

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:07 a.m. on March 3, 2010, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Mario Goico-excused
Representative Tom Hawk- excused
Representative Larry Powell- excused

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Brandon Riffel, Kansas Legislative Research Department
Marla Morris, Committee Assistant

Conferees appearing before the Committee:

Representative Arlen Siegfroid
Jennie Chinn, Executive Director, Kansas Historical Society
Julia Manglitz, American Institute of Architects Kansas (AIA Kansas)
Dale Goter, City of Wichita
Larry Baer, League of Kansas Municipalities (LKM)
Daryl Craft, Owner & Developer of the historic Karlan Building
Phyll Klima, Salina Downtown, Inc.
Shane Marler, Peabody Economic Development Council
Brenda Spencer, Spencer Preservation
Garrison Hassenflu, Garrison Development Company
Christy Davis, Davis Preservation
Lenny Jurden, Cohen-Esrey Tax Credit Advisors, LLC
Michael Marsh, CPA
Geoffrey Fasel, Kansas BioScience Organization
Kevin Carr, KTEC
Craig Gabel, Citizen and Business Owner, Wichita
Bob Weeks, Wichita Citizen
John Todd, Wichita Citizen

Others attending:

See attached list.

Chairman Carlson opened the hearing on:

HB 2496 - Elimination of cap in income tax credit for expenditures for restoration and preservation of certain historic structures for fiscal year 2011

Staff Scott Wells, Office of the Revisor of Statutes, briefed the Committee on **HB 2496**.

Proponents testifying on **HB 2496**:

Representative Arlen Siegfroid supports **HB 2496**, stating the bill remedies an issue created by 2009 legislation. The legislation was believed to institute a modest ten percent "haircut", but the impact of the cut was over fifty percent. The legislation in **HB 2496** is the result of consultation with the industry, as well as the Kansas Department of Revenue. Passage of this bill remedies misconceptions resulting from 2009 "haircut" bill (Attachment 1). He urged the committee to listen carefully to the testimony being offered by the proponents. He stood for questions.

Jennie Chinn, Executive Director, Kansas Historical Society, favors passage of **HB 2496**, and lifting the cap on the Historic Preservation Tax Credits as the cap has hindered the program's effectiveness by halting several large rehabilitation projects and has proven to be challenging to administer (Attachment 2). She stated the

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:00 a.m. on March 3, 2010, in Room 783 of the Docking State Office Building.

Department of Revenue and the Kansas State Historical Society have publicly supported **SB 430**. **SB 430** and **HB 2496** eliminate the cap, which the Department and the Society support. Her testimony included five case studies of specific projects that were made possible by the Historic Preservation Tax Credits.

Julia Manglitz, AIA Kansas testified in support of **HB 2496** that repeals the cap placed on the State Historic Tax Credit, which is an essential economic and community development tool that creates jobs for architects, engineers and builders ([Attachment 3](#)).

Dale Goter, City of Wichita, testified in support of **HB 2496**. Mr. Goter stated the primary concern of the Wichita community is the Broadview Hotel project which is now in limbo due to the unintended outcome of the 2009 legislation ([Attachment 4](#)).

Larry Baer, League of Kansas Municipalities, asked the committee to support and pass out favorably **HB 2496**. He stated many cities, big and small, have benefitted from the fact that developers and owners have taken action to preserve historical properties located in their cities and the historic tax credit has served as an incentive for many of the projects ([Attachment 5](#)).

Daryl Craft, Topeka, testified in support of **HB 2496** as a business owner and developer of the historic Karlan building, and as a Kansan who believes that historic preservation is the right thing to do ([Attachment 6](#)).

Phyll Klima, Salina Downtown, Inc., presented testimony in support of **HB 2496**, stating the State Tax Credit "haircut" implemented last year had a drastic effect on several programs/projects last year in Salina ([Attachment 7](#)).

Shane Marler, Peabody Economic Development Council, stressed the importance of the Historic Tax Program and its effects on the future development of small towns like Peabody ([Attachment 8](#)). The Peabody Economic Development Council supports passage of **HB 2496**.

Brenda Spencer, Spencer Preservation, favors the passage of **HB 2496** as the simplest way to allow the industry to continue to attract investment in order to ensure that Historic Preservation continues to be an effective economic development tool in Kansas ([Attachment 9](#)).

Terry Humphrey, Garrison Development Company, in lieu of Garrison Hassenflu, spoke in support of **HB 2496**. He described the redevelopment of the Besse Hotel in southeast Kansas and the benefit to Pittsburg in terms of spending dollars and labor ([Attachment 10](#)).

Christy Davis, Davis Preservation, supports **HB 2496**. She stated the bill offers the opportunity to right the wrong and restore confidence in the state's economic development policy ([Attachment 11](#)).

Lenny Jurden, Cohen-Esrey Tax Credit Advisors, LLC supports **HB 2496**, and recommended two amendments to the bill ([Attachment 12](#)).

Michael Marsh, CPA, Overland Park, sees **HB 2549** as a jobs creation bill and urged passage of the bill ([Attachment 13](#)).

Geoffrey Fasel, Kansas BioScience Organization, provided a balloon amendment which is a technical repair to restore the carry-forward on the Angel Credits and restore confidence among the investor community ([Attachment 14](#)).

Kevin Carr, Kansas Technology Enterprise Corporation (KTEC) testified in support of **HB 2496** ([Attachment 15](#)).

Chairman Carlson opened the floor to questions for the proponents. Michael Marsh, Jennie Chinn, Chris Courtright, Kevin Carr, Lenny Jurden, and Brenda Spencer stood for questions at the request of the Committee.

CONTINUATION SHEET

Minutes of the House Taxation Committee at 9:00 a.m. on March 3, 2010, in Room 783 of the Docking State Office Building.

Opponents testifying on **HB 2496**:

Craig Gabel, Citizen and Business Owner, Wichita spoke in opposition to Historic Tax Credits (Attachment 16). His opposition focused on the Broadview Hotel in downtown Wichita.

Bob Weeks, Wichita Citizen, opposes the Kansas Historic Preservation tax credit and feels the system should not be expanded beyond its current limit (Attachment 17).

John Todd, Wichita, testified in opposition to **HB 2549** from his standpoint as a private citizen (Attachment 18).

Chairman Carlson opened the floor to questions for the opponents. John Todd stood for questions from the Committee.

Chairman Carlson directed the Committee to the written only testimony on **HB 2549**:

Proponents:

Kathleen Olsen, Kansas Bankers Association (Attachment 19)

Larry Weber, Wichita Downtown Development Corporation (Attachment 20)

Ashley Jones-Wisner, Greater Kansas City LISC (Attachment 21)

Eric Stafford, Associated General Contractors (Attachment 22)

Bob Cole, Pottawatomie County Economic Development Corporation (Attachment 23)

Kent Stehlik, Dodge City Citizen (Attachment 24)

Dale Nimz, Kansas Preservation Alliance, Inc. (Attachment 25)

Jeff Fluhr, Wichita Downtown Development Corporation (Attachment 26)

Opponents:

Joel Weihe, Wichita Citizen (Attachment 27)

Chairman Carlson closed the hearing on **HB2549**.

The next meeting is scheduled for March 4, 2010.

The meeting was adjourned at 10:36 a.m.

HOUSE TAXATION COMMITTEE

DATE: March 3, 2010

NAME	REPRESENTING
Ron Seebert	KARLKS RCO
John Todd	myself
Jenni Chinn	Historical Society
Patrick Zoller	" "
Craig GABLER	SHIF " "
Bob Weeks	KATE
Michelle Billin	Cap. Strateges
Morie Carpenter	KS CPA'S
JUDITH MANGUITZ	AIA Kansas
Bernie Koch	KEPC
Wigh Keck	Hein law firm
LARRY R BAEK	LKRU
Lindsay Holwick	KBA
Jen Bruning	OP Chamber
Tommy Thompson	Garrison Companies



ARLEN H. SIEGFREID
SPEAKER PRO TEM

March 2, 2010

House Bill 2496
House Taxation Committee

Mr. Chairman and members of the committee,

I come before you today in support of HB 2496, which remedies an issue created by well intentioned, yet hastily drafted legislation in the closing hours of the 2009 session.

Last year, I was notified that the “haircut” contained the 2010 budget altering the state’s historic preservation tax credit had a crippling effect on the developers involved with these historic rehabilitation projects.

While legislators believed we had instituted a modest 10% cut at an earlier point in the session, the functional impact of that cut was over 50%. With little time to spare, numerous “fixes” were engineered. These actions resulted in numerous complications and unintended consequences.

Additionally, these changes resulted in an inaccurate fiscal note—which has since clouded debate on the issue.

The legislation before us today is the result of our consultation with the industry, as well as the Kansas Department of Revenue. It ultimately carries a positive fiscal note, and restores a critical tool to developers not only rehabilitating important parts of our state’s history—but more importantly putting Kansans to work.

I encourage each of you vote yes on HB 2496.

Thank you.

A handwritten signature in cursive script that reads "Arlen Siegfroid".

Rep. Arlen Siegfroid
Speaker Pro Tem



**Testimony to
The House Taxation Committee
House Bill 2496
March 3, 2010**

Thank you for the opportunity to appear before you today to discuss House Bill 2496. We are here because the Kansas State Historical Society administers the historic preservation tax credits program. We are aware of the state's fiscal situation and understand that it is forcing the Legislature to make difficult decisions. However, we support lifting the cap on the Historic Preservation Tax Credits as the cap has hindered the program's effectiveness by halting several large (more than \$250,000) rehabilitation projects. It has also proven to be challenging to administer.

In conjunction with the Department of Revenue, the Kansas State Historical Society has publicly supported Senate Bill 430. Both Senate Bill 430 and House Bill 2496 eliminate the cap, which we support. It is up to the Legislature to decide which approach is best for the state. The following chart compares the pros and cons of both bills from an administrative point of view:

Senate Bill 430	House Bill 2496
Treats the Historic Preservation tax credits like all other state tax credits by providing for a 10% "haircut" to the program for two years.	Retains the \$3.75 million cap for FY 2010, but eliminates the cap for FY 2011.
Pros	
Removal of the cap in both FY 2010 and 2011 (Pg.5, lines 25-27) allows projects that were halted to retain financing and move the projects forward.	Eliminates the cap at the end of FY 2010 (Pg.1, line 34), allowing projects that were halted to move ahead.
In FY 2012 the program continues to issue tax credits at 100% of their value.	In FY 2011 the program continues to issue tax credits at 100% of their value.
Cons	
Reduces the amount of redeemed tax credits for tax year 2009 and 2010	The cap remains for FY 2010. Under the current guidelines, it is possible that the

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(Pg.7, line 19) to 90% of the allowable credits including those carried forward.	amount of tax credits claimed will exceed the \$3.75 million cap.
Projects that received full credit before the cap was placed on the program will lose 10% of their expected credits if redeemed in tax year 2009 or 2010.	Currently there are 287 "open" projects, which have been pre-approved and will be eligible to receive potential tax credits of \$28 million once the cap is lifted. There is a high probability a much smaller number of projects will be completed in FY 2011; however, it is impossible to predict the exact cost for the state in FY 2011.

Impact on Agency

SB 430 or HB 2496 would greatly streamline the agency's administration of the program. In order to implement the cap that is currently in place, the agency, working with the Department of Revenue, developed the attached guidelines. The guidelines are complex because rehabilitation projects often span two or three fiscal years, and the agency had many open projects at the time. These guidelines resulted in several projects having to wait several years before receiving their tax credits, and other projects becoming ineligible for tax credits until FY 2012. Several projects, which had secured funding based on potential tax credits, were canceled due to their loans being withdrawn. Even with a smaller number of projects the program with the cap has created more work for staff. Projects must be tracked differently and the agency must offer more staff assistance to individual projects. Either of these bills would resolve administrative challenges.

Alternative Solutions

There have been suggestions on ways to change this program so that its fiscal impact on the state can be predictable. Many of these ideas have been discussed in a recent post-audit, and others have been suggested in proposed legislation. In these discussions a couple of issues have become clear:

- The success of this program reflects a clear economic need in the state.
- We have yet to review the entire economic impact of this program. The Historical Society has worked with the Kansas Preservation Alliance to commission an economic impact study of the historic preservation tax credits through Rutgers University. A short summary of that report is attached. It is our hope that this report can be considered in any discussions about the future of this program.
- The diversity of program users and their individual needs make finding a long-term solution challenging. Of the various proposed alternative solutions that have been suggested to date, none have been satisfactory for all the users of the tax credit program.
 - Eliminating the transferability of the credits would eliminate community non-profits and local governments (including universities and schools

districts) from the program. These groups are 56% of the program participants. Commercial developers often need the transferability of the tax credits to secure funding.

