

## ED.01 - Excess Cash Carryover Balances

## RECOMMENDATIONS

Target Savings and Revenue Estimate (All values in 2015 dollars, in 000s)								
Rec #	Recommendation Name	FY16	FY17	FY18	FY19	FY20	FY21	Total
1	Excess Cash Carryover Balances Reduction	S-	\$40,000	\$40,000	\$40,000	\$40,000	\$33,000	\$193,000
2	New Grant and Foundation Opportunities	S-	\$299	\$299	\$299	\$299	\$299	\$1,495
3	Reorganization of KSDE IT Functions	S-	\$500	\$500	\$500	\$500	\$500	\$2,500
4	K-12 Benefit Program Consolidation	S-	\$40,000	\$80,000	\$80,000	\$80,000	\$80,000	\$360,000
5	Collaboratively Source Select Categories on a Statewide Basis	\$-	\$7,200	\$9,000	\$9,000	\$9,000	\$9,000	\$43,200
6	Expand participation of the K-12 Unified School Districts (USDs) in Insurance Pool Program(s)	\$75	\$725	\$1,375	\$1,875	\$2,375	\$2,875	\$9,300
<b>Department of Education Total</b>		<b>\$75</b>	<b>\$88,724</b>	<b>\$131,174</b>	<b>\$131,674</b>	<b>\$132,174</b>	<b>\$125,674</b>	<b>\$609,495</b>

## DEPARTMENT OF EDUCATION

**Recommendation #1 – Reduce Excess Cash Carryover Balances**

The state of Kansas currently has 286 school districts. Each school district carries a cash balance within more than 30 different funds, such as general funds and reserve funds, to pay various operating and capital expenses. The combined cash balance carried within these funds has continued to increase disproportionately in relation to the increase in annual expenditure. To reduce excess cash carried over by school districts, the state should establish a recommended guideline for carrying an Adjusted Cash Balance (ACB), as defined below, within each fund as follows:

- Minimum Adjusted Cash Balance of 10% of its annual operating expenditure
- Maximum Adjusted Cash Balance not to exceed 15% of its annual operating expenditure
- The Adjusted Cash Balance should preferably be

retained within the Reserve funds, where possible, instead of being retained across 30+ different funds

- Any Adjusted Cash Balance in excess of the maximum allowed per the state guideline, can be deducted from future funding from state based on a three, five, or seven year amortization of the excess funds

**Background and Findings**

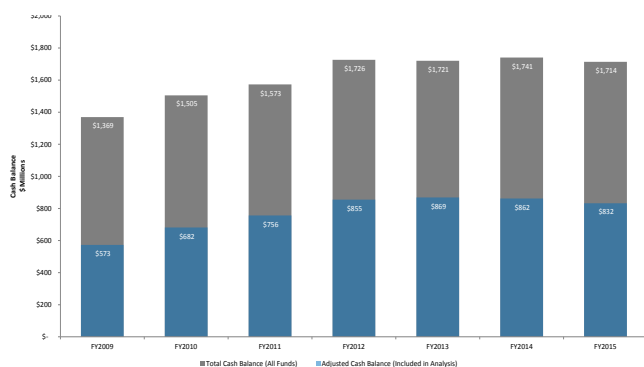
A&M compared the Total Cash Balance for each school district at the beginning of the fiscal year (July 1st) to the operating expenditure during the fiscal year from FY2009 to FY2015<sup>4</sup>. All 286 school districts were grouped into three groups based on 2015 student enrollment to form comparison peer groups as follows:

- Group 1: Enrollment less than 1,000
- Group 2: Enrollment between 1,000–5,000
- Group 3: Enrollment greater than 5,000

