Approved: February 25, 2003
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairperson David Corbin at 10:45 a.m. on February 19, 2003, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Gordon Self, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Jim Siemens, Retired Reno County Appraiser
Craig Clough, Harvey County Appraiser
Rick Batchelor, McPherson County Appraiser
Ken Meier, Harvey County Appraiser
Larry Sharp, Reno County Commissioner
John Waltner, Mayor of the City of Hesston
Bill Williams, Inman City Council
Meryl Dye, Special Assistant to the City Manager, Hutchinson
John O'Brien, Mayor of Inman
John Grace, Kansas Association of Homes and Services for the Aging (KAHSA)
Mina Coulter, CEO, Friendly Acres Retirement Community
Pastor A. J. Rymph, Friendly Acres Retirement Community
Dr. Jim Morford, Administrator, Ellsworth Good Samaritan Retirement Village
Sonia DeRusseau, Administrator, Linn Community Nursing Home
Ray Vernon, CEO, Wesley Towers
James Krehbiel, CEO, Schowalter Villa
John Arnbrust, Manhattan Chamber of Commerce

Others attending: See attached list.

SB 161–Eliminating property tax exemption for certain housing for the elderly

Jim Siemens, retired Reno County Appraiser, testified in support of **SB 161**. In discussing independent living units at tax exempt care homes in Reno County, he referred to photographs in his handout. He noted that Wesley Towers, the largest care home in Reno County, has a total valuation of approximately $17,000,000. Of that total, 175 living units are valued at approximately $11,000,000. He pointed out the high quality construction of the living units and noted that the property tax on the units is zero. He then called attention to a photograph of a modest single family dwelling on the tax roll (page 36) and a duplex on the tax roll comparable to the independent living units (page 34). He went on to say that he is 70 years old with a limited income, and he pays over $3,000 per year in property taxes on his home. However, many persons living in Wesley Towers have a higher income than his and pay no property taxes, which he believes is unfair. (Attachment 1)

Craig Clough, Harvey County Appraiser, continued testimony in support of **SB 161**, referring to the same handout on which Mr. Siemens based his testimony and calling attention to the portion relating to Harvey County. The estimated property tax loss for the 466 elderly housing units in five facilities in Harvey County with an appraised value of $34,819,210 is $467,763. He clarified that licensed non-profit adult care homes (79-201(b) *Second)* and elderly housing owned by municipalities or elderly housing financed with federal monies (79-201(b) *Fourth*) should remain exempt. However, elderly housing units operated by a non-profit corporation (79-201(b) *Fifth*) should be taxable because they are not part of the nursing home facility proper, are not owned by a municipality, and are not financed with federal funding. He called attention to a sample photograph of this type of housing (page 43), which has no limits on the expense of construction and no income limits for residents. He then outlined a typical life lease for this type of facility, noting the fees involved limit the facility to persons with higher incomes. In conclusion, he emphasized that the issue concerns fairness. He believes that taxpayers, including retired citizens who cannot afford to live in these units, should not have to subsidize the services of those who can afford to live there. He observed that the issue is not about additional taxes but about sharing the tax burden fairly.

Rick Batchelor, McPherson County Appraiser, continued testimony in support of **SB 161** on behalf of the McPherson County Commission, noting that their concern relates to fairness not taxes. To illustrate, he explained that a unit in one of the facilities of the Cedars in McPherson is currently life-leased by a full professor at the University of New York who spends six to eight weeks there every summer and then returns to New York to teach. He commented that intent of the law did not include offering a property tax exemption to a person with a high income for a summer home. He went on to discuss the acquisition of off campus properties in small communities such as the home owned by the Bethany Home Association shown on page 51. He explained that, in some instances, the homes are several blocks away from the facility. None of the homes have been made ADA compliant, and they are not electronically connected to the facility. Yet they have been approved for an exemption from property taxation. As a result, those people who cannot afford to life-lease an independent living unit are paying more in taxes to support the same services. For example, the independent living units in the Pleasant View campus in Inman were exempted. Because of that loss of revenue, the City of Inman raised its mill levy seven mills just to cover the loss. Taxes for citizens living in homes valued much lower went up ten to twelve percent while persons living in the independent living units paid nothing.

