

Approved _____

2/10/89

Date

MINUTES OF THE House COMMITTEE ON Taxation

The meeting was called to order by Representative Keith Roe at
Chairperson

9:00 a.m. ~~pm~~ on February 9, 1989 in room 519-S of the Capitol.

All members were present except:

Representatives Dean, Fuller and Guldner, excused
Representatives Reardon and Vancrum, absent

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Representative Debara Schauf
Harold Warner, Jr. - Homebuilders Ass'n of Kansas
Bev Bradley - Kansas Ass'n of Counties
Ernie Mosher - League of Kansas Municipalities

Representative Schauf testified in support of HB 2092, requesting the Committee to consider her explanation of the bill and the inequities she feels have been dealt to the homebuilders industry. (Attachment 1)

Gerald Warner, Jr. testified in support of HB 2092, stating that his organization believes the fiscal impact will be minimal and well justified when consideration is given to the January 1, 1989, removal of other inventories. (Attachment 2)

Bev Bradley testified in opposition of HB 2092, stating that if this bill were to be passed, vacant commercial buildings, and vacant warehouses would be next in line. (Attachment 3)

Ernie Mosher testified in opposition to HB 2092, stating they generally oppose the granting of state tax exemptions to private property, unless the state also provides funds with similar growth potential to replace the loss of local tax revenue, from sources not now used by cities. (Attachment 4)

Chairman Roe concluded the hearing on HB 2092.

The minutes of February 8, 1989, were approved.

The meeting adjourned.

DEBARA K. SCHAUF
REPRESENTATIVE, EIGHTY-FIRST DISTRICT
SEDGWICK AND SUMNER COUNTIES
P.O. BOX 68
MULVANE, KANSAS 67110
(316) 777-4608



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HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
MEMBER: GOVERNMENTAL ORGANIZATION
LOCAL GOVERNMENT
INSURANCE

HOUSE BILL 2092

RE: EXEMPTION OF HOMEBUILDERS INVENTORY

MR CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOUR COMMITTEE TODAY ON BEHALF OF AN INDUSTRY IN WHICH I HAVE BEEN INVOLVED FOR MANY YEARS. YOU MAY BE AWARE OF MY CONNECTION TO THE REAL ESTATE INDUSTRY, BUT I HAVE ALSO BEEN A RESIDENTIAL HOMEBUILDER OPERATING MY OWN COMPANY SINCE I WAS 16 YEARS OLD. ALTHOUGH NEITHER MYSELF OR ANY OF MY FAMILY IS NOW INVOLVED IN THE CONSTRUCTION BUSINESS I AM VERY INTERESTED IN THE FUTURE OF THE INDUSTRY.

OVER THE YEARS I HAVE SEEN MANY CHANGES, SOME ECONOMIC, SOME IN CODE RESTRICTIONS, AND SOME DUE TO THE IMPACT OF LEGISLATION BOTH FEDERAL AND STATE ON THIS INDUSTRY. IT IS ONE OF THE LEGISLATIVE CHANGES I WISH TO ADDRESS TODAY.

WHILE I BELIEVE THE CITIZENS OF OUR STATE WOULD HAVE BEEN BETTER SERVED BY A TAXING STRUCTURE WHICH REQUIRED ALL PEOPLE TO PAY A FAIR SHARE OF THE TAXES NECESSARY TO SUPPORT ALL LEVELS OF GOVERNMENT, YOU

*2/9/89
Attachment 1*

ARE ALL AWARE THAT RECENT CHANGES IN THE LAW HAVE MADE A NUMBER OF EXCEPTIONS. WITH THE PASSAGE OF THE CLASSIFICATION AMENDMENT TO THE STATE CONSTITUTION THE INVENTORY OF MERCHANTS AND MANUFACTURERS HAS BEEN ELIMINATED, AND THE TAXING RATE FOR VARIOUS CLASSES OF PROPERTY HAS BEEN ALTERED DRAMATICALLY. WHILE I FEEL THAT THE SPECULATIVE CONSTRUCTION OF A HOMEBUILDER TECHNICALLY MEETS THE DEFINITION OF INVENTORY, THAT WAS NOT THE LEGISLATIVE INTENT IN THE AMENDMENT THE VOTERS ACCEPTED.