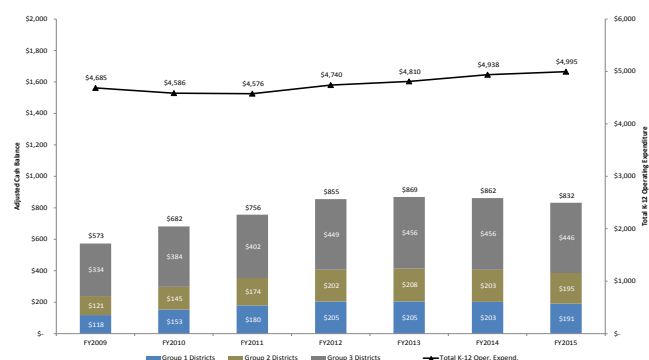
<sup>4</sup> Cash balance, student enrollment, and annual expenditure data for school districts sourced from Kansas State Department of Education

District Group	No. of Districts	Adjusted Cash Balance	FY15 Operating Expenditure
Group 1	207	\$190,817,929	\$1,106,820,857
Group 2	59	\$194,982,550	\$1,231,019,503
Group 3	20	\$446,428,403	\$2,657,625,912
Total	286	\$832,228,882	\$4,995,466,272

Furthermore, A&M reduced Total Cash Balances by cash balance retained within Federal Funds, Capital Outlay, Gifts/Grants, and Bond & Interest Funds to focus on unencumbered funds, to yield Adjusted Cash Balance (ACB). The chart below compares cash balance in all funds versus the cash balance for the funds included in the analysis.

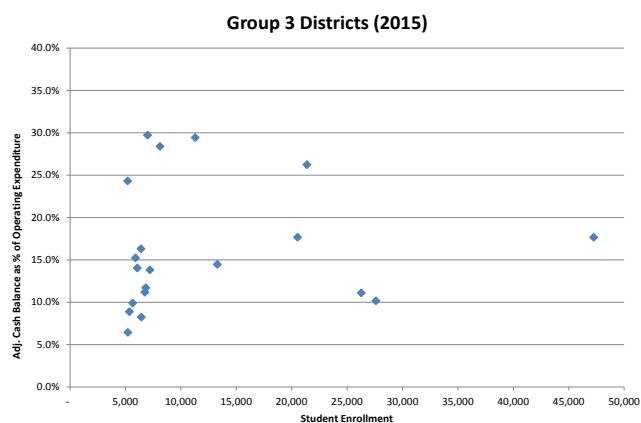
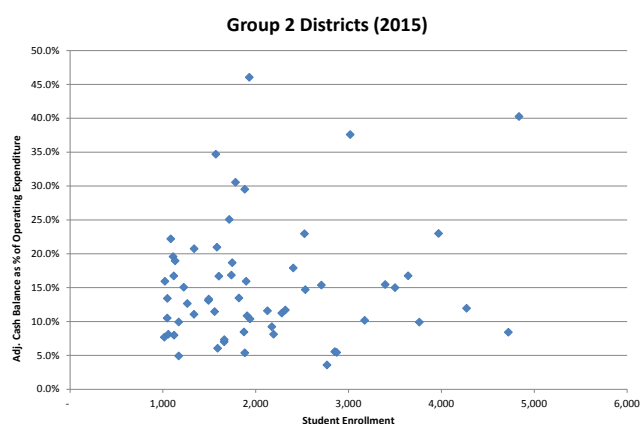
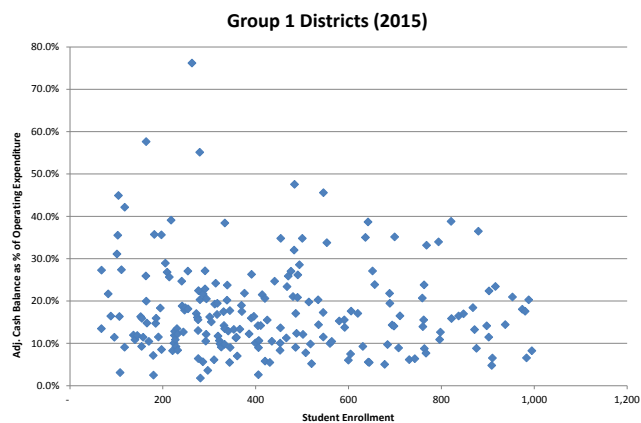


Analysis of the ACB carried over by school districts (see chart below) indicates the total year-end ACB has increased by 45% from 2009 to 2015 while operating expenditure has only increased by 7%. Also, the ACB has increased more significantly for Group 1 and 2 districts by 61% compared to 34% increase for Group 3 districts.