Ken Meier, Harvey County Commissioner, testified in support of **SB 161**. He noted that the Commission is concerned that the demands of funding the infrastructure of the county, city, and schools is currently borne by an unfair and unequal application of the property tax. He pointed out that infrastructure belongs to all, benefits all, and should be paid for by all. He complained that, in Harvey County, persons with homes on the tax roll are paying two and one-half mills of property tax to support the life style of persons who live in "high dollar" independent retirement homes. In his opinion, a legislative remedy is needed to level the playing field.

(Attachment 2)

Larry Sharp, Reno County Commissioner, testified in support of **SB 161**, echoing the sentiments of Mr. Meier. He also explained that one retirement home in Hutchinson has made payments in-lieu-of taxes to the city; however, the amount of the payments are considerably lower than what the actual tax assessment would be. He noted that the retirement community has never approached the Reno County government, which, in his opinion, possibly provides more services to the seniors in the retirement community than any other taxing entity. He pointed out that the amount of taxes collected on retirement living units would help restore funding for communities that will receive significant reductions in monies allocated to them in the past from the state. (Attachment 3)

John Waltner, Mayor of the City of Hesston, testified in support of **SB 161**. At the outset, he informed the Committee that Hesston is grateful and proud to be the home of Schowalter Villa, a very fine not-for-profit retirement center. He pointed out that Schwalter residents engage in the life of the community in many ways, and they are energetic, mobile, and affluent. However, he believes that it is unfair that local property taxpayers living in nonexempt housing provided funding for a $1 million upgrade of the wastewater treatment plant and sewer line which became necessary due to continuing development at Showalter. In addition, he discussed the significant impact on the city's Emergency Medical Services budget. In conclusion, he noted that, in Hesston, the tax exempt independent housing units represent approximately 16 percent of the total residences in the community. He urged the Committee to take a stand for tax fairness and permanently end the property tax exemption for upscale independent living units at not-for-profit centers. (Attachment 4)

Bill Williams, testified in support of **SB 161** on behalf of the Inman City Council. He reported that a recent article in the local newspaper indicated that perhaps the implementation date might be changed, and the bill may include a continued exemption for units assessed at a certain level. He contended that, with the current budget shortfall at the state level, changing the implementation date would place undue hardship on Inman residents. Continued exemption of selected units will only continue to support the unfairness of the current statute. In conclusion, he called attention to documentation attached to his written testimony which further supports the bill. (Attachment 5)

Meryl Dye, Special Assistant to the City Manager of Hutchinson, testified in support of **SB 161**. With regard to the testimony by the Reno County Commissioner, she confirmed that the City of Hutchinson has received three $8,000 good neighbor payments from 1999 to 2001 from Wesley Towers. To her knowledge, no other tax entity received such payments. She went on to say that a conservative estimate of the city's annual loss due to this tax exemption was $110,588 in 2001; therefore, the good neighbor payments pale in comparison. She noted that the result of the exemption is an unfair shift of the burden of infrastructure and public services to owners of other taxable property, including elderly residents who choose to live in their home or who cannot afford to live in upscale non-profit living units. (Attachment 6)

John O'Brien, Mayor of Inman and a retired superintendent of schools, testified in support of **SB 161**. He discussed the loss of school evaluation and the cost to the state due to the removal of the independent units from the tax roll. He noted that local option money and bond and interest money is based on a factor that is established by district wealth. When the valuation decreases, the district will be poorer. When the amount of money from local level decreases, the burden on the state increases. (Attachment 7)

Senator Corbin noted that written testimony in support of **SB 161** was submitted by Larry Baer, League of Kansas Municipalities (Attachment 8), Patricia Getz, a 72 year widow from Newton (Attachment 9), Randall Allen, Kansas Association of Counties (Attachment 10), and a group of senior citizens from Newton, Kansas (Attachment 11).

