



HOME BUILDERS ASSOCIATION
OF GREATER KANSAS CITY

Affiliated With



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Testimony on Senate Bill 78
Senate Committee on Assessment and Taxation
January 30, 2013

Chairman Donovan, Ranking Member Holland, and members of the Committee, thank you for the opportunity to provide testimony on S.B. 78. My name is Beatriz Ibarra, and I am the staff Vice President of Government Affairs for the Home Builders Association of Greater Kansas City (HBA). The HBA's position has long been that the mortgage interest deduction (MID) historically is the cornerstone of homeownership and is vital to the housing industry's continued recovery. Eliminating the MID and the state income deduction claimed by Kansans for property taxes they pay on their homes would have a significant adverse impact on an already delicate housing recovery.

About the HBA

The HBA is the voice of the housing industry and the source for housing information. Comprising of approximately 600 member companies, the HBA represents an industry that supports more than 7,500 jobs in the Greater Kansas City metropolitan area. For more than 65 years, the HBA has been working to support the home building industry and homeowners and ensure that all Americans have access to safe, decent and affordable housing. The HBA also promotes a variety of housing-related industries through its Fall Parade of Homes, Spring Parade of Homes, Home Show & Flower Lawn & Garden Show, and Home Show-Fall Edition – events that contribute to the local economy in many ways.

The Impact of Eliminating the Mortgage Interest Deduction

The MID was created as part of a new federal tax code in 1913 and has been preserved through every tax overhaul to date in part because many legislators at the federal, state and local level recognize that homeownership provides stability to families and communities. In the simplest terms, the MID helps make homeownership more affordable for hundreds of thousands of Kansans every year.

Supporters of S.B. 78 allege that the MID only benefits the rich. The HBA's permit data show that out of 1,282 single-family permits pulled in Johnson County in 2012, only one permit was for a house with a construction value of over \$1 million. According to a study by the National Association of Home Builders (NAHB), the MID benefit is worth more to middle class taxpayers

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with incomes between \$50,000 and \$200,000. Approximately 65 percent of Kansans who claim the MID earn less than \$100,000 per year.

In addition, the MID is particularly beneficial to younger households who tend to be recent homebuyers. Younger families account for the greatest share of the entry-level market and rely most on the MID because they pay primarily interest in the early years of their mortgage. Eliminating the MID in Kansas would impose a disproportionately high burden on these first-time homebuyers who have waited to qualify and enter the market.

Eliminating the MID would also reduce the tax base of local communities that are already experiencing serious budget cuts. As a result, these communities would be forced to make further cuts to essential services, such as fire and police response services, and make cuts to schools and teacher salaries.

Eliminating the MID in Kansas will increase the after-tax cost of purchasing a home with a mortgage and hurt home values. According to the NAHB, every one percentage point decline in home prices reduces household net worth by about \$160 billion. And lower home prices would leave more homeowners underwater.

Finally, eliminating the MID at this time is simply another blow to an industry that is already facing several challenges. For example, the HBA is currently working with regulators and legislators to correct major flaws in the appraisal process. Another obstacle for home builders and the housing recovery is the difficulty of accessing and maintaining construction credit, which is essential to ensure that builders can produce new homes and stay in business. HBA members will soon have to comply with newly-enacted residential building codes from cities across the Kansas City metropolitan area. Many new codes include provisions that will add thousands of dollars to the cost of building a new home with minimal appreciable benefit to home buyers.

The Delicate Housing Recovery

We are in a time when stabilizing housing prices is of paramount importance to restoring jobs and the economy, which is why a new tax policy that would exert more downward pressure on home prices does not make sense. The home building industry is just beginning to recover from its worst years on record in terms of permitting activity. The HBA's statistics show that 2009 through 2011 were the lowest in thirty years. The last time Kansas City permitting activity was below 3,000 single family units was in 1982.

The HBA has seen positive signs that the housing industry is bouncing back in the greater Kansas City metropolitan area. Single family housing experienced significant growth in 2012 over 2011 and reached the highest number since 2007, which the HBA outlined in its monthly Residential Building Permit Statistics report. The year ended up 43 percent over last year with 3,299 compared to 2,301 in 2011.

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Kansas City, Missouri led the metropolitan area with a total of 998 residential units in its three-county reach. Of those, 611 were single family units and 387 were multi-family. The City of Overland Park followed with 583 total units which included 353 single-family and 230 multi-family. The City of Olathe was next with 457 total units all from single family. The total growth was distributed fairly evenly among the top counties including Johnson County with 37 percent, Jackson County with 19 percent, Clay and Platte counties each with 13 percent, and Wyandotte County with 10 percent.

The year 2012 seems to be the turning point to a modest recovery for the Kansas City housing market. Eliminating the MID and the property tax deduction would undermine the housing sector just as it is recovering and contributing to economic and job growth.

Conclusion

Any revenues the state government would receive from eliminating the MID and state income deduction claimed by Kansans for property taxes they pay on their homes at this time would result in economic disruption stemming from higher taxes on home owners, consumers deferring home purchases and lower home values. For many Kansas families, the home will continue to be the single most important investment they ever make and their largest asset. The rules of the game should not change for current and future homebuyers, especially at a time when the housing industry and economy are still bouncing back.

The HBA will continue to analyze S.B. 78 and is ready to work with Kansas lawmakers on solutions to the state's fiscal problems that do not jeopardize the fragile economic and housing recovery.