Additionally, the ACB carry over analysis shows (reference the following three scatter charts):

- There is a lot of variation on the ACB maintained by the school districts relative to their peer group
- The smaller school districts have greater variation in ACBs
- The variation in ACB across school districts has increased progressively from 2009 to 2015



Given the findings from the ACB analysis, A&M reviewed the cash balance best practices recommended by the Government Finance Officers Association (GFOA). According to GFOA <sup>5</sup>:

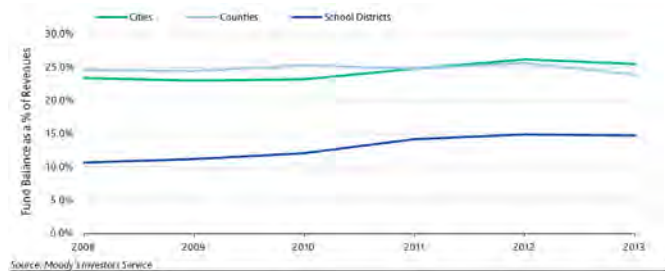
- *School districts should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The policy should address, at a minimum:*
  - » *the target level of fund balance to maintain;*
  - » *the appropriate uses of fund balance;*
  - » *who can authorize the use of fund balance;*
  - » *and guidance on how fund balance will be replenished to target levels after it has been used.*
- *With respect to the target level of fund balance to maintain, the adequacy of unrestricted fund balance in the general fund should be assessed based upon a district's own specific circumstances. GFOA recommends, at a minimum, that school districts, maintain unrestricted fund balance in their general fund of no less than 10 percent of regular general fund operating revenues or regular general fund operating expenditures and operating transfers out (if applicable). The choice of revenues or expenditures as a basis for the reserve amount may be dictated by what is more predictable in a district's particular circumstances.*
- *In determining the right level of unrestricted fund balance for its precise circumstances, a district should analyze the risks that it faces and establish reserve levels commensurate with those risks <sup>6</sup>:*
  - » *Minimal risk to retain through reserves: Consider a target equal to the GFOA minimum recommended reserve of 10% of revenues/expenditures.*
  - » *Low to moderate level of risk to retain through reserves: Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 11%-15% of revenues/expenditures).*
  - » *Moderate to high level of risk to retain through reserves: Consider adopting a target amount*

*of reserves significantly higher than the GFOA recommended minimum (e.g., 15% - 25%).*

- » *High level of risk to retain through reserves: Consider adopting a much higher target than the GFOA minimum (e.g., greater than 25%).*

A&M also referenced the fund balance data from Moody's Investor Service that compares median fund balances across a large sample of local government sub-sectors (reference chart below)<sup>7</sup>. This data indicates:

- The median fund balance for school districts ranges between 10% - 15%
- According to Moody's, "While the median for school districts is notably lower than that of cities and counties, this is consistent with our observation that school districts need less fund balance to operate consistently given generally more predictable revenues and expenditures."



	Cities	Counties	School Districts
2013 Fund Balance as % of Revenues	25.4%	23.9%	14.6%
2012 Fund Balance as % of Revenues	26.2%	25.6%	14.8%

Source: Moody's Investor Service

The following tables summarize the aggregate ACB for districts carrying an ACB below 10%, between 10%-15%, between 15%-25%, and above 25%:

Districts with Cash Balance < 10%				
District Group	No. of Districts	7/1/2014 Adj. Cash Bal.	Cash Balance at Ceiling Rate	Under-funded Cash Reserve
Group 1	47	\$19,435,832	\$40,715,996	\$(7,708,165)
Group 2	17	\$26,081,140	\$54,294,765	\$(10,115,370)
Group 3	4	\$16,924,818	\$30,438,598	\$(3,367,581)
Total	68	\$62,441,790	\$125,449,359	\$(21,191,116)

