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House Taxation Committee
Opposition Testimony
House Bill 2435
May 20, 2015

Chair and Members of the Committee, I am Mike Gibson, Executive Vice-President of the Associated General Contractors of Kansas, which represents over 250 Kansas construction firms and their 8,000 employees and is recognized as the "Chamber of Commerce for the Construction Industry", we would encourage you to oppose this measure.

We have two primary concerns with removing the sales tax exemption for public building projects. First, it is difficult for our industry, which often operates over multi-year time periods to adjust to a changing sales tax environment, be it private or public. A sales tax change places the cost structure at risk for projects already bid. If this measure proceeds, we would ask you include the attached language, which would protect the integrity of existing projects.

Second, we believe this measure will result in either smaller projects or additional taxpayer funded expenditures. Attached is a document titled; "The Economic Impact of Construction in the United States and Kansas." Construction employment is up in Kansas 4.6% to 59,060 jobs using the most recent data available. We share this data with you because we believe raising the costs of projects will have an adverse impact on construction employment in Kansas. Because public construction data is not available, it is difficult to make a meaningful prediction on jobs, but it would be reasonable to assume smaller projects mean less work for Kansans.

The logical alternative to this approach would be it simply raises the cost of public projects by the sales tax amount costing taxpayers more.

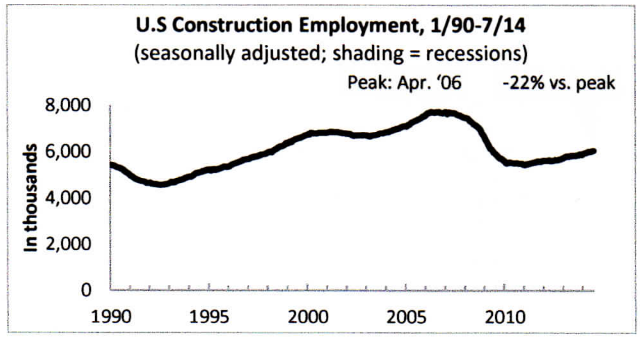
AGC of Kansas understands the State is searching for ways to fill a budget gap. While we don't believe moving tax dollars from one bucket to the other necessarily addresses the larger issue, if you were to move down this path we would ask you to protect existing agreements and sunset the sales tax of public projects after two years to take more time to review its impact on our industry.

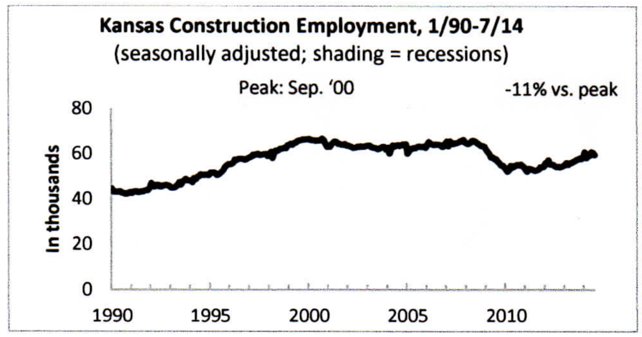
AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.

The Economic Impact of Construction in the United States and Kansas

Economic Impact of Investment in Nonresidential Construction:

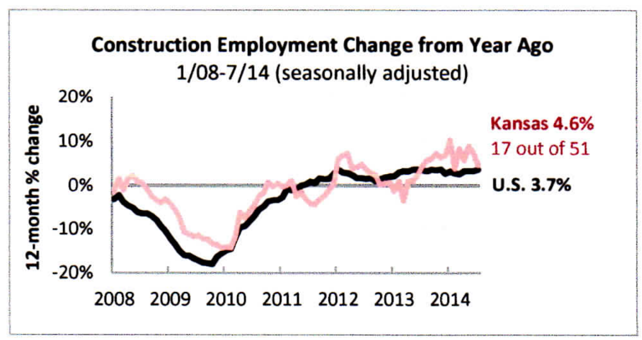
- An additional $1 billion invested in nonresidential construction would add $3.4 billion to Gross Domestic Product (GDP), $1.1 billion to personal earnings and create or sustain 28,500 jobs.
  - About one-third (9,700) of these jobs would be on-site construction jobs.
  - About one-sixth (4,600) of the jobs would be indirect jobs from supplying construction materials and services. Most jobs would be in-state, depending on the project and the mix of in-state suppliers.
  - About half (14,300) of the jobs would be induced jobs created when the construction and supplier workers and owners spend their additional incomes. These jobs would be a mix of in-state and out-of-state jobs. Conversely, investments elsewhere would support some indirect and induced jobs in the state.





Nonresidential Construction Spending:

- Nonresidential spending in the U.S. in 2013 totaled $569 billion ($305 billion private, $264 billion public).
- Private nonresidential spending in Kansas totaled $3.0 billion in 2012 and $2.9 billion. (Public spending is not available by state.)
- Nonresidential starts in Kansas totaled $3.8 billion in 2013, according to Reed Construction Data.



Construction Employment (Seasonally Adjusted):

- Construction (residential + nonresidential) employed 6.0 million workers in July 2014, an increase of 218,000 (3.7%) from July 2013 and a decrease of 1.7 million (22%) from April 2006, when U.S. construction employment peaked.
- Construction employment in Kansas in July totaled 59,400, an increase of 4.6% from July 2013 and a decrease of 11% from the state's peak in September 2000.

Empl. Change by Metro (not seasonally adjusted)		Rank
Metro area or division	7/13-7/14	(out of 339)
Statewide* (Const/mining/logging)	6%	
Kansas City*	9%	50
Topeka*	10%	40
Wichita*	8%	60

*The Bureau of Labor Statistics reports employment for construction, mining and logging combined for most metro areas and some states in which mining and logging have few employers. To allow comparisons between states and their metros, the table shows combined employment change.

Construction Industry Pay:

- In 2013, annual pay of all construction workers in the United States averaged $53,200, 7% more than the average for all private sector employees.
- Construction workers' pay in Kansas averaged $47,900, 13% more than all private sector employees in the state.

Small Business:

- The United States had 652,900 construction firms in 2012, of which 92% employed fewer than 20 workers.
- Kansas had 6,700 construction firms in 2012, of which 92% were small (<20 employees).

Source: Ken Simonson, Chief Economist, AGC of America, simonsonk@agc.org, from Prof. Stephen Fuller, George Mason University (investment); Census Bureau (spending); Reed Construction Data (starts); Bureau of Labor Statistics (jobs, pay); Small Business Administration (small business)

September 16, 2014

Proposed Language:

"If any contractor has entered into a written binding contract prior to May 1, 2015, for the original construction, reconstruction, restoration, remodeling, renovation, repair or replacement of a building, facility or residential structure, or for the construction, reconstruction, restoration, replacement or repair of a bridge or highway, the state sales tax applicable to such contracts shall be remitted at the rate in effect prior to the state sales tax increase scheduled to take effect on July 1, 2015, if the contractor gives notice and proof of such contract to the director of taxation on or before July 10, 2015, which notice and proof shall be in such form and of such sufficiency as the director shall prescribe."