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To: House Commerce, Labor and Economic Development Committee
From: Patrick Vogelsberg
Date: February 18th, 2109
Subject: Proponent Testimony on HB 2147

Honorable Chairman Tarwater and members of the House Commerce, Labor and Economic Development Committee:

Thank you for the opportunity to appear in front of you today on behalf of the Kansas Association of REALTORS® (KAR) and provide testimony in support of HB 2147 which would amend the Kansas rural housing incentive district act. Through the comments provided in our testimony, we hope to provide some additional legal and public policy context on this issue.

KAR represents nearly 10,000 members involved in residential, commercial and agricultural real estate and has advocated on behalf of the state's property owners for over 95 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

Background on Rural Housing Incentive District Act

The Rural Housing Incentive District (RHID) Act was first enacted in 1998 and provides cities and counties a program to assist developers to build housing in rural communities by assisting in the financing of public improvements. At K.S.A. 12-5243, the Legislature provided that, "...the purpose of this act to encourage the development and renovation of housing in the rural cities and counties of Kansas by authorizing cities and counties to assist directly in the financing of public improvements that will support such housing in rural areas of Kansas which experience a shortage of housing."

RHID's are authorized for cities with less than 60,000 in population, located in a county of less than 80,000 OR any county with a population of less than 60,000. The district is defined by the city or county that is establishing the district and based upon a housing needs analysis.

An RHID is formed in the following way:

1. Preparation by local government of housing needs analysis;
2. Governing body passes resolution finding shortage of quality housing;
3. Secretary of Commerce reviews and approves housing needs analysis;

4. Governing body negotiates development agreement;
5. District boundaries are identified and development plan is prepared;
6. Governing body passes resolution calling for public hearing on district and adoption of redevelopment plan.
7. Notices are provided to local planning commission, school district, and county/city.
8. Notices are published;
9. Public hearing;
10. Governing body passes ordinance/resolution creating the RHID and adopting the redevelopment plan; and
11. 30-day protest period for school district or city/county finding the RHID will have adverse effect which would nullify the ordinance and resolution.

The housing needs analysis needs to show¹:

1. There is a shortage of quality housing of various price ranges in the city or county despite the best efforts of public and private housing developers;
2. The shortage of quality housing can be expected to persist and that additional financial incentives are necessary in order to encourage the private sector to construct or renovate housing in such city or county;
3. The shortage of quality housing is a substantial deterrent to the future economic growth and development of such city or county; and
4. The future economic well-being of the city or county depends on the governing body providing additional incentives for the construction or renovation of quality housing in such city or county.

Once the RHID has been established, the governing body may proceed with issuing special obligation bonds (general obligation bonds prohibited).

K.S.A. 12-5249 strictly states that the proceeds of the special obligation bonds, can be used only for:

1. Acquisition of property within the specific project area²;
2. Payment of relocation assistance;
3. Site preparation;
4. Sanitary and storm sewers and lift stations;
5. Drainage conduits, channels and levees;
6. Street grading, paving, graveling, macadamizing, curbing, guttering and surfacing;
7. Street lighting fixtures, connection and facilities;
8. Underground gas, water, heating, and electrical services and connections located within the public right-of-way;
9. Sidewalks; and
10. Water mains and extensions.

The bond proceeds may not be used for buildings or structures owned by or leased to any developer. The maximum maturity on bonds issued to finance RHID projects cannot exceed 15 years.

¹ K.S.A. 12-5244

² Eminent domain is prohibited by K.S.A. 12-5247(a).

The RHID works by taking the incremental increases in property taxes paid over the base amount previously collected and using that property tax revenue for repayment of the bonds.

For example:

Pre-RHID, the property classification has an *assessed value* of \$50,000 and is subject to 150 mills. The total property tax revenue is \$7,500. This base amount of property tax revenue remains constant and is distributed to local taxing jurisdictions as it was prior to the RHID.

After the development, the property has an assessed value of \$1 million and subject to the same 150 mills produces \$150,000 in property tax revenue.

The incremental increase is \$142,500 (\$150,000 - \$7,500). This \$142,500 can be used to pay for the authorized cost (1-10 above), until the project cost are paid. Once the project has paid for itself the revenue is distributed to the local taxing jurisdictions as it normally would.

HB 2147

HB 2147 would make a simple amendment to K.S.A. 12-5248(a)(2)(4) that would change the maximum maturity on bonds to finance projects from 15 years to 25 years. The purpose for this change is simply to spread the financing of such projects over a greater period of time. It is our hope that an expanded payback period would make more projects financially viable in our rural communities. Furthermore, we hope that this change would help with the affordability of new housing in rural communities, while also freeing up existing inventory.

Upon further review of the RHID act, we feel that it may be necessary to make similar amendments to K.S.A. 12-5245(a) and K.S.A. 12-5250(b)(2)(B). I have attached balloon amendments to my testimony reflecting the suggested changes.

Thank you for the opportunity to provide testimony on HB 2147. KAR feels that, with these changes, more housing opportunities can occur in our rural communities. We would ask that the committee act favorably on this legislation. Thank you for your time and consideration to this very important matter.