<sup>5</sup> Source: GFOA Best Practices in School Budgeting, [www.gfoa.org](http://www.gfoa.org)

<sup>6</sup> Source: GFOA\_PK12\_GFRReserveCalculation-Worksheet

<sup>7</sup> "2013 US Local Government Medians Demonstrate Stability of Sector," Moody's Investor Service, August 21, 2014

District Group	Districts with Cash Balance 10% - 15%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	Cash Balance at Ceiling Rate	Excess Cash
Group 1	54	\$33,501,401	\$40,405,602	\$-
Group 2	16	\$37,243,540	\$46,796,247	\$-
Group 3	7	\$115,457,971	\$146,029,123	\$-
Total	77	\$186,202,912	\$233,230,972	\$-

District Group	Districts with Cash Balance 15% - 25%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	Cash Balance at Ceiling Rate	Excess Cash
Group 1	68	\$72,899,791	\$57,224,101	\$15,675,690
Group 2	19	\$70,198,131	\$58,061,866	\$12,136,265
Group 3	5	\$174,472,529	\$147,140,885	\$27,331,644
Total	92	\$317,570,451	\$262,426,853	\$55,143,598

District Group	Districts with Cash Balance > 25%			
	No. of Districts	7/1/2014 Adj. Cash Bal.	Cash Balance at Ceiling Rate	Excess Cash
Group 1	38	\$64,980,905	\$27,677,429	\$37,303,476
Group 2	7	\$61,459,739	\$25,500,047	\$35,959,692
Group 3	4	\$139,573,085	\$75,035,280	\$64,537,805
Total	49	\$266,013,729	\$128,212,756	\$137,800,973

School districts with ACB below 10% are potentially under-funded and may require intervention and remediation by the State to maintain 10% minimum ACB. School districts with ACB between 10%-15% are at the appropriate level and do not require any change. The excess cash carried over by all remaining school districts (\$193 million) could be used to offset future education funding. This ACB drawdown can be accomplished evenly over a 5-year period to allow smoother transition for districts to the adequate level of ACB.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$40,000	\$40,000	\$40,000	\$40,000	\$33,000

### Key Assumptions

- Stability of funding for the school districts by the state during the school fiscal year would be prerequisite to local school boards accepting the targeted ACB in the 10%-15% range. High level of uncertainty in the level and timing of funding will

result in the need to maintain higher ACBs.

- Low exposure for school districts to unexpected spikes in expenditures (e.g. from extreme events, law suits, etc.).
- No conflicting restrictions from credit rating agencies to maintain a target level of general reserve fund.

### Critical Steps to Implement

The critical steps necessary to complete the implementation of the excess cash carryover reduction recommendation include:

- Development of a comprehensive policy on the target level of ACB that should be maintained by the school districts including: the appropriate uses of cash balance; who can authorize the use of cash balance; and guidance on how cash balance will be brought back to target levels if it falls out of range.
- Establish quarterly reporting of cash balances for each school district.
- Establish a committee made up of representatives from KSDE and school districts to review quarterly cash balance reports and identify quarter-to-quarter material variations and underlying reasons for such material change. The magnitude of "material change" should be a subject of further study.
- At the end of each school fiscal year, compare the lowest monthly cash balance for the four reported quarters with the annual expenditure for each district. If the cash balance exceeds the target level, calculate the excess cash carried over by the district.
- Estimate the adjustment in funding required for districts with excess cash. Reduce the following years funding by 20% of the excess cash balance upon the committee's approval, while taking any exceptions into consideration.

The expected time to implement the recommendation is six to nine months but could take longer if statutory or regulatory changes are required.