- Refundable credits would work for non-profits and local governments, but commercial developers are concerned that with refundable tax credits they would pay higher taxes on the projects.
- Tax credits work as a strong economic stimulus tool, whereby grants usually do not. Grants usually do not leverage large amounts of additional funding for the project. Also, grants, which are typically awarded annually, cannot address emergency repairs as tax credits.

Due to the complexity of the issues, Secretary of Revenue Joan Wagon and I have agreed to host a meeting in April with a small group of stakeholders. From this discussion, and with the aid of additional research, we intend to develop options to address the long-term issues surrounding this program. A possible plan will be available to you at the start of the next legislative session or in the fall if you prefer. Therefore, at this time we are requesting that no alternative solution to the historic preservation tax credits be adopted until we can present you with additional alternatives.

Thank you again for the opportunity to appear before you today. If you have questions, Patrick Zollner and I would be happy to answer them.

Jennie Chinn;
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(785) 272-8681 x 205

Patrick Zollner,
Director of the Cultural Resources Division
Kansas State Historical Society
pzollner@kshs.org
(785) 272-8681 x 217

May 28, 2009

**Guidelines for Implementation of Section 6, 2009 House Bill 2365 Amendments to
K.S.A. 79-32,211**

Section 6 of 2009 House Bill 2365 amended K.S.A. 79-32,211, the provisions of the Kansas State Rehabilitation Tax Credit Program, by adding the following sentence: "In no event shall the total amount of credits allowed under this section exceed \$3,750,000 for fiscal years 2010 and 2011." In order to implement this new cap on allowance of state historical rehabilitation tax credits for fiscal years 2010 (July 1, 2009-June 30, 2010) and 2011 (July 1, 2010-June 30, 2011), the following guidelines will apply.

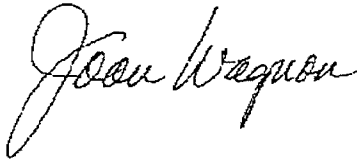
1. Tax credit certificates issued by the Kansas Historical Society, or any certificates of transfer of such credits issued by the Kansas Historical Society, with respect to qualified historic rehabilitation projects that have been placed in service by June 15, 2009 and all written applications, forms and other documentation needed for issuance of such tax credits are submitted to the Kansas Historical Society by June 15, 2009, shall not be affected by the cap provisions in Section 6, 2009 House Bill 2365 and will be fully allowed against outstanding tax liability.
2. For any qualified historic rehabilitation projects that are placed in service after June 15, 2009, or the necessary written applications, forms and other documentation with respect to a qualified historic rehabilitation project needed for issuance of tax credit certificates are submitted to the Kansas Historical Society after June 15, 2009, the fiscal year cap imposed in 2009 House Bill 2365 shall apply. Because the historic rehabilitation tax credit is nonrefundable (must be applied against existing tax liability) and any unused excess credit can be carried forward to future tax years for up to 10 years, experience has shown that on average, not more than 60% of the total credits issued in a given year will be allowed against actual tax liability, with the remaining balance being carried forward. For those historic rehabilitation projects subject to the cap as described above, the Kansas Historical Society will limit issuance of tax credit certificates to \$6.25 million per fiscal year during fiscal years 2010 and 2011. For any tax credit certificates that are issued, those tax credits are fully allowable against tax liability.
3. For any historic rehabilitation tax credits that the Kansas Historical Society has determined were earned during tax years (generally same as the calendar year) 2009 and 2010 but for which no tax credit certificate was issued because of the cap, the Kansas Historical Society shall advise the person earning the credits that such credits can be claimed, beginning in tax year 2011, and the Kansas Historical

Society will later issue tax credit certificates for such credits as appropriate. For projects that the Kansas Historical Society has limited the tax years when credits can be claimed due to the cap and for which tax credit certificates are issued effective for tax year 2011, the carryforward period shall begin in tax year 2011.

4. Qualified historic rehabilitation projects that involve qualified expenditures of \$250,000 or less will be counted toward the fiscal year cap, but it is not expected that issuance of tax credit certificates with respect to such tax credits will need to be limited.



Patrick Zollner, Deputy State Historic Preservation Officer
Cultural Resources Division
Kansas State Historical Society



Joan Wagnon
Secretary of Revenue



KANSAS

Kansas Historical Society
Patrick Zollner, *Director, Cultural Resources Division*

MARK PARKINSON, GOVERNOR

June 30, 2009

Addendum to Guidelines for Implementation of Section 6, 2009 House Bill 2365 Amendments to K.S.A. 79-32,211

Section 6 of 2009 House Bill 2365 amended K.S.A. 79-32,211, the provisions of the Kansas State Rehabilitation Tax Credit Program, by adding the following sentence: "In no event shall the total amount of credits allowed under this section exceed \$3,750,000 for fiscal years 2010 and 2011." In order to implement this new cap on allowance of state historical rehabilitation tax credits for fiscal years 2010 (July 1, 2009-June 30, 2010) and 2011 (July 1, 2010-June 30, 2011), the following guidelines will apply.

1. Tax credit certificates issued by the Kansas Historical Society, or any certificates of transfer of such credits issued by the Kansas Historical Society, with respect to qualified historic rehabilitation projects that have been placed in service by June 15, 2009 and all written applications, forms and other documentation needed for issuance of such tax credits are submitted to the Kansas Historical Society by June 15, 2009, shall not be affected by the cap provisions in Section 6, 2009 House Bill 2365 and will be fully allowed against outstanding tax liability.
2. For any qualified historic rehabilitation projects that are placed in service after June 15, 2009, or the necessary written applications, forms and other documentation with respect to a qualified historic rehabilitation project needed for issuance of tax credit certificates are submitted to the Kansas Historical Society after June 15, 2009, the fiscal year cap imposed in 2009 House Bill 2365 shall apply. Because the historic rehabilitation tax credit is nonrefundable (must be applied against existing tax liability) and any unused excess credit can be carried forward to future tax years for up to 10 years, experience has shown that on average, not more than 60% of the total credits issued in a given year will be allowed against actual tax liability, with the remaining balance being carried forward. For those historic rehabilitation projects subject to the cap as described above, the Kansas Historical Society will limit issuance of tax credit certificates to **\$6.25 million** per fiscal year during fiscal years 2010 and 2011. For any tax credit certificates that are issued, those tax credits are fully allowable against tax liability.
3. Qualified historic rehabilitation projects that had received approved Part 2 applications by June 15, 2009 with qualified rehabilitation expenditures (QRE) of greater than \$250,000 that are placed in service after June 15, 2009 and during state fiscal year 2010 will receive one third (1/3) of their earned credits in fiscal year 2010, one third in fiscal year 2011, and the remaining one third in fiscal year 2012. Projects in this category that are placed in service during state fiscal year 2011 will receive one third (1/3) of their earned credits in fiscal year 2011 and the remaining two thirds (2/3) in fiscal year 2012. This formula is based upon the current total amount of approved Part 2 QRE for projects over \$250,000:

\$58,760,415.27. The total potential state credits for these projects is **\$14,690,103.** This amount divided by three equals a yearly credit issuance of **\$4,896,701.**

- 3a. The issuance of credits will be continuously monitored. If the targeted issuance of credits has not been met by the last month of the fiscal year, then completed projects over \$250,000 that had a Part 2 submitted, but not yet approved, by June 15, 2009 will be next in line for a 1/3 allocation of tax credits.
- 3b. The Kansas Historical Society will continue to accept and review new tax credit applications for projects over \$250,000 QRE after June 15, 2009; however, it is not anticipated that these projects will be issued tax credits prior to state fiscal year 2012.
4. Qualified historic rehabilitation projects that involve qualified expenditures of \$250,000 or less will be counted toward the fiscal year cap, but it is not expected that issuance of tax credit certificates with respect to such tax credits will need to be limited. The total approved Part 2 QRE for projects under \$250,000 is **\$10,203,867,** and the total potential credits for these projects is **\$2,550,966.** Past history and current knowledge of the open projects indicates that only one third of these projects are likely to be completed within the next fiscal year (**\$850,322**), which will place the total yearly issuance of credits at approximately **\$5,747,023** for state fiscal years 2010 and 2011, leaving room within the cap to accommodate new projects under \$250,000.
5. For any historic rehabilitation tax credits that the Kansas Historical Society has determined were earned during tax years (generally same as the calendar year) 2009 and 2010 but for which no tax credit certificate was issued because of the cap, the Kansas Historical Society shall advise the person earning the credits in writing that such credits can be claimed, beginning in tax year 2011, and the Kansas Historical Society will later issue tax credit certificates for such credits as appropriate. For projects that the Kansas Historical Society has limited the tax years when credits can be claimed due to the cap and for which tax credit certificates are issued effective for tax year 2011, the carryforward period shall begin in tax year 2011.
6. By law, the Kansas Historical Society is bound by the cap in House Bill 2365. The issuance of tax credits will be monitored continuously to ensure compliance. For this reason these guidelines are subject to change without notice.



Patrick Zollner
Director, Cultural Resources Division
Deputy State Historic Preservation Officer

Economic Benefit and Impact
Historic Preservation Tax Credits in Kansas
Center for Urban Policy Research, Rutgers University

Summary by the Kansas State Historical Society

Background of Kansas Rehabilitation Tax Credit Program

Enacted in FY 2002, the Kansas Historic Preservation Tax Credit Program created a 25 percent credit for qualified rehabilitation work on buildings listed in the National Register of Historic Places and/or the Register of Historic Kansas Places. This program is similar to those found in 30 other states including Colorado, Oklahoma, and Missouri. The statutes provide for the sale or transfer of credits, which allows property owners to leverage credits for construction loans, and also allows for non-profit and government entities to recover a portion of the cost of the rehabilitation. Further legislation in FY 2007 increased the percentage of credits given to non-profit organizations to 30 percent.

The state Historic Preservation Tax Credits can be paired with the federal historic tax credit program (a 20 percent credit on federal income tax) for commercial buildings. The federal program is not available for residential property owners, non-profits, or government entities.

The Kansas State Historical Society, in cooperation with the Kansas Department of Revenue, administers the Historic Preservation Tax Credit Program.

Economic Impact Analysis

The study examines the many significant construction-stage economic effects (direct and secondary economic consequences) of historic rehabilitation investment in Kansas aided by the Kansas Historic Preservation Tax Credit Program. Rutgers utilized an input-output model that it developed for the National Park Service's National Center for Preservation Technology and Training known as the Preservation Economic Impact Model (PEIM).

Important Findings

1. From FY 2002 through FY 2009, the state tax credit program supported 552 completed projects, totaling an inflation-adjusted investment of \$271 million.
 - The 552 projects are spread across 45 different counties, in all areas of the state.
 - Projects were concentrated in areas with a lower median household income, areas that experience higher economic distress, higher population density, and households encountering greater affordability issues.

2. Cumulatively, the state of Kansas has awarded \$53 million in Kansas Historic Tax Credits between FY 2002 through FY 2009.
 - The measurable economic impacts of this investment includes,
 - 4,327 jobs
 - \$314 million in output (value of goods)
 - \$138 million in labor income
 - \$178 million in gross state product
 - \$54.7 million in taxes (\$40.3 million federal, \$7.6 million state, \$6.8 million local)
 - Of these effects, there is a 78 percent in-state retention rate, demonstrating the benefit to state and local economies.

- Annually, this equates to an average of \$6.6 million credits issued,
 - 541 jobs created
 - \$39.3 million in gross state product
 - \$5 million in federal taxes
 - \$952,000 in state taxes
 - \$46,000 in local taxes
3. Historic rehabilitation economic impacts are felt throughout most sectors of the state's economy.
 - Just under half of the jobs created were in the construction industry.
 - Other areas such as services, retail/trade, and manufacturing also benefit from increased jobs, labor income, and output.
 - To a lesser extent areas such as mining, transportation, public utilities, and agriculture were all positively affected by investment in Historic Preservation projects.
 4. A \$1 million investment in historic rehabilitation projects produces a more positive economic effect on employment, income, gross state product, and state-local taxes than the same investment in the areas of new construction, manufacturing, agriculture, and services.
 - In Kansas each million-dollar investment in commercial historic rehabilitation yields \$39,000 in state and local taxes compared to new construction, which yields \$22,000.
 - In Kansas each million-dollar investment in commercial historic rehabilitation puts 16.4 people to work, where as in new construction 11.7 are employed.
 5. The \$53 million in tax credits issued by the state over the 8 years studied earned Kansas commercial projects an additional \$31.1 million in federal tax credits, furthering the economic impact on the state.
 6. The economic benefits of the Historic Preservation Tax Credits are actually understated in this study due to data limitations.
 - The project costs only reflect qualified expenditures, which is approximately 80 to 90 percent of the full project outlay.
 - The study does not quantify recurring economic effects such as heritage tourism or quality of life enhancements.