John Grace, Kansas Association of Homes and Services for the Aging (KAHSA), testified in opposition to **SB 161**, contending that it targets a small group of frail, vulnerable elderly citizens who have made a life style choice to move to a retirement community which, in fact, relieves the burden on government and taxpayers. He pointed out the 4,000 older persons living on KAHSA's campuses across 31 counties in Kansas represent less than two percent of the over 65 population in Kansas. Contrary to testimony by proponents, the residents come from various socioeconomic backgrounds. They have experienced significant life changes which make it difficult to maintain their own home. Mr. Grace followed with a list of reasons older people chose to reside in non-for-profit housing, the most important reasons being nearness to health care services and a safe, secure environment. He pointed out that the resident does not get title to the property as does a community-dwelling homeowner. He went on to say that the retirement center fulfills the needs of the residents and provides a public benefit by reducing Medicaid costs by delaying entry to nursing homes. He noted that money that might have been paid for property tax is used to provide charitable care and improve services, thus, saving the state money.

Mr. Grace recalled that the League of Municipalities estimated that, if all of KAHSA's units were placed on the tax rolls, approximately $2 million of additional tax dollars would be collected for property tax relief. For the year 2000, that amount represents only 0.119 percent of the $1.674 billion collected for property tax relief. Furthermore, if the KAHSA communities in Reno, Harvey, and McPherson Counties were placed on the tax rolls and the money applied to the mill levy, the actual impact to a homeowner of a $65,000 valued home in those counties would be only a few dollars per year. He pointed out that state law provides the homestead property tax exemption for older persons who own their own home, which amounted to refunds of over $13 million to persons over the age of 65 or disabled in the year 2001. In his opinion, the issue of tax fairness might be better addressed through a revision of the homestead property tax refund program. As to the argument by the proponents of the bill that not-for-profit housing is "too nice," Mr. Grace noted that KAHSA builds units to last for many years with low maintenance rather than "shacks" which will require extensive maintenance and repairs in a few years. In conclusion, Mr. Grace emphasized that, with a growing older population and reduced government resources for housing and services, the role of not-for-profit housing will be more critical and valued in the coming years. (Attachment 12)

Mina Coulter, CEO of Friendly Acres Retirement Community in Newton, testified in opposition to **SB 161**. She explained that Friendly Acres serves individuals in the low to low-middle income levels, and 54 percent of the health care residents receive financial assistance through the state Medicaid program. Because Medicaid rates do not keep up with true costs, Friendly Acres currently provides between $150,000 and $200,000 of free care annually. Charitable contributions and rents from the cottages help make up for some of this shortfall. She noted that Friendly Acres recently conducted a survey of its residents to determine why they moved to the facility, and not a single resident stated that they moved to Friendly Acres so that they would not have to pay property tax. She went on to say that Friendly Acres strives to keep its rent as affordable as possible; however, during the past few years several residents had to move to more affordable, government subsidized HUD housing. She contended that if the bill passes, this trend will increase. (Attachment 13)

A.J. Rymph, a retired pastor and a Friendly Acres independent living resident, testified in opposition to **SB 161**. He noted that he and his wife moved to Friendly Acres in 1989 because they wanted to live adjacent to a nursing home, they had lived in parsonages and had no experience in home ownership, and it was affordable. However, if they were required to pay property taxes in addition to the amount of rent they pay, the financial impact would be painful. At the least, they would have to lower their standard of living. At the worst, they would have to look for somewhere else to live that they could afford. (Attachment 14)

Dr. Jim Morford, Administrator of the Ellsworth Good Samaritan Retirement Village, testified in opposition to **SB 161**. He explained that Good Samaritan has a variety of facilities serving rural Kansas. He noted that the average age of their senior housing residents is older than the average age of their nursing home residents. The longer they can remain in senior housing, the less time they will spend on Medicaid assistance. At Ellsworth, Good Samaritan has invested over $2.5 million in the past six years in new and expanded facilities. With a plan to invest more money in the next several years, Good Samaritan hopes that the environment will continue to be positive, encouraging seniors to remain in the rural community where they have spent a lifetime. (Attachment 15)