## ED.05 - Collaboratively Source Select Categories on a Statewide Basis

rent plan options and costs at the districts, indicating that there is opportunity for savings through a consolidated program. In order to develop refined cost and savings figures, the State must take a number of critical steps, including:

- Establish a project management team and health-care committee (similar to SEHP) for detailed assessment of 286 districts in order to determine actual recommended program with actual premiums for consolidated program.
- Expand current actuarial services contract scope to conduct the assessment or issue a RFP for new actuarial service provider for the detailed assessment of all 286 district programs.
- Collect complete health plan information from each district including:
  - » Detailed census data for all K-12 employees and retirees
  - » Current plan detail and plan design
  - » Current and historical cost/contribution
  - » Historical claims
  - » Benefit eligibility and district administrative structure
- Provide analysis for potential program designs and cost impacts addressing plan options including, but not limited to:
  - » Number of plan options and specific plan designs
  - » Cost and contribution structure
  - » Administrative structure (i.e. district opt-in/opt-out)
- Gain key stakeholder consensus and support to encourage local district participation in this new approach. Key stakeholders include: Kansas Association of School Boards (KASB), Kansas National Education Association (KNEA), Kansas School Superintendents Association (KSSA), and the United School Administrators of Kansas. This could be achieved through participation in the proposed healthcare committee.
- Establish health plan with current SEHP third party administrator—Blue Cross Blue Shield of

Kansas.

- Increase SEHP staff by 10-15 employees to administer the K-12 program.

Assuming district participation, it is anticipated K-12 consolidation of health benefits can be completed for a January 1, 2017 effective date. The implementation will take significant time and manpower. In the event the program does not utilize the current SEHP actuary or third party administrator and an RFP is needed, the effective date of the program may be delayed. The recommendation would require a change in statute that would require all districts to purchase health insurance through the newly founded program.

### **Recommendation #5 – Collaboratively Source Select Categories on a State-wide Basis**

- The school districts should join the Department of Administration (DOA) and strategically source specific spend categories to drive greater cost savings for the school districts.

#### Background and Findings

School districts execute their procurement activities in a decentralized manner and independent of the state's Procurement and Contracts group. At their discretion, each school district can utilize state contracts negotiated by the Procurement and Contracts group, utilize cooperative agreements or negotiate contracts individually. This level of autonomy makes it difficult for the school districts to truly leverage their collective volumes fully with each other and the state, since contracting phases are not synchronized, spend data is not consolidated or analyzed and requirements are not standardized.

Despite these challenges, there are some categories of spend that are still suitable for collective sourcing with the state. A&M analyzed FY15 expenditure data from seven school districts (Blue Valley, Kansas City Kansas, Lawrence, Olathe, Shawnee Mission, Topeka and Wichita). This expenditure data represents approximately \$443 million or 30% of the overall addressable school district spend. The evaluation identified seven categories that should be included in the first three waves of a statewide strategic sourcing event outlined in Procurement Recommendation #1. In these cases, either the school districts are utilizing the state's con-



tract or they are using some of the same suppliers that the state agencies and universities currently utilize. The sourcing of these categories collaboratively with the Procurement and Contracts group could yield between \$9 million - \$23 million (includes federal and state funds) in additional annual savings to school districts.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$7,200	\$9,000	\$9,000	\$9,000	\$9,000

### Key Assumptions

- The projected savings are dependent on combining the school district and state spend in the strategic sourcing event outlined in Procurement Recommendation #1.
- The procurement categories A&M recommends for sourcing are as follows:
  - » Maintenance, Repair & Operations
  - » IT Equipment
  - » IT Services
  - » Food
  - » Electricity (see Procurement Recommendation #9)
  - » IT Software
  - » Fuel
- The Procurement and Contracts group will lead the strategic sourcing exercise.
- Key stakeholders representing the school districts will be available to provide information and input as required.
- School districts can terminate existing contracts for the target categories without penalty.
- The savings associated with some categories are dependent on the state implementing procurement efficiency recommendations.

### Critical Steps to Implement

- Identify and assign key stakeholders to assist with the sourcing event.
- Finalize the target categories for the strategic sourcing event.

- Execute strategic sourcing process steps with DOA category management teams.
- Local districts must be willing to collaborate and participate with this process in order to capture the proposed savings.