Overall Cost Benefit

While the Historic Preservation Tax Credit Program has a cost to the state, every dollar invested by the state through this program has leveraged four dollars in project investment.

Availability of Detailed Report

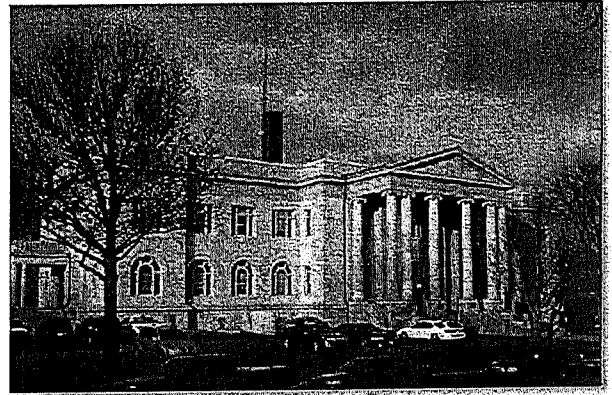
The complete report should be available by the end of February. This summary has been verified by Rutgers University, and all statistics are correct and reflect the longer study.

Attachments

Five individual case studies of specific projects are included in the Economic Impact Analysis. These case studies point out additional qualitative benefits of the state tax credit program such as providing affordable housing and encouraging downtown economic development. If not for the Historic Preservation Tax Credits, several of these projects would not have been possible.

SUMMARY EXHIBIT 11**Case Study: Leavenworth County Courthouse
300 Walnut St., Leavenworth, Kansas**

Construction Date:	1911
Total Project Costs:	\$5,047,103
State Historic Tax Credits:	\$862,754
Incentives Used:	State Historic Tax Credits, Heritage Trust Fund Grants



The rehabilitation of the Leavenworth County Courthouse, built in 1911, updated and improved what had become a greatly underutilized public building. Without historic preservation tax credits to offset a portion of the costs, the county would not have been able to do the project.

Useable space and overall efficiency were dramatically increased throughout the building, and the rehabilitated courthouse once again reflects its important role as the seat of county government. The availability of historic preservation tax credits prevented county officials from having to increase the mill levy to fund the project, and allowed them to undertake a comprehensive rather than piecemeal approach to updating the courthouse. After three years of work, the public areas of the building were restored to their original early 20th century appearance, while offices and secondary spaces were modernized to meet 21st century needs.

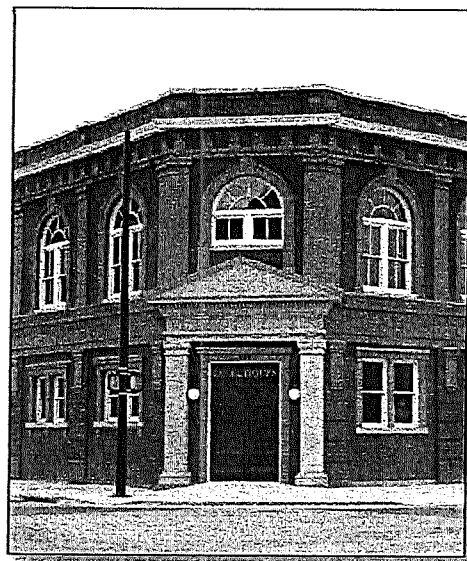
The project injected more than \$5 million into the local and regional economy. Construction wages alone have been estimated at more than \$2.5 million, and most of that went to Kansas construction workers. (That number conservatively assumes just 50% labor costs.) Although the maximum amount of historic tax credits are 25% of all project costs, the Leavenworth County Courthouse used just 17% of the project total. Each \$1 of state tax credits awarded generated \$5.80 of construction activity.



The refurbished building is very popular with the public and County Commissioner Clyde Graeber described the rehabilitation project as a “masterpiece,” and noted that the refurbished building has been very popular with the general public. According to Keyta Kelly, attorney for the county who handled the paperwork for the project, “The historic tax credits offered by the State of Kansas allowed the sitting Leavenworth County Board of County Commissioners to repair, preserve and renovate the courthouse for those citizens who take pride in their history and property while still keeping the price tag palatable... I truly enjoy the looks of awe on the faces of those entering the Leavenworth County Courthouse for the first time since its renovation.”

SUMMARY EXHIBIT 12**Case Study: Eagle's Lodge #132****200-202 S. Emporia, Wichita, Sedgwick County, Kansas**

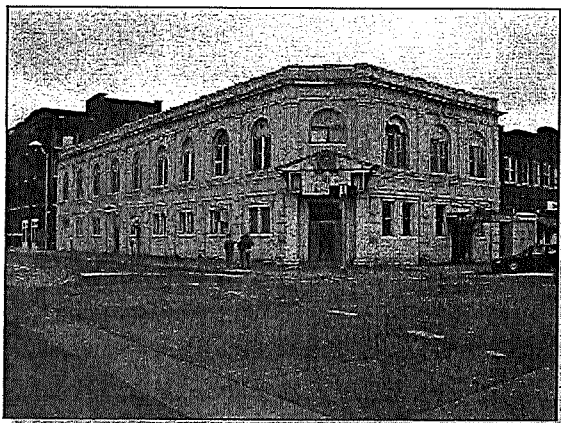
Construction Date:	ca. 1916-1921
Original Use:	Meeting Hall and Mortuary
New Use:	Retail
Qualified Project Costs:	\$1,185,379
State Historic Tax Credits:	\$ 296,344
Federal Historic Tax Credits:	\$ 237,075
Incentives Used:	State and Federal Historic Tax Credits



Built in 1916, the Eagle's Lodge #132 was slated for demolition to make way for the new Sedgwick County Arena. The building had been abandoned for years and various owners struggled to maintain the property and keep it fully occupied. In part due to the Kansas State historic tax credit, this architectural gem instead saw a major rehabilitation, and today anchors a prominent corner near the new development. The rehabilitated building enlivens the streetscape and provides a visual link between old and new in downtown Wichita.

Without state and federal historic tax credits, the project would not have been financially feasible. From owner Jerry White: "If not for the historic tax credits I would not have renovated the building...It would not have been economically viable to do it." The project resulted in more than \$1 million of private investment in a formerly derelict property adjacent to the new arena. As is common for historic rehabs, labor costs were high, and almost everything required a specialized solution. More than 95% of the rehabilitation costs went to local contractors and workers, and the availability of the Federal Tax Credits meant that more than \$230,000 stayed in Kansas instead of being paid out in federal taxes.

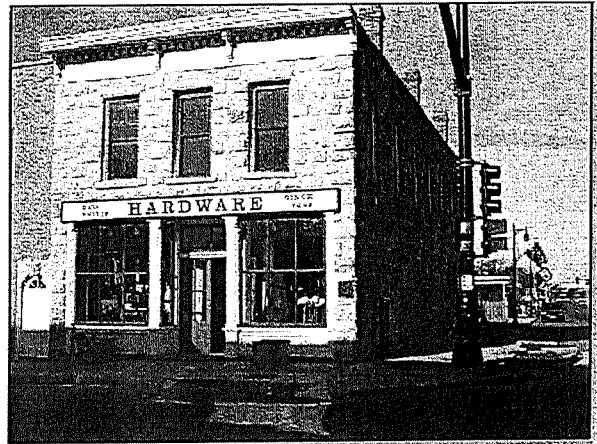
Had the rehab not been feasible, the city would have lost not only the building, but a long-time downtown business as well. Mr. White had operated his business in another historic building for years, and when that property was lost to the arena project, he considered simply dissolving the business. Instead, county coffers will benefit from the project for years to come; the owner is now paying more than five times as much property tax as he was before the rehab project.



The historic tax credit program has spurred significant investment in historic downtown Wichita. The Eagle's Lodge project is one of at least twenty historic tax credit projects in or near downtown. Those commercial and multi-family housing projects are providing up-to-date spaces for businesses and residents. According to Kathy L. Morgan, Senior Planner for the City of Wichita, "the historic tax credits are an invaluable tool for relocating businesses in the downtown area."

SUMMARY EXHIBIT 13**Case Study: Philip Hardware Store
719 Main St., Hays, Ellis County, Kansas**

Construction Date:	1874
Original Use:	Hardware Store
New Use:	Retail/Residential
Total Project Costs:	\$424,932
Qualified Project Costs:	\$304,480
State Historic Tax Credits:	\$ 76,119
Federal Historic Tax Credits:	\$ 60,896
Incentives Used:	State and Federal Historic Tax Credits, Property Tax Abatement, Heritage Trust Fund Grant



The rehabilitation of the Philips Hardware Store was the first of many historic preservation projects in downtown Hays undertaken by the Liberty Group, a recently formed development company. The Group's belief that historic preservation plays a critical role in economic development is evident in their track record; they have completed 11 commercial rehabilitation projects in Hays, and have another 8 in the works. Most are located in the Chestnut Street Historic District, which is listed in the National Register of Historic Places.

Liberty Group owner Charles G. Comeau wrote of his company's decision to invest in the community, "Across the U.S. the words on the street are 'Preservation and Revitalization'. Downtown city blocks where shoppers' feet no longer tread and smart money would never invest are now among the most exciting retail development projects in the world.... Hays has all the components necessary to bring about the successful renaissance of its downtown corridor and we are deeply committed as developers to bring our vision to reality."

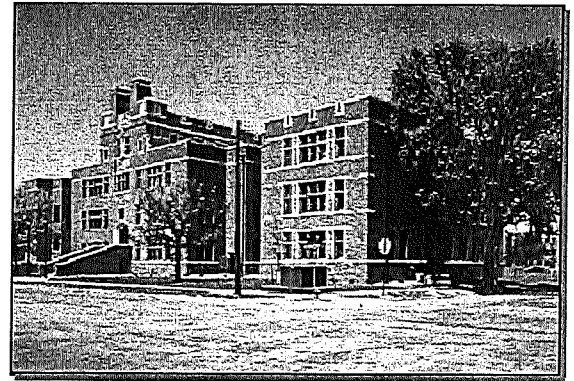
The redevelopment project has already had an impressive impact upon the local economy. Since 2002, appraised value of buildings and land in the downtown district has increased by 122.5%. From 2001–2008, over \$5 million has been invested in Downtown Hays, creating 25 net new businesses. In that same time period, sales tax collections increased 135%. More than 130 new full time and 186 new part time jobs were created. The historic Chestnut Street District now boasts of some 1,425 employees; an impressive number for a town of just over 20,000.



Historic tax credits have become increasingly important in the redevelopment effort in Hays, as the more viable buildings have been completed and the development partners turn to those that will take more creative development plans to be workable. According to Kelli Hansen with Liberty Group, the rehab of the Philip Hardware and many other projects in Hays "would not have been possible to date without the tax credit programs. The funds associated with redevelopment costs exceed the amounts that can be justified or borrowed, so the tax credits provide the necessary incentive to continue with the projects."

SUMMARY EXHIBIT 14**Case Study: Roosevelt-Lincoln Junior High School
210 W. Mulberry St., Salina, Saline County, Kansas**

Current Name:	Pioneer President's Place
Construction date:	1915-1925
New Use:	Low-Income Senior Housing
Total Project Costs:	\$8,639,603
State Historic Tax Credits:	\$2,042,886
Housing Units:	61 (Rents start at \$275/month.)
Incentives:	State and Federal Historic Tax Credits, Low Income Tax Credits, Property Tax Rebate for 10 years.

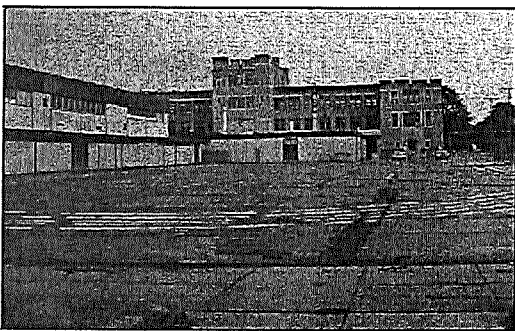


The Roosevelt Lincoln Junior High School campus covers most of a city block in downtown Salina. It served as an education facility for nearly 90 years, but despite expansion efforts, student enrollment outstripped its capacity. The Pioneer Group of Topeka purchased the vacated complex which, according to the local newspaper, had the potential to become a “conspicuous downtown eyesore,” and converted it into low-income senior apartments. The 61-unit complex routinely boasts a 100% occupancy rate.