Sonia DeRusseau, Linn Community Nursing Home, testified in opposition to **SB 161**. The eight elderly persons her facility serves are aged and very frail. They live in seven apartments that were built in 1975 and are charged $450 per month for one and $500 for a couple. All of the apartments are equipped with call signals which light up in the nursing home and are answered by nursing home staff. All of the residents have multiple physical problems which prevented them from traveling to Topeka to express their opposition to the bill. (Attachment 16)

Ray Vernon, CEO of Wesley Towers in Hutchinson, testified in opposition to **SB 161**, noting that seniors at Wesley Towers are impacted by escalating health care costs, pharmacy bills, fixed incomes, and low interest rates, and cannot pay additional taxes/fees. He emphasized that the residents occupy but do not own the units, and many of the apartments are used for congregate (supportive) housing. He followed with a profile of Wesley Towers, which currently serves over 330 residents. Wesley Towers will provide over $400,000 of charitable care for its residents in 2003 and has never requested a resident to leave due to lack of financial ability to pay for services. Wesley Towers also subsidizes the Hutchinson Meals-On-Wheels program with over $80,000 per year, and it operates a community home heath agency. A recent study shows that Wesley Towers directly impacts the Reno County economy with over $9.4 million in sales and $4.9 million in wages, and this economic activity generated over $1.7 million in federal, state, and local tax revenues. In conclusion, Mr. Vernon called attention to several letters from residents indicating the burden additional taxes would place on their circumstances. (Attachment 17)

James Krehbiel, Schowalter Villa, testified in opposition to **SB 161**. He informed the Committee that over 80 percent of the independent living residents at Schowalter fall into the low to moderate income bracket. He is concerned about the effect the passage of the bill would have on these individuals who are on a very limited, fixed income. Schowalter already operates at the lowest feasible cost to its residents, and the increased costs to the residents from the bill's passage will mean the difference between independent living and government housing for many residents. Mr. Krehbiel noted that there is an alternative to the bill, namely, agreements with local city and county governments to help offset the costs of fire, ambulance, and other services cities and counties provide to retirement communities. Recently, Schowalter Villa reached an agreement with the City of Hesston wherein Schowalter will contribute up to $15,000 per year for city services for the next 15 years. In his opinion, there is no need to legislate a "one size fits all" approach. (Attachment 18)

In conclusion, Mr. Krehbiel introduced a long-time resident of Schwalter Villa, Irene Weaver, who spent much of her professional life in overseas mission work for the Mennonite church. Ms. Weaver explained that she lives on a fixed monthly income that is barely enough to pay her utility bills, grocery bills, medical expenses, and other costs of living. Even a $10 monthly increase in expenses would create a hardship for her. She urged the Committee to reject the attempt to place an additional tax burden on the elderly citizens of the state.

John Arnbrust, Manhattan Chamber of Commerce, testified in opposition to **SB 161**. He explained that Meadowlark Hills retirement community is a valuable asset to the Manhattan community and has a tremendous economic impact on the city, employing over 240. During the past few years, Meadowlark Hills has raised several million dollars in charitable gifts to offset the operating costs of their organization and to keep fees at the lowest possible level. However, investment income recently has been negative at Meadowlark Hills, insurance rates have skyrocketed over 100 percent, and reimbursement levels look difficult in the next several years. Further, seniors who reside at Meadowlark have suffered significant losses in income due to the economic climate. Mr. Arnbrust observed, "It seems untimely to tax these facilities at a time when it will not only burden the organizations but also the residents." (Attachment 19)

Senator Corbin called the Committee's attention to written testimony in opposition to **SB 161** submitted by Dr. Larry Bechtol for AARP Kansas. (Attachment 20)

George Becker, a 13 year resident of Lake View Village in Lenexa, stood in opposition to **SB 161**. In his opinion, Johnson County is giving the county away in tax abatements to people who have no more business getting tax abatements than the man in the moon. He contended that a great deal of extra income could be generated if tax abatements are used for what they were intended.

There being no others wishing to testify, the hearing on **SB 161** was closed.

The meeting was adjourned at 12:00 p.m.

The next meeting is scheduled for February 20, 2003.