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Re: Testimony in Support of House Bill 2569

I want to thank the committee for allowing me the opportunity to testify today about House Bill 2569. My name is Kenneth Bateman, and I am business owner and property owner in Leavenworth, KS. Specifically, I have experience developing a property in one of the historic districts of downtown Leavenworth and I also own a historic home in the city.

Older buildings, both commercial and residential, are rapidly falling into disrepair in the state of Kansas. House Bill 2569 creates powerful incentives for the effective allocation of capital, focused on repairing, upgrading, maintaining, and utilizing buildings within the state of Kansas that are currently vastly underperforming. However, bringing these buildings back into serviceable condition, including complying with modern building codes, is very capital intensive. House Bill 2569 provides a unique combination of incentives to facilitate the rejuvenation of these properties. It does this through two methodologies.

First, House Bill 2569 modifies the existing state tax credit system. Currently, the Kansas State Historic Tax Credit programs allows for a 25% state tax credit for qualified improvements on a qualified property regardless of location. This blanket approach for the entire state fails to effectively target this incentive to our smaller communities where redevelopment and historical preservation projects will have the biggest impact. House Bill 2569 addresses this issue by increasing the state tax credit on these projects to higher percentage levels based on a city's population. In cities where the population is less than 9,500, the tax credit is increased from the current 25% to 40%, and in cities where the population is between 9,500 and 50,000 from the current 25% to 30%. The change provides a meaningful incentive for a person to engage in the rehabilitation and redevelopment in the cities where the impact can be most significant.

House Bill 2569 does more than allocate tax credits under the existing Historic Tax Credit, but creates a three pronged approach to addressing the need for improvements in housing and commercial development.

As background, it is worth noting that last year, the Kansas Housing Resources Corporation (KHRC) and the Office of Rural Prosperity launched the state's first comprehensive housing needs assessment in nearly three decades. Page 14 of the Executive Summary of the 2021 Kansas Statewide Housing Needs Assessment states the issue clearly:

> "Most of the housing stock across Kansas is older than 1960. Attention to poor housing conditions is critical to maintaining the largest asset in the state."

House Bill 2569 addresses this problem head on.

First, House Bill 2569 creates tax incentives for the rehabilitation of older properties, not just historic ones. House Bill 2569 does this by creating a new 10% state tax credit for improvements on commercial, residential, and agricultural buildings over 50 years old, which are not covered by the Historic Preservation Tax Credit. This is a very strong incentive for owners to improve their older properties and address poor housing conditions, including upgrades that will lead to more energy efficient homes.

This incentive has the potential to make a significant impact in the communities across Kansas that are most at risk for deteriorating housing conditions. As an example, on the same page cited earlier from the Housing Needs Assessment, it states that in Montgomery County the median year of housing structures (meaning, when these houses were built) is 1957, and in 2020, 9.94% of the county's housing conditions was rated "Poor or Below".

Strong incentives are needed to address poor housing conditions, and a 10% state tax credit is just that. House Bill 2569 requires that the improvement be over $2,000 but shall not exceed $1,000,000. This allows everyone from an individual homeowner to a small real estate company the ability to take advantage of the tax credit, but effectively puts a limit on the cost to the state of Kansas by having a reasonable maximum of tax credits in a specific year. These tax credits would also be available to commercial and agricultural properties, ensuring needed upgrades are made to the oldest structures to prevent deterioration.

The second prong in the approach, is the creation of an additional 10% tax credit related to the installation of fire suppression systems in buildings that are over 50 years old. As you know many downtown commercial districts have buildings which predate the 1950s, and in some cases the 1900s. Such buildings are generally tightly packed together creating a risk for fire to spread from one building to the next, absent fire suppression systems. Concerning fire suppression systems, a key benefit is once it is installed it remains with the building. It's a permanent feature that is long-lasting and can provide decades of protection regardless of ownership turnover. We should encourage the installation of these long-lived assets that provide benefits to the community over time.

Finally, House Bill 2569 grants a very powerful incentive for financial institutions to reinvest in local communities by allowing a substantial deduction against interest earned on loans that are used for expenditures on buildings over 50 years old or for the installation of fire suppression systems. As you know, the availability of capital is a key factor in the development of all real estate. Buildings that are over 50 years old may require substantial rehabilitation and loans associated with these assets may be viewed as more risky than other types of loans by financial institutions. Thus, the goal with this provision of House Bill 2569 is to, from the financial institution's perspective, match the risk with the reward by lowering the bank's taxable income.

In summary, if House Bill 2569 were to become law, it would provide powerful incentives to encourage private sector investment in the rehabilitation of older structures, especially as it relates to housing, as well as create an environment where capital is made available by financial institutions to facilitate the improvements.

I want to thank the Committee for allowing me to speak today.

Respectfully,

Kenneth C. Bateman, PhD