Pioneer Group assembled an expert team of Kansas-based architects and contractors and secured financing from a Salina bank. Just over \$3.5 million was paid in construction wages, and another \$2.3 million went to Kansas suppliers of building materials. In addition to following the many requirements associated with Low Income and Historic Tax Credits, the team met nationally recognized LEED green building standards.

In addition to saving the historic building and creating clean, safe, senior housing, the rehabilitation project injected more than \$8 million directly into the Kansas economy. A variety of funding sources were needed to secure the project. The project qualified for state and federal historic tax credits, as well as low income housing tax credits. Without any one of them, the buildings could well be empty yet today.

This project already is breathing more life into Salina's downtown, supporting existing businesses and encouraging new business creation. The restored auditorium at Lincoln School, open to both residents and the general public, is developing into a favorite community gathering space. It has given a boost to the owners of surrounding rental properties, who have enjoyed an improved overall rental market due to the presence of this large, well-maintained complex.



Ross Freeman, President of Pioneer Group, noted, “This was a wonderful economic development project for Kansas. It employed a huge number of Kansans, and generated a lot of economic excitement in and around Salina. It also utilized existing infrastructure and has brought more people to live in the downtown area, helping further revitalize downtown businesses. We would not have even considered the project if the historic tax credits were not available.”

SUMMARY EXHIBIT 15**Case Study: Frank and Dora Wolcott House
100 West 20th Ave., Hutchinson, Reno County, Kansas**

Current Name: Doug McGovern House
 Construction Date: ca. 1919
 Total Project Costs: \$147,726
 State Historic Tax Credits: \$ 29,545
 Incentives Used: State Historic Tax Credits

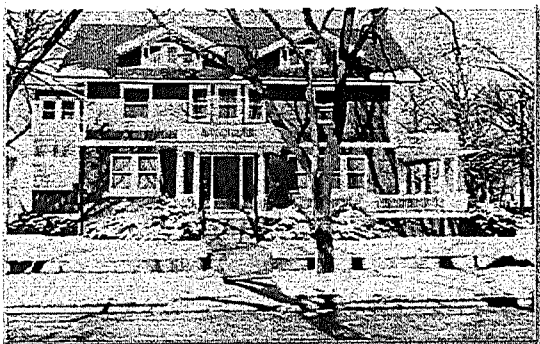


This 90-year old house is located near the center of Hutchinson and was one of the first houses built in Hyde Park, one of the more economically stable older neighborhoods in town. In part due to the availability of the Kansas historic tax credit, owner Doug McGovern spent the last several years taking care of everything from deferred maintenance to structural repairs. He has modified the home to accommodate his octogenarian mother, rebuilt the front porch, repaired windows, replaced the roof, and installed a new HVAC system. All work done on the house was locally contracted. For each \$1 of Kansas tax credits awarded for this project, the owner spent approximately \$4, all of which stayed in Hutchinson.

Today, the house is a neighborhood showpiece. The rehabilitation standards ensured a high-quality finished product that enhances neighborhood property values. It is a stop on the annual holiday tour. Recently McGovern hosted the wedding of the Wolcott's great-grand-daughter, who said that getting married there "was like a gathering of the ancestors." It was also featured in the Fall 2009 issue of *Hutchinson Magazine*, as well as the September/October 2009 edition of *Kansas Preservation* magazine.

The availability of the historic preservation tax credits encouraged a higher level of investment in this historic home than otherwise would have taken place. The incentive also accelerated the rate at which the homeowner invested in major repairs, and helped maintain what the *Hutchinson Magazine* called a house that is "more accurately described as a 'presence' than simply a structure."

Making the historic tax credit available to homeowners encourages investment in the oldest parts of the community, and, since homeowners almost always patronize local contractors, it helps keep local dollars local. That investment is good for communities; low-density residential use preserves core neighborhoods, uses existing infrastructure, and stabilizes property taxes.



Hundreds of Kansas families have used state historic tax credits to leverage investment in their homes. Although residential projects represent a small percentage of the credits awarded in dollar value--less than 5%, they make up a large number of projects. To date, there have been more than 350 historic tax credit projects for residential properties, in 30 different Kansas cities.

February 3, 2010



AIA Kansas
A Chapter of the American
Institute of Architects

TO: House Taxation Committee

FROM: Julia Manglitz, AIA, Representing AIA Kansas

RE: Support of HB 2496

Good Morning, Chair Carlson and Members of the Committee. I am Julia Manglitz representing the American Institute of Architects in Kansas. I am a licensed architect and serve as the Chair of the AIA Kansas Committee for Historic Resources.

AIA Kansas is a statewide association of architects and intern architects. Most of our 700 members work in over 120 private practice architectural firms designing a variety of project types for both public and private clients. Our members are designing projects for the future, aiming to meet the "triple bottom line": economy, healthy people and healthy environment.

AIA Kansas supports HB 2496 that repeals the cap placed on the State Historic Tax Credit Program. The cap that was imposed during the last legislative session has had the unintended consequence of cutting the program 70% rather than the intended 10% cut. The manner in which the cut was made has jeopardized projects underway. This tax credit program is an essential economic and community development tool that creates jobs for architects, engineers and builders. Approximately sixty percent of the dollars spent on renovation projects go toward labor costs. The construction industry jobs created by historic preservation projects are skilled jobs that typically command higher wages. They are place specific jobs that cannot be outsourced.

The jobs created by the projects utilizing this program are all over the state. That is because the State Historic Tax Credit Program is equally available to all; individuals, corporations, non-profits and local governments. It is available to all communities, rural or urban, wealthy or economically disadvantaged. The projects improve the quality of life for Kansans all over the state and enrich the character and personality of our communities. Historic preservation projects are green projects, they promote density, they utilize resources and infrastructure already in place and they build on the wealth; economic and cultural, passed down to us by past generations. These are core values that Kansans have used time and again since our state was founded. We make the most of what we have.

As architects we have the opportunity to see projects from their inception, as ideas put to paper, to their fulfillment, as a constructed reality. The State Historic Tax Credit Program often provides that little bit more funding up front that tips the balance between a project that remains ideas on paper and one that becomes reality. The projects that utilize the tax credit leverage investment from other sources at a rate 3-5 times the credit received from the state. This investment comes from inside and outside Kansas. The cuts instituted last year have jeopardized financing for projects underway and shaken the confidence of investors. We need to take immediate steps to restore the faith investors have in this program.

The cut currently in place has, in one year, more than fulfilled the cut intended to take place over two years. In the trying economic times our State is facing we believe wholeheartedly in the concept of sharing the burden. But the State Historic Preservation Tax Credit program has already shouldered more than its share of the burden. Kansas needs jobs. The fires of our economic engine need stoking. This program does both and so much more and we urge your support for HB 2496.

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Wichita

Executive Director
Trudy Aron, Hon. AIA, CAE
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700 SW Jackson, Suite 209 · Topeka, KS 66603 · 800-444-9853 or 785-357-5308 · www.aiaks.org

House Taxation
Date: 3-3-10
Attachment: 3



Dale Goter
Government Relations Manager

TESTIMONY

City of Wichita
455 N Main, Wichita, KS. 67202
Wichita Phone: 316.268.4351
dgoter@wichita.gov

Kansas House Taxation Committee

Hearing on HB2496

Wednesday, March 5, 2010

Chairman Carlson and members of the House Taxation Committee:

The City of Wichita urges your favorable consideration of HB2496, which addresses a critical and unintended outcome of the state budget bill adopted by the 2009 Kansas Legislature.

The impact of that budget action has left a dramatic chilling effect on renovation and rehabilitation of various historic properties in south-central Kansas and across the state.

A primary interest in the Wichita community is the proposed renovation of the legendary Broadview Hotel at Waco and Douglas. The current owner, Drury Southwest, has worked in partnership with the City of Wichita to develop a renovation plan that will revive the Broadview as a foundation property in the revitalization of downtown Wichita.

Last year's budget action left this project in limbo, raising doubts about the state's commitment to projects that had, in good faith, made significant investment in anticipation of the continuation of the Historic Tax Credit program.

Projects such as the Broadview, along with dozens of others in our community, represent the City's commitment to preserving its heritage through renovation of historic structures. These projects pay significant return to the local community and to the state as a whole. Increased property valuations, stable neighborhoods and preservation of our historic landmarks are major elements of that return on investment.

Just as the State of Kansas is struggling to deal with tough economic times, local communities are also scrambling for the resources to meet the needs of their residents. Improvements to historic structures result in higher property valuations, which generate tax revenues necessary to sustain critical local services such as public safety.

The return on investment for the public dollar spent on historic renovation is totally recovered in a 10 year span from increased property taxes alone. That return is shared by local and state governments through their respective mill levies. That computation of return on investment does not include the various multipliers that result from restoring properties to an active role in local commerce, or the many jobs created by the renovation work itself.

For those reasons, the City of Wichita strongly supports passage of HB2496.

###

House Taxation
Date: 3-3-10
Attachment: 4



Date: March 3, 2010
To: House Committee on Taxation
From: Larry R. Baer
Assistant General Counsel
Re: HB 2496
Testimony in Support

Thank you for allowing me to appear before you today and present testimony in support of HB 2496 on behalf of the League of Kansas Municipalities and its member cities. HB 2496 would amend K.S.A. 2009 Supp. 79-32,211, regarding income tax credits given for the restoration and preservation of historic structures.

The 2009 Legislature amended K.S.A. 79-32,211 to cap the tax credits allowed under the section at \$3,750,000 for fiscal years 2010 and 2011. The unintended consequence of this amendment was to, in effect, terminate the tax credit for the restoration and preservation of historic structures. The changes proposed by HB 2496 would correct this.

Many cities, big and small, have benefitted from the fact that developers and owners have taken action to preserve historical properties located in their cities. The income tax credit authorized by K.S.A. 79-32,111 has served as an incentive for many of these projects. Without the continuation of the credits and the benefits extended to the developers and owners, it is feared that many historical structures would not be restored or maintained. Thus, a city would lose a piece of its history and a link to its past.

For these reasons League of Kansas Municipalities supports HB 2496 and asks for your support and requests that you pass it out favorably. Thank you.

House Taxation
Date: 3-3-10
Attachment: 5

TESTIMONY ON **House Bill 2496**
HOUSE TAXATION COMMITTEE
Wednesday, March 3, 2010

Thank you, ladies and gentlemen, for allowing me to speak with you this morning. My name is Daryl Craft. I am speaking in favor of House Bill 2496 because the current cap will cost my partners and me at least \$75,000 in additional finance costs on our rehabilitation project currently underway. I'm actually here today wearing three hats. First, I am the President of **GTRUST** Financial Partners. We are a Topeka based Trust Company that is moving our office back into downtown Topeka. We started our business 20 years ago in downtown, have been on the west side of town for 15 years and want to go back downtown.

Second, I am an owner and developer of the historic Karlan building, one block east of here. My company could not locate suitable space downtown so I decided to partner with Mike Fox and Mike Wilson to rehabilitate the Karlan building and apply for listing on the National Register of Historic Places. We purchased the building and started our rehab two weeks before the current cap was placed on historic credits. The value of the Kansas historic tax credits was an integral part of our financing package for the project.

And finally, I am here as a Kansan who believes that historic preservation is the right thing to do. In our case we are bringing back a beautiful building that had been allowed to deteriorate. We are also making a substantial improvement for our downtown and our community. Equally important, national studies have shown that historic rehabilitation creates economic development 7 to 10 times the value of the tax credits granted. Economic times are tough right now and the economic benefit of the jobs created by projects utilizing tax credits can't be understated.

I am here today not only on behalf my project but also for all historic projects currently underway or planned in the state. There must be several dozen projects which have been affected by the cap on historic tax credits. However I can give you specifics about our project to show you how the tax credit program should work.

1129 SW Wanamaker Rd, Suite 200
Topeka KS 66604 785.273.9993

Our project is to rehab a 100 year old, four story structure. We purchased the building for \$400,000 and plan to spend \$2,600,000 to complete the rehabilitation, with \$2.5 million in expenditures eligible for tax credits.

The federal tax credit on that amount would be \$500,000 and the state tax credit would be \$625,000. Like most developers, we do not have sufficient tax liability to use the credits and plan to sell them. In our case we expect to receive approximately 60% from the federal credit (\$300,000) and 70% from the state credit (\$438,000). That total of \$738,000 would be used to reduce the amount borrowed.