ONE OF THE IMPACTS ON THIS INDUSTRY FROM THE EXCEPTION IS THAT THE LARGEST SOURCE OF COMPETITION FOR THE MIDDLE INCOME HOMEBUILDER, THE MOBILE AND MANUFACTURING INDUSTRY HAS AN UNFAIR ADVANTAGE OVER THE HOMEBUILDERS. AT LEAST IN MY AREA IT IS NOT MY EXPERIENCE THAT THE HIGHER PRICE RANGE BUILDERS ARE ABLE TO PARTICIPATE TO A LARGE DEGREE IN SPECULATIVE CONSTRUCTION DUE TO THE HIGH COST OF MATERIALS, LOAN FEES, INTEREST, AND TAXES THAT ACCUMULATE ON UNSOLD HOMES HELD FOR RESALE. HOMEBUILDERS THAT BUILD IN THE \$50,000 TO \$70,000 RANGE TYPICALLY FIND THEIR BEST MARKET IS IN THE IMMEDIATE AVAILABILITY FOR A BUYER OF ONE TO THREE HOMES WHICH ARE COMPLETE OR NEAR COMPLETE WHEN A BUYER IS SEARCHING FOR A NEW HOME IN THE AREA. THEY ARE NOW AT A COMPETITIVE DISADVANTAGE WITH THE MOBILE AND MODULAR INDUSTRY WHO ARE ABLE TO INVENTORY A DOZEN OR MORE HOMES TO BE PERMANENTLY DELIVERED AND INSTALLED ON AVAILABLE LOTS AT THE TIME OF PURCHASE.

HOUSE BILL 2092 WAS DRAFTED AS A VEHICLE TO CORRECT THIS INEQUITY. AS THE BILL IS DRAFTED THE EXEMPTION IS NOT AUTOMATICALLY GRANTED, THE BUILDER WOULD HAVE TO FILE FOR THE EXEMPTION UNDER THE PROCEDURES ESTABLISHED IN 79-213 OF KANSAS STATUTES. A HOME IN ORDER TO QUALIFY WOULD HAVE TO BE 100 % COMPLETE AS OF JANUARY 1 OF THE TAX YEAR AS PARTIAL ASSESSMENTS ARE NOT USED. A CHECK WITH THE HOMEBUILDERS ASSOCIATIONS ACROSS THE STATE HAS INDICATED THAT THERE ARE ACTUALLY NOT A LOT OF HOMES WHICH WOULD QUALIFY FOR THE EXEMPTION DUE TO THIS REQUIREMENT. CURRENTLY IN WICHITA THERE ARE APPROXIMATELY 76 HOMES COMPLETED, UNSOLD, AND POTENTIALLY ELIGIBLE FOR THIS DEDUCTION. IN DODGE CITY THERE IS ONE HOME, MANHATTEN HAS 37 HOMES AT THIS TIME, ONLY SIX OF WHICH HAVE BEEN AVAILABLE FOR A FULL YEAR. HUTCHINSON HAS ONE HOME, AND TOPEKA HAS 32 HOMES, 4 OF WHICH HAVE BEEN ON THE MARKET FOR A FULL YEAR.

HOMES CONSTRUCTED AS MODEL HOMES AND HAVE SALES OFFICES WOULD NOT QUALIFY, NOR WOULD HOMES WHICH ARE LEASED, OR OTHERWISE PRODUCING SOME SORT OF INCOME. IT IS ALSO MY BELIEF THAT HOMES WHICH ARE COMPLETED AND CURRENTLY UNDER CONTRACT TO A BUYER WOULD NOT BE EXEMPT AS A CONTRACTUAL ARRANGEMENT EXISTS WHICH WILL PRODUCE AN INCOME FOR THE BUILDER.

A COMMUNICATION I RECEIVED FROM THE DEPARTMENT OF PROPERTY VALUATION RAISED SEVERAL QUESTIONS ABOUT MY BILL, A COUPLE OF WHICH I WOULD LIKE TO ADDRESS SPECIFICALLY....