## **Recommendation #6 – Expand participation of the K-12 Unified School Districts (USDs) in Insurance Pool Program(s)**

Specifically, the Department of Education (KSDE) should:

- Increase participation of K-12 Unified School Districts (USDs) in an existing group-purchased P&C "pool" insurance program, designed for school districts such as the currently established Kansas Education Risk Management Insurance Pool (KERMIP) program administered by Arthur J. Gallagher Risk Management Services Inc. (AJG), or alternatively form new pool(s).
- Form a separate pool ("Large USD" pool program) for six of the ten largest districts that have unique risk profiles and fall outside the parameters of a pool program designed for small to mid-size USDs.

### Background and Findings

- The purpose of a pool program is to share risk, leverage purchasing power, and maximize insurance coverage terms for Kansas USDs.
- From inquiries to a representative 24 USDs and to the KERMIP program administrator, AJG found that only 10 of the total 286 Kansas USDs currently participate in a pool program. The first pool program was approved in Kansas only about a year ago, affording significant opportunity for participation expansion.
- Ten USDs are estimated as eligible for a separate "Large USD" pool program.
- A benchmarking interview was conducted with pool program administrator and industry expert, Arthur J. Gallagher, Risk Management Services Inc. (AJGRMS) to evaluate the potential savings to be achieved by K-12 USD pool program participation. Currently, ten K-12 USDs participate



## ED.06 - K-12 USDs Insurance Pool Participation

tract or they are using some of the same suppliers that the state agencies and universities currently utilize. The sourcing of these categories collaboratively with the Procurement and Contracts group could yield between \$9 million - \$23 million (includes federal and state funds) in additional annual savings to school districts.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$7,200	\$9,000	\$9,000	\$9,000	\$9,000

### Key Assumptions

- The projected savings are dependent on combining the school district and state spend in the strategic sourcing event outlined in Procurement Recommendation #1.
- The procurement categories A&M recommends for sourcing are as follows:
  - » Maintenance, Repair & Operations
  - » IT Equipment
  - » IT Services
  - » Food
  - » Electricity (see Procurement Recommendation #9)
  - » IT Software
  - » Fuel
- The Procurement and Contracts group will lead the strategic sourcing exercise.
- Key stakeholders representing the school districts will be available to provide information and input as required.
- School districts can terminate existing contracts for the target categories without penalty.
- The savings associated with some categories are dependent on the state implementing procurement efficiency recommendations.

### Critical Steps to Implement

- Identify and assign key stakeholders to assist with the sourcing event.
- Finalize the target categories for the strategic sourcing event.

- Execute strategic sourcing process steps with DOA category management teams.
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- Form a separate pool ("Large USD" pool program) for six of the ten largest districts that have unique risk profiles and fall outside the parameters of a pool program designed for small to mid-size USDs.

### Background and Findings

- The purpose of a pool program is to share risk, leverage purchasing power, and maximize insurance coverage terms for Kansas USDs.
- From inquiries to a representative 24 USDs and to the KERMIP program administrator, AJG found that only 10 of the total 286 Kansas USDs currently participate in a pool program. The first pool program was approved in Kansas only about a year ago, affording significant opportunity for participation expansion.
- Ten USDs are estimated as eligible for a separate "Large USD" pool program.
- A benchmarking interview was conducted with pool program administrator and industry expert, Arthur J. Gallagher, Risk Management Services Inc. (AJGRMS) to evaluate the potential savings to be achieved by K-12 USD pool program participation. Currently, ten K-12 USDs participate

in the Kansas Educational Risk Management Insurance Pool (KERMIP) program administered by AJGRMS. This program is non-assessable—meaning the pool program cannot assess additional cost to its members in the event of adverse loss experience. Furthermore, there is a potential for surplus to be returned to members at the end of the year if the program's success continues. USDs entering the program, received increased property and liability insurance coverage limits, while decreasing their annual premium amounts. Of the 10 USDs that are currently KERMIP members, premium savings ranging from 15.47% to 49.53% were achieved by moving from their traditional property/casualty insurance programs to the pool program. The average premium savings for these 10 USDs was 25.85%.