A lender expects a developer to pay 20% down and borrow 80%. In our case the full value of the credits would suffice for the 20% down, and the total loan would be \$2,147,000 (taking into consideration current developer equity in the project). Debt service at 6%, amortized over 20 years, would be approximately \$15,380/month.

With the current cap, there is uncertainty when we would receive our state tax credits, so financing will be calculated without the state credit. That leaves us with \$3,000,000 cost less \$300,000 federal credit and \$115,000 current developer equity, for a net of \$2,585,000. The bank will only lend 80% so the developers must separately borrow an additional \$185,000 to be placed into the project, and our primary bank lender will finance \$2,400,000. Total borrowing is \$2,585,000 with a monthly debt service of \$18,520. We would eventually get the Kansas tax credits in 2012, assuming additional changes are not made to the program, but permanent financing will have to be in place for at least two years at the higher borrowed amount. **Our additional cost for financing under the current cap will be at least \$75,000 higher and could be even more, depending upon when the credits are actually issued.**

It is my clear understanding that last May the legislative intent was to reduce the cost to the state for historic tax credits by 10% for two years. In fact the uncertainty created by the legislation has reduced the credits applied for and issued by as much as 70%. The unintended consequence of the cap is that it has made the financing aspects of historical restoration a mess.

I strongly urge you to vote in favor of House Bill 2496 as the simplest way to address the unintended consequences of the cap. Thank you for your time!

900 Kansas LLC

Salina Downtown, Inc

...to champion a healthy, vibrant downtown community!

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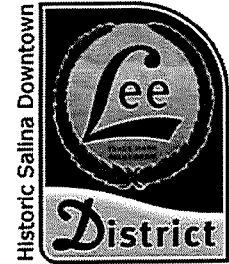
Richardson Developments

Norman Yenkey

Property Developer

Phyllis C. Klima

Executive Director



TO: House Taxation Committee
RE: HB 2496
FROM: Salina Downtown, Inc.

First let me introduce myself. I am Phyll Klima, Executive Director, Salina Downtown, Inc. Our 501-c-6 organization administers the programs of the Lee District, a 27 year downtown Business Improvement District. We represent 300 businesses that employ over 3,000.

The State Tax Credit "haircut" implemented last year has had a drastic effect on several programs/projects in Salina. We believe that effect was not intended and can and should be reversed.

Historic Tax Credits are a vital development tool in adaptive re-use of Lee District building stock. The Lee Warehouse is a 200,000 sq ft complex listed on the National Historic Register in 2007 in anticipation of adaptive reuse for first floor commercial space and upper level housing (approximately 100 units). Historic Tax Credits are a critical piece of the financial package to insure the completion of this project. An additional 100 living units within our downtown district will significantly impact the Lee District retail and service markets.

We understand that House Bill 2496 would lift the cap after FY 2010 and protect the transferability of historic tax credits. We urge your support.

The universal 10% tax credit "haircut" imposed last year also negatively impacted the sale of all tax credits across the State. Salina is part of North Central Regional Planning Commission service area. Our community has worked with NCRPC on multiple projects including housing, market studies, and entrepreneurial development programs. Salina was designated an E-Community through NetWork Kansas in 2009. E-Community status meant that Salina had the opportunity to sell Kansas Entrepreneurial Income Tax Credits to establish a revolving loan fund for small businesses. Reducing the value of the tax credit by 10% made the tax credits sold by NCRPC and the Salina E-Community much less attractive to potential purchasers.

We urge the passage of House Bill 2496.

Thank you,

A handwritten signature in cursive script that reads "Phyllis Klima".

Phyllis Klima
Executive Director

House Taxation
Date: 3-3-10
Attachment: 7

**PEABODY ECONOMIC DEVELOPMENT COUNCIL
300 N. Walnut, Peabody, Ks 66866 P: 620-983-2174**

Testimony, HB 2496
House Taxation Committee
Wednesday, March 3, 2010
Shane Marler

Mr. Chairman and Members of the Committee:

Because the historic tax credit program is essential to the future of Peabody, the Peabody Economic Development Council supports House Bill 2496. As we all know, we are experiencing an economic crisis the likes of which we haven't seen since the "bread lines" of the 1930s. When the State's economy suffers so do its local communities; but particularly small towns like Peabody.

As families move to larger cities in pursuit of expanded employment and lifestyle opportunities, small communities struggle to maintain their quality of life, and a viable economic base. Every small community is "a nice place to call home"; has "a slower pace of life"; and is "a place where everyone waves". But competition among small towns for employers and businesses is fierce. Economic Development tools in a community of 1300 souls are hard to come by in the best of times. Reducing the ability to offer incentives to those interested in developing our rural communities will have negative consequences on many small towns. In the case of Peabody, the impact of changes to the Historic Tax Credit Program would be severe.

The only thing that makes Peabody unique among the scores of struggling communities is our historic district. Peabody proudly boasts 42 buildings on the National Register of Historic Places. Our down-town district is our man-made natural resource. Without a large investment in our Historic District, I fear Peabody stands on the precipice of no return. With the downturn in the economy, private investment in small communities has all but stopped. The likelihood of an influx of private dollars to our central business district without incentives is on par with winning the Powerball.

The Historic Tax Credit Program is fundamental to the sustainable development of this community! We cannot, and will not attract a development company to invest in our downtown without the incentive of the Historic Tax Credit Program. Financially it simply doesn't make sense for a company to invest in our district without leveraging Historic Tax Credits.

We recently lost a furniture business that has been in our community for 112 years to a larger neighboring community. Eleven of the buildings in our Historic District, or roughly 25%, are owned by the furniture store owner who just vacated the community. He is now considering donating these same buildings to the local Main Street program to offset his personal tax liabilities. The possibility of this taking place solidifies the importance of the Historic Tax Credits. Without them, there is no leverage for a community initiated development. This brings us back to scenario number one and the attempt to attract a private development company. An unpredictable Historic Tax Program decreases the chances of this happening as well.

Thank you for your time and consideration on such an important issue. While I understand the budget issues the entire State of Kansas are facing, I hope that you understand the importance of the Historic Tax Credit Program and its effects on the future development of small towns like Peabody, Kansas. Peabody cannot compete with larger tax base economic incentives for business. Not without help.

House Taxation
Date: 3-3-10
Attachment: 8

Testimony in Support of HB 2496
Brenda Spencer, Wamego
Senate Taxation Committee
March 3, 2010

Chairman Carlson and Members of the Committee –I would like to thank you for the opportunity to visit with the committee today. My name is Brenda Spencer. I live in rural Pottawatomie County and have owned and operated my own preservation consulting business in Kansas for the past 16 years. I appear before you today in support of HB 2496 because I know first-hand that historic preservation is economic development in cities and towns across our state, and because I have experienced first-hand the impact of the cap placed on the Kansas Rehabilitation July 1 last year. Projects have been placed on hold and tax credit allocations are down, far more than the intended 10% cut, due in large part to the uncertainty the program changes have created among building owners and investors.

The Kansas Rehabilitation Tax Credit, passed in 2001, provided an unprecedented incentive to draw investors to historic preservation in Kansas. This has saved numerous buildings across the state and has resulted in millions of dollars of investment and thousands of jobs that benefit Kansas by generating state income taxes and sales taxes from both the construction project and then by the businesses occupying these buildings, and by increasing local property taxes. The cap that went into effect last July has inadvertently slowed or halted work on many projects that were on the boards.

I am currently part of the team working on the Patient Account Center in the old Mess Hall Building on the VA Campus at Leavenworth. This \$13.3 million project will result in nearly \$700,000 of state tax revenues during construction and upon completion, will create 400 jobs resulting in an annual payroll of \$26 million. With the tax revenues generated during construction and the permanent jobs created, a conservative estimate shows that the state of Kansas will recoup its investment (in the historic tax credit) in less than 2 years, not counting the economic multiplier of the private investment. This project will not happen without the Kansas Rehabilitation tax credits.

Since 2002, I have had the opportunity to be a part of 43 historic tax credit projects in Kansas totaling \$36.3 million dollars. 75% were small projects completed for individual business or property owners or community foundations and organizations. This included 33 projects representing private investment of \$8.9 million - an average project size of \$270,000.

The rehab tax credit is a vital component of most preservation projects and its function is not to increase the profit margin. Whether large or small, the tax credits literally provide that extra infusion of cash that makes the project a go. Developers sell these credits for equity in the project but small projects also rely on the credits to make their projects feasible. A recent small project in downtown Manhattan sold their state credits to pay off a portion of their construction loan. The benefit of these credits is the ability to leverage the credits for equity in the project. They facilitate projects that would not have been possible without the tax credit as a financial incentive.

We have received a lot of support from legislators in both chambers, for resolving the inadvertent error that resulted in a reduction of tax credits allocated, of nearly 70% compared to the previous year. SB430 attempted to do just that but has raised new questions and problems by changing the rules on current or recently completed projects, further upsetting investors. I appreciate your committee's work to address this issue and urge you to pass HB 2496 lifting the cap on the Kansas Rehabilitation Tax Credit. This is the simplest way to allow the industry to continue to attract investment in order to ensure that Historic Preservation continues to be an effective economic development tool in communities across the state. Thank you.

House Taxation

Date: 3-3-10
Attachment: 9



March 1, 2010

House Taxation Committee
VIA E-mail

Chair and Committee members,

I am presenting this testimony in support of HB 2496. It is imperative for the continued economic development generated by this program that it be structured as it was prior to last year's session.

You have already seen how a 10% cut has translated into a 70% cut and until things are changed back, it will continue to suffer. Without the state historic tax credit of 25% of qualified rehab expenditures, we would not have been able to do the \$60MM in development and create the 700 jobs we created. It is a critical economic development tool that brings along with it the social good of preserving our history and, in my development's case, creating affordable living opportunities.

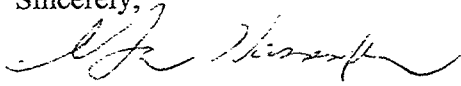
With the uncertainty that the legislature is showing the business sector about the future of this credit, the private sector is backing out on its commitments and with the debt financing the way it is, financing to bridge the staggered equity resulting from the caps placed last year, it is destroying the viability of the program.

Our preservation projects have been in Kansas City, Hutchinson, Wichita, and Pittsburg. We have undertaken as much or more than any other developer in the State when it comes to this type of development and you can see we do it in big and small communities. Often, the developments are leveraged by other programs and City grants and loans, so the State certainly has partners in the investment.

We currently have the old Besse Hotel under construction as a \$9MM redevelopment at this time. The Besse is a 13-story, historically significant structure in southeast Kansas that has been vacant and deteriorating for 25 years. Its redevelopment into affordable rental housing gives downtown Pittsburg a shot in the arm by bringing bodies and spending dollars to the area and Kansas laborers and materialmen an opportunity for work that is so limited at this time. On this project, the City and two local banks joined other federal resources in making this project come true. Through tax incentives, free use of an adjacent parking lot and low-cost financing, the project has come together.

Thank you for hearing us out and we hope you take our position to heart. We know there are difficult issues to address this legislative session, but it seems other ways exist to balance the budget than take away a great revenue-generator as this program.

Sincerely,

A handwritten signature in cursive script, appearing to read "Garrison Hassenflu".

Garrison Hassenflu

President

Garrison Development Company

Testimony
Christy Davis, Davis Preservation
HB 2496
House Taxation Committee
March 3, 2010

Mr. Chairman and Members of the Committee – I am Christy Davis and I am speaking in support of House Bill 2496 because this bill presents the simplest way to address the unintended consequences of last year's legislation. I am the owner of Davis Preservation, a firm that provides assistance to owners of historic buildings - from small business owners who are improving our downtown storefronts to developers making major investments in landmark buildings.

Over the past nine years, I have seen abandoned schools transformed into affordable housing, derelict warehouses converted into offices, and entire downtowns transformed into thriving business districts. These projects have only been possible through the state rehabilitation tax credit program.

When I first began working in the field in 1999, the state's historic preservation toolbox included all sticks and no carrots. I watched as Kansas developers crossed the border to embark upon projects in Missouri, known for having the best rehab tax credit program in the nation. Our state's policy not only put Kansas businesses at a disadvantage, but also discouraged investment from the out-of-state interests who could afford to rehab the state's largest derelict buildings. I attended a national conference where a well-respected out-of-state developer announced to the entire audience that Kansas's system was broken.

This all changed in 2001 with the enactment of the state rehab tax credit program. Since 2002, the program has leveraged \$264 million in private dollars, or a 400% return on investment. Because historic preservation is 50% more labor intensive than new construction, rehabilitation creates more jobs – jobs that cannot be out-sourced, repairing buildings that cannot be replaced. Stringent program requirements ensure that funding only goes to high-quality, successful, and completed projects.

