

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chairperson Ron Ryckman at 9:00 am on Tuesday, February 09, 2016, 112-N of the Capitol.

All members were present

Committee staff present:

Kathy Holscher, Kansas Legislative Committee Assistant
David Fye, Legislative Research Department
Jennifer Ouellette, Legislative Research Department
Jill Wolters, Office of Revisor of Statutes
Daniel Yoza, Office of Revisor of Statutes
J.G. Scott, Legislative Research Department
Melinda Gaul, Administrative Assistant

Conferees appearing before the Committee:

No conferees present

Others in attendance:

[See Attached List](#)

Opening Remarks

Chairman Ryckman called the meeting to order. He stated that committee members have received copies of the Midwest Stem Cell Therapy Center Annual Reports([Attachment 1](#)) .

Representative Schwartz made a motion to approve the February 1, 2016 committee minutes.

Representative Rhoades seconded the motion. Motion carried.

Bill introductions

Representative Barker made a motion to introduce legislation regarding the Judiciary Branch.

Representative Macheers seconded the motion. Motion carried.

Representative Wolfe-Moore made a motion to introduce legislation regarding survivor death benefits for police and fire personnel who killed or die off duty. Representative Henry seconded the motion. Motion carried.

Representative Schwartz made a motion to introduce legislation regarding an update to weights and measures statutes. Representative Ballard seconded the motion. Motion carried.

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Informational briefing: Kansas University Central District Development Project

Chairman Ryckman welcomed members of the Board of Regents and University of Kansas representatives, Chancellor Bernadette Gray-Little, Jeff Gans, Special Counsel and Theresa Gordzica, Chief Financial Officer. He reviewed the process of the Central District Development Project to date, and concerns that were expressed during the interim budget committee meetings regarding the planning and implementation of project, project costs, the role and budget obligation of the legislature.

Chancellor Bernadette Gray-Little, Chancellor, University of Kansas, expressed appreciation of the committee's interest in the project. Committee members received information on the Central District Development Project ([Attachment 2](#)) The Central District Development Project addresses the following key areas: urgent needs at the university, 2 1/2 years of outreach by the university to the Board of Regents and the Legislature providing details of the project; addresses savings by utilizing a private/public partnership model; and efficiencies. The immediate needs that the project addresses include the following: integrated science building, residence hall and dining facility; student housing; new student union facility, new parking garage; and a new central utility plant. She stated that the university wanted to meet the challenge of the project without using additional state dollars or tuition rate increases, bundle components with self-generating revenue streams, and to ensure the State of Kansas was not liable for the project.

Jeff Gans, Special Counsel to the University of Kansas, provided a legal overview of the project. He stated that the guiding principles for the project execution included complying with Kansas law and regulations, presenting a project attractive to the market, which drives the cost down and provides a better product, and to deliver infrastructure assets to meet the needs of the university within the established timeline. Upon completion of the project analysis, it was determined that the most efficient method to finance the project was through bonding authority by a university affiliate. Mr. Gans provided an overview on the establishment of the Kansas University Campus Development Corporation (KUCDC). The corporation would insulate the university and the state from unexpected liability, he stated. The university's lease agreement with KUCDC enabled the corporation to obtain bonds to finance the project. The KUCDC borrowed \$326.9 million from the Wisconsin Public Finance Authority with interest on the bonds at 3.76 percent. The project development and construction costs are \$350 million, and upon completion the KUCDC will sublease the new facilities back to the university. The university will pay a sublease payment of approximately \$21.8 million annually to KUCDC for bond principal and interest payments, and issuer and trustee fees. The ownership of the land and facilities remain with the university and the State, he added. In regards to obtaining bonding authority, he stated that the Kansas Development Finance Authority (KDFA) would not issue the bonds, as the project involved research facilities, and unless there were additional approvals. Due to the timelines for the project, the decision was made to continue work with Edgemoor Infrastructure and Real Estate LLC. This partner was identified in June, and had been working on pre-development and design of the project, as well as identifying subcontractors for the project, Mr. Gans noted. A review of the time frame for submitting the offering statement to the market followed.

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Jeff Gans responded to questions from committee members. He stated that the KUCDC was formed to borrow the bond proceeds, with the liability for the debt payable by the lease agreement with the university. Edgemoor is the private partner, whereas, the university and KUCDC are the public partners, he stated. The financial risk factor for Edgemoor applies to the performance of the terms of the contract agreement. The University of Kansas is owned by the State of Kansas, and with the lease agreement the university is obligated to make these payments. Discussion followed regarding concerns for the state's obligation should the university default on payments. The credit rating remained the same for the university, however, the credit outlook was downgraded from stable to negative, pending further review on the progress of the project.