1. THEY WERE CONCERNED ABOUT A PROVISION TO NOTIFY THE APPRAISER OF THE STATUS OF THE PROPERTY IN QUESTION. I BELIEVE THAT THE REQUIREMENT THAT THE EXEMPTION BE APPLIED FOR UNDER 79-213 WOULD ADDRESS THIS CONCERN. IT IS ALSO LOGICAL THAT THE APPRAISER WOULD KNOW IF THE HOME IS ACTUALLY SOLD BECAUSE AT THE TIME OF A DEED TRANSFER THEY RECEIVE A CERTIFICATE OF VALUE IN THEIR OFFICE. IN FACT, I HAVE NO OBJECTION IF A METHOD OF ADDING THE HOMES TO THE TAX ROLLS COULD BE DEvised WHICH WOULD ALLOW THE REMOVAL OF THE EXEMPTION AT THE TIME THE HOME IS SOLD SO THAT THE APPROPRIATE TAXES COULD BE COLLECTED.

2. THEY QUESTIONED THE CONSTITUTIONALITY OF AN EXEMPTION BASED ON OWNERSHIP AND NOT ON USE, HOWEVER I FEEL THE EXEMPTION WOULD BE BASED UPON USE. IT DOESN'T REALLY MATTER WHO OWNS THE PROPERTY, IF IT IS COMPLETE, UNSOLD, PRODUCING NO INCOME, NEVER OCCUPIED AND NOT RENTED OR LEASED IT COULD BE EXEMPT REGARDLESS OF WHO OWNS THE PROPERTY IF THE STATUTORY REQUIREMENTS FOR EXEMPTION WERE MET AND THE EXEMPTION WAS GRANTED BY THE PROPER AGENCY.

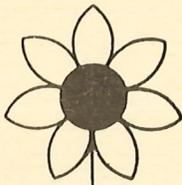
THE EXEMPTION AS REQUESTED WOULD BE ON THE IMPROVEMENTS ADDED TO THE LOT ONLY, THERE IS NO MENTION OF AN EXEMPTION OF THE LAND VALUE. THIS WAS INTENTIONAL, AS THE VALUE OF THE LAND HAS NEVER BEEN EXEMPT OR SUBJECT TO A DIFFERENT TAXING PROCESS THAN WE ARE CONSIDERING AT

1.4

THIS TIME. I WOULD ALSO POINT OUT THAT THE SPECIAL ASSESSMENT TAXES IF ANY WOULD AT NO TIME BE INCLUDED IN AN EXEMPTION.

IN CONCLUSION I WOULD ASK THAT YOU CONSIDER MY EXPLANATION OF THE BILL AS I INTEND IT TO WORK, AND THE INEQUITIES I FEEL HAVE BEEN DEALT TO THIS INDUSTRY AS YOU LISTEN TO THE REST OF THE TESTIMONY THIS MORNING. WHILE I DO BELIEVE THAT WE WOULD ALL BE BETTER SERVED IF NO EXEMPTIONS HAD BEEN MADE FOR ELIMINATION OF PROPERTY TAXES, THOSE EXEMPTIONS HAVE BEEN GRANTED, MANY IN A PURELY POLITICAL WAY. AS A RESULT OF THOSE EXEMPTIONS, THIS INDUSTRY HAS BECOME UNFAIRLY A TARGET OF INCREASED COMPETITION WHICH COULD HAVE AN EFFECT ON THE AVAILABILITY OF AFFORDABLE HOMES FOR KANSAS CITIZENS.

THANK YOU FOR THE OPPORTUNITY TO SHARE MY CONCERNS AND I WOULD BE HAPPY TO STAND FOR QUESTIONS.



HOME BUILDERS ASSOCIATION OF KANSAS, INC.

Executive Director
JANET J. STUBBS

HOUSE TAXATION COMMITTEE

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H.B.A. ASSOCIATIONS
Central Kansas
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Montgomery County
Pittsburg
Salina
Topeka
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PAST PRESIDENTS
Lee Haworth 1965 & 1970
Warren Schmidt 1966
Mel Clingan 1967
Ken Murrow 1968
Roger Harter 1969
Dick Mika 1971-72
Terry Messing 1973-74
Denis C. Stewart 1975-76
Jerry D. Andrews 1977
R. Bradley Taylor 1978
Joel M. Pollack 1979
Richard H. Bassett 1980
John W. McKay 1981
Donald L. Tasker 1982
Frank A. Stuckey 1983
Harold Warner, Jr. 1984
Joe Pashman 1985
Jay Schrock 1986
Richard Hill 1987
M.S. Mitchell 1988



TESTIMONY OF HOME BUILDERS ASSOCIATION OF KANSAS

FEBRUARY 9, 1989

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Harold Warner, Jr., a home builder and developer from Valley Center, Kansas. I am appearing before you today in support of HB 2092.