Changes to the program in the 2009 legislature had dire consequences – not only for future projects, but also for projects underway. The intended 10% cut amounted to as much as 70% – threatened financing for existing projects and compromised the confidence of investors. These numbers are reflected in the legislative post-audit, which shows that the allocation of rehab tax credits has plummeted up to 70% between 2008 and 2009 as projects screeched to a halt. Developers and downtown business owners who had purchased buildings and begun work with the promise of funding – developers whose financing was tied to leveraging the credits - were left holding the bag.

In closing, I would like to reiterate that the legislature intended to cut the rehab tax credit program by 10% per year for two years. In one year alone, there has been a 70% cut. It will take years for this economic development sector to recover, to lure back investors and developers who left in the wake of last year's action. House Bill 2496 offers the opportunity to right this wrong and restore confidence in the state's economic development policy.

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Cohen-Esrey Tax Credit Advisors, LLC

TESTIMONY

House Taxation Committee
March 3, 2010

Historic Tax Credits

Lenny Jurden
Managing Director
Cohen-Esrey Tax Credit Advisors, LLC

Thank you Chairman Carlson and committee members for this opportunity to visit with you today regarding House Bill 2496 and Kansas Historic Tax Credits.

I am here in support of House Bill 2496.

Cohen-Esrey Tax Credit Advisors is a syndicator of tax credits. We match buyers and sellers of the credits. We have been helping developers sell their tax credits since 2000, and have placed over \$110,000,000 in credits. Additionally, our related development companies use state credits in our development of affordable housing around the Midwest, including Kansas.

Importance of State Credits

The historic rehabilitation tax credits authorized by House Bill 2496 are an important incentive for the rehabilitation and preservation of historic structures and compliment the federal historic rehabilitation tax credits.

According to the Annual Report for Fiscal Year 2007: Federal Tax Incentives for Rehabilitating Historic Buildings National Park Service:

- 1,045 historic rehabilitation projects were approved by the National Park Service in 2007
- Of these 2007 historic rehabilitation projects, roughly 45% were for multi-family housing; 21% for office; 27% for commercial
- These projects resulted in more than \$4.34 billion of private investment leveraged by up to \$869 million in federal tax credits

In 2007, the top states ranked by National Park Service Part 3 approvals: Missouri (189), Ohio (115), Virginia (89), and North Carolina (51). These are states that have the some of the most generous and easily transferable state historic rehabilitation tax credits. It is my understanding that since the inception of our State's historic credit program in 2002: \$66.4 million of state credits have leveraged over \$263.9 million in private investment and created over 4,000 jobs.

Although there is some discussion about the exact amounts of economic benefits that come from a historic rehabilitation, I believe most agree that the benefits far exceed the cost of the state

Testimony to House Taxation Committee
March 3, 2010
Historic Tax Credits
Lenny Jurden, Managing Director
Cohen-Esrey Tax Credit Advisors, LLC

credits and include the construction and related jobs created by the rehabilitation and ongoing operations of the projects and the economic revitalization of a historic structure.

These credits also very important to our smaller communities. The credits allow projects to be done in areas outside of Kansas City and Wichita. We are currently working on four affordable seniors housing projects in small Kansas communities that would not be feasible if not for the state credits.

We cannot ignore the intangible benefits that come from the rehabilitation of our historic structures. They are important, tangible parts of our history and through their rehabilitation we preserve history for future generations.

House Bill 2496

House Bill 2496 reinstates the legal frame work for the historic credits that has worked well over the last several years and removes the cap to eliminate the uncertainty created by last year's legislation. This uncertainty in the ability to redeem the credits hampers developer's ability to finance their projects.

Nonetheless, I believe that there are two important changes that could be made to the proposed statute to enhance the value of the credits in order to provide the maximum incentive.

In order for our State to get the maximum value out its historic tax credit incentives, the credits must be easily understood by the potential users and easily transferred to those taxpayers who can use them. That will create the highest demand thereby maximizing the value of the credits to the historic rehabilitation project.

The first recommended amendment limits the risk of recapture of the credit in the hands of a buyer of the credit. For this purpose, recapture refers to the claw back of some or all of the tax credit under certain circumstances. This proposed amendment expressly limits that risk to a purchaser of the credit while leaving open the State's right to look to the project owner in the event of a problem, and eliminates the potential uncertainty surrounding recapture, which could diminish the value of the credits. The second recommended amendment defines a clear point in time when a transfer of a credit is effective and defines it in such a way that the date of transfer can be independently confirmed with the State's Historical Society. The exact language of these proposed amendments are set out in Exhibit A.

Again, thank you for this opportunity. I would be happy to answer any questions.

#

Recommended Amendments

The following are recommended amendments to House Bill 2496.

Recommended Amendment 1

Page 3, Line 14 – add after “of this section.” “The transfer shall be effective as of the date the notice is received by the cultural resources division of the state historical society, provided such notice contains the information previously identified as required by or the form is otherwise provided by the cultural resources division.”

Explanation –

1. There needs to be a clear date as to when the transfer is effective. By using the filing date, an assignee can know for certain that it has ownership of the credits.
2. This provision provides incentive to the parties to notify the Division of the transfer as quickly as possible.

Related Note – There is no express requirement to notify the Department of Revenue.

Recommended Amendment 2

Add the following paragraph at the end of the statute: “(d) Notwithstanding any other provisions in this section, if a credit allowed pursuant to this section which has been transferred is subsequently reduced as the result of an adjustment by the Internal Revenue Service, Department of Revenue, or any other applicable government agency, only the assignor originally allowed the credit and not any subsequent assignee of the credit, shall be held liable to repay any amount of disallowed credit.”

Explanation – To expressly address recapture.

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WRITTEN TESTIMONY
TO THE HOUSE TAXATION COMMITTEE
BY MICHAEL L. MARSH, C.P.A.
PRESENTED ON MARCH 3, 2010

Support for H.B. 2496, which proposes to amend K.S.A. 2009 Supp. 79-32,211

Thank you, Representative Carlson and committee members, for allowing me the opportunity to present written testimony regarding H.B. 2496. I am submitting this written testimony to urge the House Taxation Committee to recommend H.B. 2496 for approval.

As K.S.A. 2009 Supp. 79-32,211 is currently written, it allows a credit in the amount equal to 25% or 30% of the qualified expenditures incurred in the rehabilitation and preservation of qualified historic structure by a qualified taxpayer or organization exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code and which is not income producing. It also allows for the transferability of the credit by a qualified taxpayer or organization exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code. However it limits the amount of credits allowed for fiscal years 2010 and 2011, not to exceed \$3,750,000.

Also a conundrum lies in the fact by virtue of their tax exempt status, not-for-profit organizations, cannot utilize the credits provided by the program. Consequently the credit must remain transferable in order not-for-profit organizations to receive an economic benefits and financing for rehabilitation of their qualified historic structure.

The historic tax credit gives investors a reduction in their state tax liability in exchange for financing the development of qualified historic structures. Whereas the development of qualified

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historic structures usually take a year or more to complete and during the construction period income and sales taxes are paid on the labor and materials used for the rehabilitation of the historic structure.

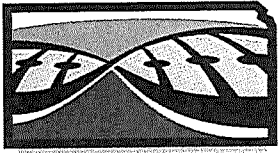
The construction industry is currently experiencing two times the unemployment average of the rest of the country, meaning the unemployment percentage for the construction industry is 20% or higher in most parts of the state. Therefore, H.B. 2496 is important because it facilitates the development of qualified historic structures in Kansas by recognizing the realities of the marketplace.

H.B. 2496 would help lower the high rate of unemployment that currently exist within the construction industry, resulting in immediate savings to the state's unemployment trust fund by reducing the number of people claiming unemployment benefits and from employer who would be paying in more to the trust fund for workers who would otherwise be unemployed.

Therefore, H.B. 2496 is important because it would generate revenue to the state during the rehabilitation of qualified historic structures, greater than the amount of the tax credits allowed for the cost incurred. However, the benefits to the state are much greater than just the income and sales taxes collected from the construction activity, it also increases the value of the property and the ad valorem taxation for an extended period of time.

K.S.A. 2009 Supp. 79-32,211 as currently written has restricted the owners of historic structures from receiving the maximum economic benefit possible from the credit. Therefore, in order to assist owners and not-for-profit organizations in the development of their historic structures, I urge you to pass H.B. 2496.

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KANSASBIO

KANSAS BIOSCIENCE ORGANIZATION

Kansas Bioscience Organization

Testimony for Kansas House Tax Committee, Wednesday, March 3, 2010

- HB 2365 in 2009 had the unintended effect of reducing tax credits already issued by the state. HB 2496 fixes historic preservation tax credit unintended consequences in HB 2635. We are asking that 2395 be amended to fix the unintended consequences of the Angel Tax Credit program. The proposed amendment is attached.
- Investor's confidence in the Angel Tax Credit program has been shaken by the state revoking tax credits previously earned and issued.
- The adjustment to the statute will not reduce the amount of taxes collected by the state in 2009 and 2010.
- The adjustment will restore investor's ability to carry forward any unused credits to future tax years.

Attracting investment capital is one of the biggest challenges for our bioscience community. This was documented in the Kansas Bioscience and Innovation Roadmap conducted in 2003, one of the building blocks for establishing Kansas' bold bioscience initiative. This tool has proven to work, assisting companies with raising \$168M in investment capital since 2005, directly as a result of this tool.

Removing roadblocks to investment capital is an essential ongoing role of the state in support of our bioscience industry growth. Angel Investor Tax Credits are a unique instrument for attracting investment capital to start up technology companies. Kansas has a competitive advantage because of this important tool. Missouri does not have Angel Credits, nor does Nebraska.

Having Angel Credits available to investors increases the likelihood that investors will invest in Kansas companies. They make Kansas a more fertile ground for start-ups. One such company, Novita Therapeutics, chose to incorporate in Kansas last year specifically because of these Angel Tax Credits. They are an example of what we are building with the Angel Credits.

Other companies have successfully used the Angel Credits to grow jobs. More than 500 jobs were created or saved directly as a result of this important financial tool. These Angel Credits have generated a \$175M impact to revenue in the last 4 years. More than 70 companies have used these Angel Credits to raise \$9 dollars for every State dollar used. The money raised with the Angel Credits translates directly into creation of high-paying jobs within these burgeoning companies, thereby creating additional tax revenues for the state.

A reduction in the personal property of angel investors is the major unintended consequence of the 10% haircut from last session. A reduction in the value of Angel Credits undercuts confidence among the investor community. We cannot lose the momentum we have worked so hard to gain. **To restore confidence among the investor community, we support amending HB2496, an amendment which is a technical repair to restore the carry-forward on the Angel Credits. We recommend that KTEC work with Department of Revenue to mitigate the fiscal note on this bill.**

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HB 2496 Balloon Amendment re angel investor credit carryforwards

New Section __. K.S.A. 2009 Supp. 79-32,264 is hereby amended as follows:

(a) For tax years 2009 and 2010, for any tax credit provided under the following: K.S.A. 65-7107, 79-1117, 79-32,176, 79-32,177, 79-32,190 and 79-32,200 and K.S.A. 2009 Supp. 40-2246, 74-50,154, 74-50,173, 74-50,208, 74-8133, 74-8205, 74-99c09, 79-32,153, 79-32,160a, 79-32,181a, 79-32,182b, 79-32,196, 79-32,197, 79-32,201, 79-32,202, 79-32,204, 79-32,207, 79-32,211a, 79-32,212, 79-32,213, 79-32,215, 79-32,218, 79-32,222, 79-32,224, 79-32,229, 79-32,234, 79-32,239, 79-32,242, 79-32,244, 79-32,246, 79-32,252, 79-32,261 and 79-32,262, and amendments thereto, the total of any such credit or credits allowed against the tax imposed by the Kansas income tax act, the premium tax or privilege fees imposed pursuant to K.S.A. 40-252, and amendments thereto, or the privilege tax as measured by net income of financial institutions imposed pursuant to chapter 79, article 11 of the Kansas Statutes Annotated, shall not exceed the lesser of 90% of the total amount of such credit or credits earned in a current tax year or claimed in a current tax year as a carry forward from a prior tax year, or 90% of the tax as computed prior to the allowance of any such credit or credits. Except as otherwise provided by subsections (c) and (d), the amount of such credit or credits that may be carried forward in any succeeding taxable year shall be reduced by an amount equal to the lesser of 10% of the total amount of such credit or credits earned in a current tax year or claimed in a current tax year as a carry forward from a prior tax year, or 10% of the tax as computed prior to the allowance of any such credits.

