential rehabilitation projects in Kansas towns are too large for local developers to take on and, therefore, require large developers to complete. Large developers, from both Kansas and elsewhere, develop historic buildings throughout the region or nationwide. It makes economic sense for them to devote their time and money to projects in states that have state tax credit programs. In other words, Kansas is competing with other states for developers' time and dollars.

Owner-occupied residences: There are very few incentives in Kansas for the rehabilitation of owner-occupied residences. Without incentives, much-needed repairs on some historic residences may be cost-prohibitive, resulting in the loss of the buildings which best interpret a community's heritage.

What properties would qualify for the state rehabilitation tax credit?
Properties and districts listed or determined eligible for listing on the National Register of Historic Places would qualify. So, too would properties listed on the Register of Historic Kansas Places.

What expenses would qualify for the credit?
Qualifying construction expenses within the footprint of any historic building, both income-producing properties and owner-occupied homes, would qualify. Soft costs, such as construction period interest and taxes, architect fees, engineering fees, construction management costs, reasonable developer fees, and other fees also would qualify. (The specific expenses are defined by U. S. Treasury Regulations for the federal program.) The state historic preservation office would approve or "certify" rehabilitation projects to ensure that they respect the architectural and historic integrity of the historic structures.

Senate Assessment + Taxation
3-27-01
Attachment 6

What are some examples of projects that would benefit from the tax credit?
Historic Main Street Buildings: Most of our towns have numerous historic buildings on Main Street. This tax credit will help current and potential store owners afford to revitalize those buildings. Such revitalization might include the major rehabilitation of a building that has stood vacant for a number of years, or might just be some much-need tuck point of the brick, or a new roof which can save an existing structure.

Historic Hotels and Warehouses: Many of our communities still have historic hotels, warehouses, and other commercial buildings in the core of the city that can be rehabilitated to add vitality and economic opportunities in the middle of town. In many cases, this historic tax credit can make the difference between the buildings continuing to be empty eyesores, or being economically feasible catalysts for revitalization of the downtown area.

Ellsworth Hospital: When Ellsworth County constructed a new county hospital, interested citizens set out to find a new use for the historic hospital building, a community landmark. A task force is currently working to develop a Request for Proposals (RFP) to send to developers. They hope to work with a developer to rehabilitate the building to meet a community need. A state tax credit would provide an incentive for a developer to take on the project.

Liberal High School: The majority of this building has been vacant for over a decade. But the building is still structurally sound. The City of Liberal plans to issue an RFP to find developers who can help it meet a community need for assisted living for seniors.

Historic Homes: The core of Kansas communities are filled with historic homes - homes which often belonged to the communities' earliest leaders. A state rehabilitation tax credit would serve to encourage a revitalization of these central core properties and create a market for downtown business districts. Revitalization of these historic residential areas would raise property values, thereby raising local property tax revenue. It also allows communities to take full advantage of an existing infrastructure - unlike new developments.

How will a state rehabilitation tax credit help Kansas?
Additional Revenue: A rehabilitation tax credit for owner-occupied residences and income-producing properties will make rehabilitation of these buildings, in lieu of new construction, more desirable. From a local perspective, rehabilitation will increase long-term property tax revenue. Many of the buildings currently being rehabilitated are off the tax rolls - either publicly owned or in arrears on taxes. Rehabilitation will put them back on the tax rolls. From a state perspective, rehabilitation will create more businesses and jobs, thereby creating more taxable revenue both for income taxes and sales taxes.

Jobs: The rehabilitation of existing buildings creates more jobs than new construction. Each federal rehabilitation tax credit project in the state of Kansas creates over 40 new jobs. The jobs created are not only construction jobs but also professional jobs including design professionals, and other jobs related to the creation of new businesses. There are currently twelve projects under construction, meaning the current projects have created 480 new jobs. The state tax credit will increase the number of rehabilitation projects in Kansas, thereby creating even more new jobs.

Enhanced Quality of Life: Rehabilitation of buildings, both residential and commercial, increases the density of central cores, creating areas that are more pedestrian-friendly and decreasing local traffic.