Respectfully submitted,



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12-5245. Same; adoption of development or redevelopment plan; contents; hearing, notice. (a) Upon receipt of the approval of the secretary as provided in subsection (c) of K.S.A. 12-5244, the governing body may proceed with the establishment of the district. Before doing so, the governing body shall adopt a plan for the development or redevelopment of housing and public facilities in the proposed district. **Such plan may include plans for one or more projects, and the length of any individual project shall not exceed 25 years.**

The plan shall include, but not be limited to, the following:

- (1) The legal description and map required by subsection (a) of K.S.A. 12-5244.
- (2) The existing assessed valuation of the real estate in the proposed district, listing the land and improvement values separately;
- (3) A list of the names and addresses of the owners of record of all real estate parcels within the proposed district;
- (4) A description of the housing and public facilities project or projects that are proposed to be constructed or improved in the proposed district, and the location thereof;
- (5) A listing of the names, addresses and specific interests in real estate in the proposed district of the developers responsible for development of the housing and public facilities in the proposed district;
- (6) The contractual assurances, if any, the governing body has received from such developer or developers, guaranteeing the financial feasibility of specific housing tax incentive projects in the proposed district;
- (7) A comprehensive analysis of the feasibility of providing housing tax incentives in the district as provided in this act, which shows the public benefits derived from such district will exceed the costs and that the income therefrom, together with other sources of funding, will be sufficient to pay for the public improvements that may be undertaken in such district. If other sources of public or private funds are to be used to finance the improvements, they shall be identified in the analysis.

(b) Prior to the adoption of the plan and designation of the district, the governing body shall adopt a resolution stating that the governing body is considering such action. The resolution shall provide notice that a public hearing will [be] held to consider the adoption of the plan and the designation of the district and contain the following elements:

- (1) The date, hour and place of the public hearing;
- (2) The contents of paragraphs (1) through (4) in subsection (a) of this section;
- (3) A summary of the contractual assurances by the developer and comprehensive feasibility analysis; and
- (4) A statement that the plan is available for inspection at the office of the clerk of the city or county at normal business hours;
- (5) A statement inviting members of the public to review the plan and attend the public hearing on the date announced in the resolution;

(c) The date fixed for the public hearing shall be not less than 30 nor more than 70 days following the date of the adoption of the resolution. The resolution shall be published at least once in the official newspaper of the city or county, with the final publication being not less than one week or more than two weeks preceding the date fixed for the public hearing.

(d) A certified copy of the resolution shall be delivered to the planning commission of the city or county and the board of education of any school district levying taxes on property within the proposed district. If the resolution is adopted by a city governing body, a certified copy also shall be delivered to the board of county commissioners of the county. If the resolution is adopted by a county governing body, it also shall be delivered to the governing body of any city located within three miles of such proposed

district.

History: L. 1998, ch. 66, § 5; July 1.

12-5250. Same; taxation within district; collection and distribution. (a) All taxable tangible property located within a district established in accordance with this act shall be assessed and taxed for ad valorem tax purposes pursuant to law in the same manner that such property would be assessed and taxed if located outside such district, and all ad valorem taxes levied on such property shall be paid to and collected by the county treasurer in the same manner as other taxes are paid and collected. Except as otherwise provided in this section, the county treasurer shall distribute such taxes as may be collected in the same manner as if such property were located outside the district. Each district established under the provisions of this act shall constitute a separate taxing unit for the purpose of the computation and levy of taxes.

(b) Beginning with the first payment of taxes which are levied following the date of the approval of any district in accordance with this act, and amendments thereto, real property taxes received by the county treasurer resulting from taxes which are levied subject to the provisions of this act by and for the benefit of a taxing subdivision on property located within such district constituting a separate taxing unit under the provisions of this section, shall be divided as follows:

(1) From the taxes levied each year subject to the provisions of this act by or for each taxing subdivisions upon property located within a district constituting a separate taxing unit under the provisions of this act, the county treasurer first shall allocate and pay to each such taxing subdivision all of the real property taxes collected which are produced from that portion of the current assessed valuation of such real property located within such separate taxing unit which is equal to the total assessed value of such real property on the date of the establishment of the district.

(2) Any real property taxes produced from that portion of the current assessed valuation of real property within a district and constituting a separate taxing unit under the provisions of this section in excess of an amount equal to the total assessed value of such real property on the effective date of the establishment of the district shall be allocated and paid by the county treasurer to the treasurer as follows:

(A) In districts established by a city, the amount shall be paid to the treasurer of the city and deposited in a special fund of the city to pay the cost of housing projects in the district including the payment of principal of and interest on any special obligation bonds issued by such city to finance, in whole or in part, such housing project.

(B) In districts established by a county, the amount shall be deposited by the county treasurer in a special fund of the county to pay the cost of housing projects in the district including the payment of principal of and interest on any special obligation bonds issued by such county to finance, in whole or in part, such housing project. **If such special obligation bonds and interest thereon have been paid before the completion of a project, the city or county may continue to use such moneys for any purpose authorized by this act until such time as the project is completed, but for not to exceed 25 years from the date of the establishment of the district.** When such special obligation bonds and interest thereon have been paid and the project is completed, all moneys thereafter received from real property taxes within such district shall be allocated and paid to the respective taxing subdivisions in the same manner as are other ad valorem taxes.

(c) Notwithstanding any other provision of law, it is hereby stated that is an object of all ad valorem taxes levied by or for the benefit of any taxing subdivision on taxable tangible real property located within any district created pursuant to this act, that such taxes may be applied and allocated to and when collected paid into a special fund of a city or county pursuant to the procedures and limitations of this act to pay the cost of a project including principal of and interest on special obligation bonds issued by such city or county to finance, in whole or in part, such project.