(b) For tax years 2009 and 2010, for any tax credit provided under K.S.A. 2009 Supp. 79-32,206 and 79-32,210, and amendments thereto, the total amount of any credits refunded or allowed against the tax imposed by the Kansas income tax act, the premium tax or privilege fees imposed pursuant to K.S.A. 40-252, and amendments thereto, or the privilege tax as measured by net income of financial institutions imposed pursuant to chapter 79, article 11 of the Kansas Statutes Annotated, shall not exceed 90% of the total amount of tax credit or credits earned, and the remaining portion of such tax credit or credits shall be lost.

(c) For any tax credit or credits earned pursuant to K.S.A. 79-32,160a, and amendments thereto, other than tax credits earned pursuant to subsection (e) of K.S.A. 79-32,160a, and amendments thereto, in a tax year prior to 2009 and carried forward from such prior tax year and claimed in tax years 2009 or 2010, any reduction in the amount of credit or credits that may be carried forward to any succeeding tax year determined pursuant to subsection (a), may be carried forward to any tax year after 2010, pursuant to the applicable carry-forward period provided in K.S.A. 79-32,160a, and amendments thereto.

(d) For any tax credit earned pursuant to subsection (e) of K.S.A. 79-32,160a, and amendments thereto, by a taxpayer qualified and certified under the provisions of K.S.A. 74-50,131, and amendments thereto, who has received prior to June 1, 2009, written approval from the secretary of commerce of a certificate of intent to invest in a qualified business facility, any reduction in the amount of credit or credits that may be carried forward to any succeeding tax year determined pursuant to subsection (a), may be carried forward to any tax year after 2010, pursuant to the applicable carry-forward period provided in K.S.A. 79-32,160a, and amendments thereto.

- (e) For any tax credit or credits earned pursuant to K.S.A. 74-8133, and amendments thereto, any reduction in the amount of credit or credits that may be carried forward to any succeeding tax year determined pursuant to subsection (a) from tax years 2009 or 2010, may be carried forward to any tax year after 2010, pursuant to the applicable carry-forward period provided in K.S.A. 74-8133, and amendments thereto.

Written Testimony in Opposition to House Bill 2496

Submitted by Kevin Carr, Interim CEO of KTEC

**House Taxation Committee
Wednesday, March 3, 2010**

Chairman Carlson and Committee Members:

I am Kevin Carr, Interim CEO of KTEC, and am writing today on behalf of the 74 companies who have benefited from the Angel Tax Credit program since 2005.

Angel Tax Credit – Adjustment to 79-32, 264

- HB 2365 in 2009 had the unintended effect of reducing tax credits already issued by the state.
- Investor's confidence in the Angel Tax Credit program has been shaken by the state revoking tax credits previously earned and issued.
- The adjustment to the statute will not reduce the amount of taxes collected by the state in 2009 and 2010.
- The adjustment will restore investor's ability to carry forward any unused credits to future tax years.

About the Angel Tax Credits:

From 2005 through 2009

- Raised **\$168MM** in capital for small companies since 2005
- **\$9.3 of capital for every \$1 of tax credit issued**
- **578 jobs** added or saved (1,445 jobs with a 2.5 multiplier effect)
- **\$175MM** in revenue over the last 4 years

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Craig Gabel
150 E. 44th South
Wichita, Kansas 67216
316-860-3300
craig_gabel@yahoo.com
March 3, 2010

To: Members of the Kansas House Committee on Taxation
Subject: My OPPOSITION to House Bill# 2496, restoration of Historic Tax Credits

Good Morning, Mr. Chairman, and members of the House Committee on Taxation. My name is Craig Gabel. I live in Wichita and own Mike's Steak House. I am here as a citizen and business owner in opposition to the restoration of Historic Tax Credits.

I believe that the Historic Tax Credits as offered in House Bill# 2496 are not being used in the manner in which the citizens of Kansas would approve of. Let me cite 2 instances to this point.

In my hometown of Ness City, a small town in western Ks., they applied for Historic tax credits to help fund their "Ness County Historical Bank Building". This is a community of 1500 people trying to preserve a 100-year old 4-story centerpiece of this town. They were unable to qualify for Historic Tax Credits.

My second case in point is the Broadview Hotel in downtown Wichita. Yes it is historical, but not just for it's age. This property has been subsidized for remodeling and purchase at least 4 times in the past 25 years, been in bankruptcy a couple of times. Just had \$2 million worth of STAR BOND funds lavished upon it by the City Council, was awarded a free parking garage, with an estimated replacement value of \$9 million. Has been granted \$25 million in Industrial Revenue Bond financing, and now is eligible for \$4.75 million in Historic Tax Credits. The Broadview is owned by Drury Inns Southwest, which has dozens of other properties in 4 states, and millions of dollars in assets to draw from. Does Drury really need and deserve Historic Tax Credits? And, will government really ever give them enough money out of the public treasury to satisfy their wants? When the Broadview project is done it will not pay property taxes, sales taxes, or State income taxes for 20 years. Why should they receive tax \$ over School funding, during these times of economic budgetary short falls?

Why should money for Historic Tax Credits be diverted from the State Treasury for Wichita and not Ness City? And, as a Wichita restaurant owner, why would anyone on this committee give money to a downtown Wichita Hotel with a restaurant that competes with my tax-paying business?

I believe there are more pressing needs in the FY 2011 state budget that deserve attention rather than Historic Tax Credits. I urge you to oppose this Bill that provides for the restoration of Historic Tax Credits.

Sincerely,

Craig Gabel

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Kansas Historic Preservation Tax Credits Should Not be Expanded

Bob Weeks

2451 Regency Lakes Ct. Wichita, KS 67226

bob.weeks@gmail.com, 316-708-1837, website at WichitaLiberty.org

The Kansas historic preservation tax credit system should not be expanded beyond its current limit.

We must recognize that a tax credit is an appropriation of Kansans' money made through the tax system. If the legislature is not comfortable with writing a developer a check for over \$1,000,000 -- as in the case with one Wichita developer -- it should not make a roundabout contribution through the tax system that has the same economic impact on the state's finances.

While I would not recommend writing checks to developers, this practice would be more efficient than the current system of subsidy through the tax system. Last month the Legislative Division of Post Audit (audit 10PA03.1) found that the system is not efficient: "Our review showed that, on average, when Historic Preservation Credits were transferred to generate money for a project, they only generated 85 cents for the project for every dollar of potential tax revenue the State gave up."

Furthermore, the Department of Revenue has not been tracking the tax credits accurately, significantly under-reporting the cost of the program to the legislature. The audit found that "Finding problems like these in a relatively small sample raises questions about the integrity of the Department's tax credit information."

The confusing nature of tax credits leads citizens to believe that they have no cost to the state. A leader of an economic development group in Wichita recently asked questions of me that lead me to conclude that he did not understand the economic effect of tax credits.

The program often ends up being welfare for the wealthy. In Wichita the tax credits have been used to renovate a building with condos selling for \$300,000 to \$950,000. A current case would have a developer in Wichita receive over \$1,000,000 for rehabbing apartments that will rent for \$1,000 to \$2,000. Perhaps \$3 million to \$4 million will go to the developer of a hotel in downtown Wichita.

We should recognize that living or working in a historic building is a premium amenity that one chooses, just like one might choose granite countertops in their kitchen. We shouldn't expect others to pay for these voluntary choices.

In Wichita, many of the projects where historic preservation tax credits are sought are already receiving other forms of subsidy, such as TIF financing and property tax abatements.

Some have said that the tax credits put people to work on projects. I would suggest that when Kansans keep their own money -- instead of subsidizing wealthy developers -- they spend or invest it in ways that they feel best advances their position in life. This too is economic activity that creates jobs.

I have more material about this issue at my website "Voice For Liberty in Wichita" at WichitaLiberty.org. Along the top, click on "Search" and search for *historic tax credits* for more information. Or, please contact me by email or telephone and I will send you articles on **House Taxation**

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1559 Payne
Wichita, Kansas 67203
(316) 312-7335 Cell
e-mail: john@johnntodd.net

March 3, 2010

To: Members of the KANSAS HOUSE COMMITTEE ON TAXATION

Subject: My Opposition to House Bill No. 2496, the restoration of
Historic Tax Credits.

Good Morning, Mr. Chairman, and members of the House Committee on Taxation. My name is John Todd. I live in Wichita, and I am here to speak as a private citizen in opposition to the passage of House Bill No. 2496, the restoration of Historic Tax Credits.

- I believe there are more pressing needs in the FY 2011 state budget that deserves funding over Historic Tax Credits.
- My observation has been that Historic Tax Credits are a convenient funding tool that locally elected public officials use to reward their politically connected developer friends out of the state treasury.
- I believe your taxpaying constituents around Kansas would expect you to say no to economic development schemes that really amount to little more than the transfer of taxpayer-subsidized stimulus money out of the public treasury, and into the pockets of wealthy private developers.

I urge you to oppose the restoration of Historic Tax Credits.

Sincerely,


John R. Todd

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March 3, 2010

To: House Committee on Assessment and Taxation

From: Kathleen Taylor Olsen, Kansas Bankers Association

Re: HB 2496: Historic Tax Credits

Mr. Chairman and Members of the Committee:

Thank you for the opportunity today to present written testimony in favor of **HB 2496** which addresses what we believe were the unintended consequences of a last-minute amendment to the 2009 legislature's budget bill.

As you are aware, last year, most of the state's income tax credits received a ten percent "haircut" in an effort to balance the state's budget. Historic tax credits were singled out by a last-minute amendment on the floor of the Senate, and given what appeared to be an artificial cap on the total amount that could be claimed. This amendment has created uncertainty for these tax credits – especially as to rehabilitation projects that were in the beginning phases of construction.

The Kansas Bankers Association has as its members, banks of all sizes and from all corners of the state. We have heard from many of our bank members all across the state about historic rehabilitation projects that were in various stages, and now for which completion was in jeopardy.

Several of our members are directly involved in the financing of some of these historic projects. Those bankers tell me that – especially in our smaller communities – these projects would not happen without the ability to factor in the historic tax credit. Especially important for projects that are not income producing themselves, is the ability for the tax credits to be sold. Regardless of whether the tax credit is kept and used by the owner of the property, or whether the tax credit is sold to another party with income, there is a real value in the tax credit that enables many of these projects to move forward.

The rehabilitation of historic buildings not only keeps a community's streets from deteriorating, but these projects also provide valuable revenue to the community within which they occur, as well as providing valuable jobs that contribute to state tax revenue. Evidence of these things is found in the economic impact study completed by Rutgers University, and which has been referenced in previous testimony.

Kansas bankers care deeply about the economic viability of the communities which they serve. Many of our members have witnessed the value that these historic tax credits bring to a community, and we urge the committee to act favorably on **HB 2496**.



Testimony

Larry Weber, Chairman

Wichita Downtown Development Corporation

House Bill 2496

March 3, 2010

My name is Larry Weber and I serve as the Chairman of the Wichita Downtown Development Corporation (WDDC). I appreciate this opportunity to reiterate the WDDC's support of the State Historic Tax Credit Program and House Bill 2496.

This is an important program, not only for the continued redevelopment of Downtown Wichita, but downtowns across the State of Kansas. Downtowns serve as economic centers for regions. Therefore, when we limit this program we are making a decision that has far-reaching impacts.

This program allows us to be competitive with other states. In business development -- whether in the retention or recruitment of employees -- strong, vibrant cities play a significant role. If a city is vibrant and growing, it assists local companies with the employment base they need.

This program has leveraged more than \$264 million in private sector development since 2002. This investment is helping our communities create jobs and foster an environment for business development.

With the passage of House Bill 2496, projects that have been placed on hold have the opportunity to move forward in turn benefiting the economy of our cities and the overall state. It also helps restore the national development community's confidence in the state of Kansas.

Thank you for your consideration in supporting House Bill 2496.

House Taxation

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March 3, 2010

Ashley Jones-Wisner
Local Initiatives Support Corporation
913-375-7264
www.lisc.org/KansasCity

RE: House Bill 2496

Mr. Chairman and Members of the Taxation Committee,

I want to thank you for the opportunity to present written testimony. My name is Ashley Jones-Wisner and I am Director of State Policy at Greater Kansas City LISC. Greater Kansas City LISC is a program area of the Local Initiatives Support Corporation, the nation's largest community development organization, dedicated to revitalizing urban core and rural neighborhoods. Currently, Greater Kansas City LISC's signature program, NeighborhoodsNOW, serves three Kansas City, Kansas Neighborhoods: Douglass-Summer, Downtown KCK and St. Peter/Waterway.