USD	Premium Cost
	Savings by Pool Participation
District 1	-36%
District 2	-28%
District 3	-27%
District 4	-50%
District 5	-32%
District 6	-23%
District 7	-20%
District 8	-18%
District 9	-15%
District 10	-43%
<b>Average</b>	<b>-26%</b>

*(excludes 10 largest districts)<sup>8</sup>*

- A separate pool program is recommended for the 10 largest USDs due to their unique risk exposures and coverage terms that fall outside the parameters of a pool program designed for small to mid-size USDs. Based on its industry expertise, AJGRMS estimated that Large USDs could achieve average premium savings of 10% by participation in a pool program.

<sup>8</sup> Kansas Educational Risk Management Insurance Pool (KERMIP) Property/Casualty District Savings - program administered by Arthur J. Gallagher Risk Management Services, Inc.

Recommendation #6 - (dollars in 000's)					
FY16	FY17	FY18	FY19	FY20	FY21
\$75	\$725	\$1,375	\$1,875	\$2,375	\$2,875

### Key Assumptions

- KSDE and Attorney General approval of KERMIP pool program expansion (anticipated by January 2016), allowing time for communication to USDs, gathering of underwriting data, and enrollment of the estimated number of USDs for FY16.
- Of the 286 USDs eligible for pool participation (excluding the 10 largest USDs for which a separate pool program is recommended), ultimate total participation in a pool program is estimated at about half, or 132-140 USDs, with the expectation that participation will be phased in from FY16 initial implementation through to FY21.
- FY16 pool participation is estimated at 15 USDs, in addition to the 10 already in the existing KERMIP program.
- Estimated 25 USDs will become pool members during each of the next five years.
- Total participation in the recommended separate "Large USD" pool program is estimated at six of the ten largest USDs, phased in over three years.
- Premium cost savings for each pool participant is conservatively estimated at 20% (or \$20,000 annually) of an average annual \$100,000 P&C premium for the majority of USDs; and 10% of an average annual \$500,000 P&C premium for each of the 10 largest USDs, based on the current USD pool participation savings identified in the benchmarking section below.
- A pool program should be "non-assessable" or include aggregate stop loss protection to avoid the potential for additional assessments being charged to members in the event of adverse pool loss experience.

### Critical Steps to Implement

The critical steps necessary to complete the implementation of recommendation #6 include:

- KSDE and Attorney General approval of existing insurance pool program participation by January

2016.

- Recommended new Office Risk Management (to be established established in fourth quarter FY16) works with USDs and pool market(s) to coordinate and facilitate an efficient communication, underwriting, and program enrollment process.
- New pool program for the largest 10 USDs is created and enrollment commences in FY17.
- Local districts must be willing to collaborate and participate with this process in order to capture the proposed savings.

## REAL.03 - Disposition of State Owned, Surplus Properties

## Recommendation #2 – Leasing decisions for all state agencies should be centralized within DOA under the existing state Leasing Coordinator in order to achieve savings on personnel costs

### Background and Findings

- Fifty-eight individuals currently handle leasing operations across all state agencies as part of their responsibilities.
- Titles for these FTEs range widely, from Office Specialist to Executive Director.
- None of the personnel assigned to manage their agency's leasing operations have a real estate title or job description.
- The average FY 2014 salary of all personnel was \$62,476.

### Key Assumptions

- On average, each FTE spends 5%-10% of his/her time on leasing operations.
- Fully burdened cost per FTE at \$84,343 (\$62,476 plus 35% mark-up) on average.
- That state can identify positions for reduction across the agencies.
- Assume that the state can identify positions for reduction across the agencies.

### Critical Steps to Implement

- Dedicate two of the 58 current FTEs into DOA to create a new leasing operations team, reporting to the state leasing director. This personnel shift will be revenue neutral.
- All personnel will handle multiple agencies; however, the two individuals will come from (and continue to have responsibility for) the Department for Children and Families (2), the Department of Revenue, or the Department of Transportation.