It is my understanding that this legislation would exempt from taxation the builder's inventory, the unsold and never occupied structure which is available for sale and is not producing income.

Under Classification, manufactured housing inventory, as well as other merchant's and manufacturer's inventories, were exempted from taxation. It has been stated that our product is the only manufacturing process which does not have inventory exemption available for the finished product.

In the past, the Legislature has attempted to obtain equity in their taxation of manufactured and stick built housing and we ask that you consider HB 2092 in this manner.

I am sure there will be concern expressed by units of government regarding the loss of revenue while having to maintain the services. However, we believe that unoccupied structures will not utilize the neighborhood parks and schools nor police and fire services anymore than other manufacturer's inventory.

It is beneficial to a builder to have site built housing available for sale in order to compete with factory built units. As an element of economic development, it is an advantage Kansas should have.

We believe the fiscal impact will be minimal and well justified when consideration is given to the January 1, 1989, removal of other inventories.

Again, we ask that you give favorable consideration to HB 2092 in order to permit equity with manufactured housing.

2/9/89

Attachment 2

February 9, 1989

To: Representative Keith Roe, Chairman
Members of the House Taxation Committee

From: Bev Bradley, Legislative Coordinator
Kansas Association of Counties

Re: HB-2092 exempting certain residential real property

Thank you Mr. Chairman and members of the committee for allowing me to come before you today in opposition to HB-2092.

The Kansas Association of Counties has a convention adopted legislative policy statement which says in part "The Kansas Association of Counties supports the preservation of the property tax base for local governments and strongly apposes further erosion of that base by the granting of additional constitutional or statutory exemptions or the elimination of other revenue sources for local governments."

Our question is where do the exemptions stop? If this were to be passed, we would anticipate that vacant office space, vacant commercial buildings, and vacant warehouses would be next in line.

We see this as an administration nightmare at the local level. Would the appraiser need to be following moving trucks to see the exact date the home became occupied?

2/9/89
Attachment 3

Speculative building is, in our opinion, the cost of doing business in the construction industry. When the homes are built the person understands there is a risk involved and that it might be some time before they are sold and occupied.

Mr. chairman we all know that reappraisal is reaching its final stages for the first phase. Many exemptions have already been granted over the years. Let's see how the system that we have in place, works. The Kansas Association of Counties supports a broad tax base upon which to levy taxes to support county government. We would appose any further narrowing of the tax base. We appose HB 2092.



**League
of Kansas
Municipalities**

**Municipal
Legislative
Testimony**

An Instrumentality of its Member Kansas Cities. 112 West Seventh Street, Topeka, Kansas 66603 Area 913-354-9565

TO: House Committee on Taxation
FROM: E.A. Mosher, Executive Director
RE: HB 2092 -- Tax Exemption of Certain Residential Property
DATE: February 9, 1989

As in the past, the League opposes property tax exemption bills like HB 2092. Our convention-adopted Statement of Municipal Policy provides: "We generally oppose the granting of state tax exemptions to private property, unless the state also provides funds with similar growth potential to replace the loss of local tax revenue, from sources not now used by cities".

It has long been the rule in Kansas that the taxability and valuation of an improvement on real estate is determined by its existence as of January 1. A change of the ownership and/or use of the improvement after January 1 is immaterial. We think this basic rule should be continued.

Arguably, there may be a perceived inequity in the taxation of a "stick-built" home on a lot compared to a manufactured home still within the tax exempt inventory of a manufacturer or dealer. However, there is a real difference between the two "structures" -- one is real estate and one is not. We think it important that the legal requirements and practice of assessing and taxing real estate improvements be continued.

*2/9/89
Attachment 4*