Greater Kansas City LISC started the Kansas Housing Policy Network about three years ago. Although it began with only a hand-full of individuals from across the state, it has grown to include over 400 members interested in the creation of community development tools. The Kansas Housing Policy Network includes representations from the Homebuilders, Realtors, Homeless Providers and Advocates, Community Development Corporations, and many other interested entities.

One of the greatest challenges we face as we work with residents to revitalize their neighborhoods is the number of vacant, abandoned or dilapidated houses and buildings in the community. No matter how much funding we put into these neighborhoods, individuals are less likely to move into neighborhoods if they have to live next to one of these poorly kept structures. Property values in the neighborhoods also suffer, which affects both existing and potential residents and businesses. Since its establishment in 2001, the Kansas Historic Preservation Tax Credit program has incentivized the renovation of historic properties across the state. The program has given new life to numerous old downtowns and neighborhoods, as well as spurred economic development in both urban and rural communities. The program has also created jobs across the state since rehabilitation projects are 50% more labor intensive than new construction.

In almost all cases, community development corporations are the developers of last resort. Most of the areas serviced by nonprofits have had severe disinvestment over a prolonged period of time. Working in such disinvestment is hard, time-intensive work. Tools, such as this bill provides by making a simple change, will allow the work we do in these neighborhoods to both move at a pace that will allow our programmatic and monetary resources to be used efficiently and effectively.

We encourage you to support House Bill 2496, for the purpose of ensuring safe, decent and affordable housing in Kansas communities.

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Date: 3-3-10
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Building a Better Kansas Since 1934
200 SW 33rd St. Topeka, KS 66611 785-266-4015

**TESTIMONY OF
ASSOCIATED GENERAL CONTRACTORS OF KANSAS
BEFORE HOUSE COMMITTEE ON TAXATION
HB 2496**

March 3, 2010

By Eric Stafford, Associated General Contractors of Kansas, Inc.

Mister Chairman and members of the committee, my name is Eric Stafford. I am the Director of Government Affairs for the Associated General Contractors of Kansas, Inc. The AGC of Kansas is a trade association representing the commercial building construction industry, including general contractors, subcontractors and suppliers throughout Kansas (with the exception of Johnson and Wyandotte counties).

The AGC of Kansas supports House Bill 2496 and asks that you recommend it favorably for passage.

During last year's omnibus bill debate, an amendment was added which cut the state's historic preservation tax credit more severely than what was intended. Instead of the 10% cut as planned, a cap of \$3.75 million was placed on the total allocations available for all projects. HB 2496 would limit that cap to the current fiscal year and reinstate the full tax credit for 2011.

AGC has learned that at least one member has been severely affected by the cap on the historic tax credit implemented at the end of the 2009 legislature. That member completed a project and due to the reduction, the developer who leveraged financing based upon the anticipated credit is now out of money, leaving the contractor waiting indefinitely to receive their retention (traditionally 10% of the project value).

The commercial construction industry has been devastated by the recent economic downturn with nationwide unemployment just under 23%. In order for private sector development to begin, efforts need to be made to restore confidence in the marketplace. HB 2496 takes a positive step in that direction for developers and lenders who face strict regulations and guidelines for financing historic preservation construction projects.

Again, the AGC of Kansas respectfully requests that you recommend HB 2496 favorably for passage.

Thank you for your consideration.

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POTTAWATOMIE COUNTY ECONOMIC
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**Testimony Regarding
Senate Bill 430
House Committee on Taxation – Richard Carlson, Chair
February 26, 2010**

Mr. Chairman and members of the committee, my name is Robert L. Cole and I am the economic development director for Pottawatomie County, Kansas.

We would like to request that you use Senate Bill 430 as the vehicle to correct certain difficulties in establishing and calculating values for certain Kansas State Income Tax Credits.

Senate Bill 430 as written already returns the Regional Foundation income tax credits back to 75% in value, while changing the annual allocation from \$2.0 million to \$1.8 million in the upcoming fiscal year in order to help the state achieve a balanced budget.

Senate Bill 430 needs an additional amendment to treat the Entrepreneurship Tax Credits in exactly the same manner; re-establishing the value of the credits at 75% to the donors, but reducing the annual allocation for this upcoming year from 2.0 to 1.8 million dollars.

We have been the recipient of funds from both these programs over the past year, using regional tax credit funding to conduct a complex feasibility study which otherwise would not have been possible, and Entrepreneurship “E-Community” tax credit funding to place credits that allowed us to establish our first revolving loan fund. Both of these programs are extremely valuable to further the purposes of economic development.

It is much easier to sell either set of credits to donor individuals and businesses with the tax credit value to the donor set at 75%. The reduction in amounts allocated in each case; from 2.0 to 1.8 million dollars annually, would also more cleanly address your budgeting requirements.

Thank you for your kind consideration of this request. We appreciate your work as you find solutions to the difficult issues with which you are faced this year.

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Testimony
House Taxation Committee
Hearing, House Bill 2496
Wednesday, March 3, 2010

Mr. Chairman and Members of the Taxation Committee:

It is my privilege to address you as to the importance of passing House Bill 2496. This Legislation will put the Historic Preservation Tax Credits back to their pre F.Y. 2010 level. The Historic Credits were cut by over 60% when all other Kansas State Tax Credits were only reduced by 10%. This reduction has caused the stoppage of several large Historic renovation projects throughout Kansas. As a resident of Southwest Kansas I have seen first hand the impact that this reduction has had. Dodge City has recently has had its historic Downtown District placed on the National Register of Historic places. The massive reduction in the Historic Credits has put our Downtown renovation on hold, The Windsor Hotel in Garden City needs the Credits to match Grants that it has worked hard to obtain to renovate the anchor of the Communities Downtown renovation plans. The Economic impact that the Credits have is several times the amount of any lost revenue to the State.

The simple truth is that the Historic Preservation Tax Credits work. They work in providing jobs, Sales Tax revenue, create employment, purchase materials and most of all preserve our Kansas History. I urge the House Taxation Committee to pass House Bill 2496 on to the full House for its approval.

Thank You.

Kent Stehlik
2215 Burr Parkway
Dodge City, Ks. 67801
Cell 620-255-0380

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To: House Taxation Committee,
The Honorable Richard Carlson, Chair
State Capital Building, 300 SW 10th Avenue, Topeka, KS 66612

From: Dale Nimz, Executive Director
Kansas Preservation Alliance, Inc.
12120 State Line Road, #128, Leawood, KS 66209

Date: March 1, 2010

Re: ^{House} Senate Bill 2496

On behalf of the Kansas Preservation Alliance, the state-wide not-for-profit organization advocating for historic preservation throughout the state, we urge the approval of HB 2496. After the legislative session in 2009, members of the Alliance and many other Kansans who value historic buildings and appreciate their importance in improving neighborhoods and communities were disappointed to learn that the Kansas Legislature had placed a restrictive cap on the Kansas Rehabilitation Tax Credit Program. That cap cut the program by as much as 70%, not the intended 10% and disrupted plans and projects for the rehabilitation of historic buildings throughout the state.

In a draft Economic Impact Study of the preservation tax credit program, the Center for Urban Policy Research, Rutgers University, documented the significant economic benefits of this program. From FY 2002 through FY 2009, the state tax credit assisted 552 projects located in 45 different Kansas counties in all areas of the state. The state has invested \$53 million in credits with measurable economic impacts including 4,327 jobs, \$314 million in output (value of goods), \$138 million in labor income, \$178 million in gross state product, and \$54.7 million in taxes (\$40.3 million federal, \$7.6 million state, \$6.8 million local). Of these effects, there is a 78% in-state retention rate, demonstrating the benefit to state and local economies. A \$1 million investment in historic rehabilitation in Kansas produces a much better economic effect on employment, income, gross state product, and state-local taxes than investment in new construction, manufacturing, agriculture, and services

National economic policy studies reviewed by the National Trust for Historic Preservation have documented that there must be a workable mechanism to place investment tax credits in the hands of investors who can use them. Although there is a transaction cost, transferability of the Kansas state preservation tax credit should continue to work. States with a transferable preservation tax credit have an economic advantage in attracting capital and Kansans need that more than ever.

The Kansas Rehabilitation Tax Credit Program is a good investment, especially in a recession. By re-using historic buildings, rehabilitation projects employ workers quickly, provide high-quality commercial and residential space, and improve the economic vitality of the surrounding community. For the past seven years, the Kansas State Rehabilitation Tax Credit Program has been an unappreciated success. We urge you to support HB 2496 so that a successful rehabilitation tax credit program can help our state.

Dale Nimz, Executive Director, Kansas Preservation Alliance, Inc.
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Testimony

Jeff Fluhr, President

Wichita Downtown Development Corporation

House Bill 2496

March 3, 2010

Mr. Chairman and Members of the Committee, my name is Jeff Fluhr and I serve as the President of the Wichita Downtown Development Corporation (WDDC). The WDDC would like to express its support of the State Historic Tax Credit Program and House Bill 2496. The WDDC is supported by over 1400 businesses within Downtown Wichita and since 2002 the organization has been working to strengthen the economic vitality of Downtown.

The Historic Tax Credit Program has been a viable instrument in the redevelopment of Downtown Wichita. Due to the program's previous predictability, key buildings within Downtown have returned to productive commerce versus vacant liabilities. Numerous buildings such as the Grant Telegraph Building, located in the Old Town District, now have commercial and residential occupants. In the Grant Telegraph project, residential units range from \$300,000 to \$950,000. In 2008, the Old Town District was named one of the top ten neighborhoods in the country by the American Planning Association due to redevelopment projects such as the Grant Telegraph Building. Other buildings such as the Carnegie Library in Wichita's Business District have been converted from vacant buildings to offices; preserving not only our history but returning a building to a vibrant commercial use.

This program has allowed communities across the state to preserve buildings that represent the architectural vernacular of that city. It's a program that has helped ensure unique architectural identity, thus providing national distinction.

Currently, the City of Wichita, the WDDC and the private sector are in the process of developing a new Downtown Master Plan. The national firm of Goody Clancy is developing this blueprint for Downtown. This team was selected in part due to their extensive economic expertise in residential, commercial, hotel and retail markets. On January 13th, 2010 the team presented initial market findings in these areas. Each area identified untapped market potential. In residential, the firm of W-ZHA presented that Downtown Wichita has the market for 1,000 units at all levels of price points. In Wichita, we have a supply of vacant or partially occupied historic buildings that may be utilized to meet this residential market demand. However, the probability of such projects utilizing historic structures is severely hindered without the State Historic Tax Credit Program. Therefore, the market may remain untapped and historic buildings vacant. The State Historic Tax Credit Program helps bring together the market demand and the financial capital to make such projects a reality.

With the changes in the program, other major projects such as the Broadview Hotel located in Downtown Wichita have stalled. This historic hotel was slated for renovation by Drury Southwest. This firm has renovated other such hotels in the country. The Broadview is central to Downtown's riverfront and the city's convention center. Also in the Goody Clancy initial market findings, it identified that we need additional hotel rooms to service the convention center. This renovation would provide over 100 jobs, approximately 200 convention style rooms, preserve an important historic architectural component of downtown and would stimulate surrounding private sector development.

Just as we are providing a predictable blueprint for Downtown Wichita's future development, it is imperative that the State Historic Tax Credit program once again have predictability. We appreciate your consideration in restoring this important Economic Development instrument.

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Joel Weihe
3945 N Garland Circle
Wichita KS 67204
316 833-2677

Historic tax credits sound like a good idea on the surface, but here in Wichita they are abused. The two most recent examples are the Broadview hotel and the old WATC (downtown Wichita High School). Inflated construction costs create a "gap in funding" that the City uses to justify giving this money to some of the richest developers to pay off political debts.

If such a bill were to pass it should be used to fix potentially dozens of structures of true historical value. Instead it will be used to pass out tax payer money to well connected friends.

Unfortunately I have a prior commitment and will not be able to testify in person.

I was shocked at the number of supposedly fiscal conservative Senators that voted for this bill. Some even running for office on the platform of being fiscally conservative. Ridiculous. This is an outrage and a slap in the face to hard working Kansas tax payers. Many of these Senators will lose support and votes. The people will be made aware of how their tax dollars are being distributed to rich developers as local politicians use this new tool to pay off political debts.

Politicians votes are a matter of public record so think hard about yours Wednesday. The people are sick and tired of our money being thrown about and recklessly spent. The people are tired of important programs being slashed and more and new taxes because our elected officials can't control their spending habits. The people are tired of our money being siphoned off for political gain.

Thank you for your serious consideration in this matter.

Joel Weihe

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