Environmental/Smart Growth: Rehabilitation encourages businesses and homeowners to take advantage of existing infrastructure. This is not only fiscally responsible - using to capacity the community's long-term investment - but also environmentally responsible.

Who would administer the state tax credit program?

The State Historic Preservation Office (SHPO) currently administers the federal rehabilitation tax credit and would administer the state program in conjunction with that effort. The SHPO has recently seen a drastic increase in its federal appropriation which would allow it to administer the program with no additional state funds. Coordination with the federal program would streamline the process.

Pioneer Group, Inc.
1200 S Kansas Avenue • Topeka, Kansas 66612-1331 • (785) 232-1122 • Fax: (785) 232-1660

March 12, 2001

Representative Shari Weber, Majority Leader
Kansas House of Representatives
State Capitol, Room #381-W
Topeka, Kansas 66612-1504

Re: HB 2128 – Historical Rehabilitation Tax Credit

Representative Weber,

I encourage you to request HB 2128 out of committee so the Legislature can consider the positive influence it could have on the Kansas economy, and on the State coffers. Currently that legislation is stuck in the House Taxation Committee. I don't know if our information is correct, but we are told that is stuck in committee because, "Nothing with a fiscal note of $500,000 or more is coming out of the committee this year." According to the Taxation Committee's Subcommittee Report on HB 2128, the Kansas Department of Revenue estimates a fiscal note on the bill resulting in FY 2002 tax credits of $367,000; 2003 = $587,000; 2004 = $645,000; 2005 = $710,000; and 2006 = $781,000.

Tax Year	Qualified Expenditures ($ in millions)	Amount of Tax Credit At 25%	2/3 Claimed (1/3 Carried Forward)	Fiscal Year
2001	$2.200	$0.550	**$0.367**	**FY 2002**
2002	$2.420	$0.605	**$0.587**	**FY 2003**
2003	$2.662	$0.666	**$0.645**	**FY 2004**
2004	$2.928	$0.732	**$0.710**	**FY 2005**
2005	$3.221	$0.805	**$0.781**	**FY 2006**
Totals	$13.431	$3.358	$3.090	

However, as is the normal practice, the Department of Revenue only considers the potential negative impact on the budget in making these calculations. Please take a look at some potential impact items that are not included in those calculations.

State Income Tax Revenue on Labor

Rehabilitation is more labor-intensive than new construction because it requires repairs and polishing existing fixtures. On average, 60% of dollars expended on rehabilitation projects is spent on labor. If the state rehabilitation tax credit attracts $2,200,000 in rehabilitation projects this year (as estimated by the Department of Revenue), $1,320,000 of that amount likely will be spent on labor. If 4% of this income goes toward state income taxes, the state immediately will generate $52,800 in income tax revenue just from the labor expenses on these projects. Just reflecting the income tax coming back to the State from these rehab projects should reduce the Department of Revenue estimate from $367,000 to $314,200.

State Sales Tax Revenue on Materials

In contrast to new construction, rehabilitation has even a more major impact on local suppliers. Rehabilitation does not require property owners to purchase materials in bulk - since many of a building's original materials are intact. Contractors are more likely to purchase one doorknob, or one pane of glass from a local supplier. For every $2,200,000 spent on rehabilitation, about $880,000 (40%) is spent locally on materials. With a 4.9% state sales tax, these materials will generate $43,120 of additional state revenue. Taking this sales tax revenue into account, the burden of the tax credits reduce to about $270,000 ($367,000 - $52,800 of Income Tax - $43,120 of Sales Tax = $270,080).

Additional State Revenue via Economic Activity

Logic tells us there is an additional impact on the State coffers made by the direct and indirect jobs created by economic activity. That impact, however, is not quite so simple to quantify. This prompts us to call on you, as a legislator, to apply the wisdom of your experience and judgment.