Theresa Gordzica provided information on the interest rate for the bonds and responded to questions from committee members. She stated that the interest on the sale of the bonds was 3.76 percent and the bonds carry a AA 2 rating, which is the same as the university's rating, in part to lower the interest cost. She reviewed the university's debt and lease payment agreement, which complies with financial accounting standards. She stated that prior to the sale of the bonds there was \$430 million in outstanding debt and \$327 million was added with the bond, with a total debt after the interest paid, of \$731 million. The national guidelines for debt ratio is 7 percent, and even with the addition of \$80 million for other projects, the university is at 5 percent, she added. The bond agreement closed on January 21, 2015, for a 30 year term with a total savings on the bonds of \$47 million. The total cost of the project is \$350 million, bond proceeds were \$327 million, of which \$56 million in premiums was received. The capitalized interest during the construction period is approximately \$30 million, \$1 million for the cost of issuance of the bonds and \$1.4 million for the underwriter for the sale of the bonds, she stated. The 30 year term for the bond issuance is \$326 million and \$322 million for interest over the 30 year period, for a total cost of \$648 million. She reviewed the funding mechanisms for the lease payments, which included \$7.5 million in housing revenue, \$1 million in parking funds and new student union fees that were to sunset but were retained. Other funding resources included the following: Changing for Excellence funds; streamlining administrative processes; consolidation of facility operations, improved purchasing contracts and strategic sourcing efforts; centralized the IT department; and increase out-of-state enrollment, for a total lease payment of \$21.8 million annually. She noted that there was approximately \$10,000 more per year for bonding through Wisconsin Public Finance Authority as opposed to KDFA.

Representative Hutton reviewed the University Debt and FTE Enrollment information for the Regent Institutions ([Attachment 3](#)). This data was posted on-line by the Board of Regents.

Discussion followed by committee members. It was noted that the debt for the University of Kansas, in the amount of \$1.562 billion includes the interest. Theresa Gordzica stated that \$404 million is in long-term bond debt and \$425 million for short-term bond debt. The cost for the Student Union is approximately \$10.5 million and the \$17 a semester student fee will cover 100% of this cost over the 30 years, based on current enrollment. In regards to amendments in the House Appropriations Committee budget bill would limit spending from Special Revenue funds, and the amendment in the Senate Ways and Means Committee budget bill would prevent the university from making the lease

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payments, Ms. Gordzica stated. Discussion followed regarding naming rights for the new facilities. Chancellor Gray-Little stated that plans do not include naming rights or donations, however, donors will be solicited for naming a classroom, lab or auditorium. She reviewed the timeline for the project, and discussed the funding efforts for a new Science lab that has been needed for 20 years. She added that donors for basic academic facilities are less likely to contribute than those from identified business groups. Theresa Gordzica stated that in early September 2015, the KDFA determined that they would not authorize bonding for the project and six other financing authorities were contacted. The debt rating change from stable to negative was in November 2015, which is typical prior to the selling of bonds, she added. The authority of the corporation is set by statute and Board of Regents policies, it was noted. A review of the separate affiliate corporations within the university followed. As requested, additional information will be forthcoming regarding other universities that have similar funding models, private and public partnerships authorization for those that have no legislative framework, and private and public partnerships where no equity or financing is involved. Discussion followed regarding the involvement of the Board of Regents. It was noted that the Board of Regents final action for approval of the project was in November. Bill Feuerborn, Member, Kansas Board of Regents, responded to questions from committee members. He stated that at the time that project costs and timetable were brought to the board. He had expressed concerns with both the Chairman and Speaker of the House, additional information was provided, and the project was approved by both the Fiscal and Audit Affairs Committee and full Board of Regents. The need to develop policies and guidelines for these projects going forward was emphasized. Concern was expressed that there are no private donations for the project that it is funded solely by bonds, and that 30 percent of the project costs will be paid by students and 70 percent by the university. Theresa Gordzica responded that the housing operations, parking, lease payments and growth in enrollment will pay for the debt. Based on 90 percent occupancy, approximately \$7.6 million in revenue would be generated from housing revenue. With a controlled affiliated corporation, the financial accounting standards requirement is such that the corporation is consolidated with the university. Jeff Gans reviewed the pre-development fees and risk factors for Edgemoor. It was noted that the pre-development fees were \$10 million. A review of the formal agreement with the university and the contractors followed. Edgemoor has the construction contract and the university will review schedule of values that matches the progress of the project, Mr. Gans stated. The concern was expressed that the Edgemoor, the developer, is owned by Clark Construction Company and that there is no fiduciary responsibility to the university.

Shane Bangerter, Chairman, Board of Regents, stated that the Board took an extensive look at the debt within all of the regent's universities, regarding what is being built, the cost of the project and is it affordable, and will the project effect the cost of tuition. The Board is as equally concerned as is the state and wants to work collaboratively on these higher education issues.

Chairman Ryckman thanked the Chancellor and university representatives and well as members of the Board of Regents for the exchange of information in committee. He stated that there are a number of questions that remain to be clarified and additional information that has been requested, which will be discussed further in committee. Additional questions can be submitted to Melinda Gaul, which will be addressed by either the university or the Board of Regents, he added.

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Meeting adjourned at: 10:42 a.m.

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