Using the Department of Revenue estimate for this year, we could expect $2.2 million of rehabilitation in Kansas. We believe a typical rule-of-thumb tells us to expect those dollars to roll seven times in the local economy. That seven fold economic impact depicts the fact that the employees spend their wages on groceries, housing, utilities and clothing, etc. In turn, the employees of those stores get wages that again roll through the community. If seven-fold is the correct multiplier, then projects amounting to $2.2 million of rehabilitation in Kansas should impact the economy seven fold, which amounts to $15.4 million. The State of Kansas receives Income Tax and Sales Tax revenues from each of those entities as the money circulates through the economy. Considering the 4 percent State Income Tax and the 4.9 percent State Sales Tax, $15.4 million of economic activity should generate something between $616,000 and $754,600 of revenue for the State [($15,400,000 x 4% = $616,000) and ($15,400,000 x 4.9% = $754,600)].

Based on the Department of Revenue estimates, if HB 2128 becomes law, the State should expect taxpayers to use $367,000 of tax credits in fiscal year 2002. As demonstrated above, the State could more than recuperate that amount because of the economic activity generating additional tax revenues. In fact, this puts the State in the enviable position of perhaps receiving twice as much back ($754,600 vs. $367,000). Recognizing it is difficult to demonstrate the seven-fold rollover of economic activity, we naturally have to defer to your wisdom and experience to make the right decision on our behalf for Kansas. Fortunately, as you make that decision, it appears that even if we only get three-and-a-half rolls in the economy, half the typical seven rollovers, the State still should at least break even.

I apologize for the length of this note, but we feel it is very important that we share with you, as a legislative leader, a more complete understanding of the anticipated fiscal impact of HB 2128. In addition to getting back with me about any questions, you also might want to visit with the legislators who wrote the House Taxation Subcommittee Report on HB 2128 – Representatives Becky Hutchins, Vern Osborne, and Vaughn Flora. I believe they too feel the true fiscal impact of this bill to be "a wash" or perhaps even slightly accretive for the State budget.

Very truly yours,

Richard D. Kready

Richard D. Kready

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SUBMITTED TESTIMONY

TO: **The Honorable David Corbin, Chairman**
And Members Of The
Senate Committee on Assessment and Taxation

FROM: **Whitney Damron**
On Behalf Of The
Unified Government of Wyandotte County/Kansas City, Kansas

RE: **HB 2128** **Income Tax Credit for Historic Preservation Project Expenditures**

DATE: **March 27, 2001**

Mr. Chairman and Members of the Senate Committee on Assessment and Taxation:

On behalf of my client, the Unified Government of Wyandotte County/Kansas City, Kansas, I am pleased to submit testimony in support of HB 2128. The following comments have been prepared by Mr. LaVert Murray, Director of the Department of Development for the Unified Government. On behalf of the Unified Government, we thank you for your consideration of this legislation and respectfully request your support of its passage.

The Unified Government of Wyandotte County/Kansas City Kansas supports efforts to restore, revitalize and enhance older and historic properties in our community and particularly within our urban core area where many potential historic properties exist.

Senate Assessment + Taxation
3-27-01
Attachment 7

Unified Government programs and policies are in place to protect and preserve historic properties, but, to date, have been somewhat ineffective because there have been limited tools available to assist these efforts. Kansas City, Kansas has had its own Historic Landmarks Commission since 1981, and many of the landmark properties and historic districts that have been designated at the local level in the last twenty years are also listed on the Register of Historic Kansas Places. However, in all that time the City has never had a mechanism to provide financial incentives to owners of designated properties who might wish to carry out improvements, nor has there been any assistance at the federal level for owner occupied residential properties. Considering the two local historic districts that are on the State and National Registers, this HB 2128 could directly positively impact nearly 400 residences in Kansas City, Kansas.

In closing, I would note that redevelopment projects are necessarily labor intensive. As a result, the Unified Government believes the fiscal note referenced for this legislation will be significantly mitigated by sales taxes collected on products sold for such projects and payroll/income taxes on the labor charges.

We believe that the passage of HB 2128 will provide a needed incentive for restoration of both commercial and residential properties; and we wholeheartedly support enactment of this proposed legislation. Thank you.