Recommendation #2 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$448	\$456	\$466	\$475	\$484

## Recommendation #3 – Hire an external real estate PMO to identify, value, market, and sell surplus state owned building and land

### Background

- According to the property list provided by the state ("Land-Bldg. List.doc"), the state owns nearly 12,300,000 sq. ft. of building space and nearly 179,000 acres of land.
- Utilizing input from the DOA and the Office of the Budget, A&M identified potential surplus properties across different state agencies and provided estimates of their respective potential, to generate value to the state.
- A&M worked closely with each state agency owning surplus property to first confirm that the properties were indeed surplus and to ascertain the most appropriate path to market.

### Findings

- A&M estimates that between surplus building and land inventory within the state's portfolio, there is an estimated \$9 million in potential value.
- A&M found that state agencies might be reluctant to sell any excess property given that the agency only keeps 20% of the proceeds. The remaining 80% would be paid to the state pension fund.
- Additionally, the process for obtaining the appropriate state approval to move surplus properties to market can be too long, leading to an increased potential for sales to not be completed.

### Key Assumptions & Methods

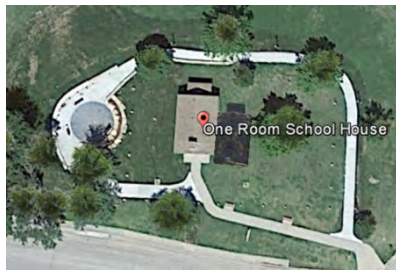
- Estimated values of surplus buildings were calculated using a comparable sales approach combined with market inferences from local brokers and key members of the DOA.
- In the analysis of comparable properties, it was assumed that land value is incorporated into the sale of the building; therefore, building values were estimated on a value per sq. ft. of building area basis. For certain properties containing large tracts of land, or properties located in or near high population areas, land value instead of



building value was estimated.

- For properties in which market data differed from value estimations of local brokers or real estate experts, a range of estimated value was created.
- A&M also analyzed the state property portfolio to identify properties with abnormally large tracts of land in high value areas. Using the assumption that 10% of these large plots could be sold or leased at market value, A&M calculated the potential value.
- The average Kansas state property tax rate is 1.4% of the appraised property value. Due to the fact the appraised property value will typically be lower than a third party value estimate, property tax income estimates were made based on the lower property value estimates.

#### Surplus Property Overview



1830 Merchant St, Emporia, KS	
Estimated Value	\$140,000 - \$144,780



55 NE US 96 Highway, Crestline, KS	
Estimated Value	\$32,340



2308 1 <sup>st</sup> Ave, Dodge City, KS	
Estimated Value	\$180,508



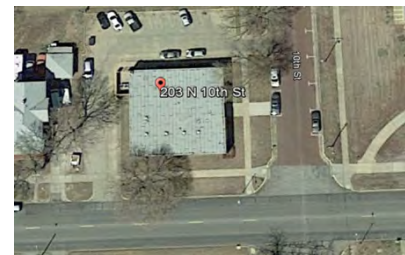
1430 SW Topeka Blvd, Topeka, KS	
Estimated Value	\$1,712,297



107 Spruce Street, Garden City, KS	
Estimated Value	\$77,332



332 E 8 <sup>th</sup> St., Hays, KS	
Estimated Value	\$300,000 - \$498,375



203 N10 <sup>th</sup> St., SALINA, KS	
Estimated Value	\$80,640 - \$125,000



414 & 420 SW JACKSON ST, TOPEKA, KS	
Estimated Value	\$72,912



620 N Edgemore, Wichita, KS	
Estimated Total Value	\$3,427,151 - \$3,674,666
Estimated State Tax Revenue	\$47,980
Estimated Value	\$831,122

### Surplus Property Overview

- In addition to the surplus properties identified by the state, A&M analyzed additional state owned properties with high potential to yield excess or unused land.
- While the land parcels recommended to be part of the land disposition program have been reviewed with the DOA, they have not received the approval of the individual state agencies, which currently control them. Additional due diligence would be necessary to determine how each state agency would play a role in the disposition program.
- This particular land surplussing opportunity also represents a chance to align agencies and land, to provide a bulk land sale/lease program.
- During its due diligence of this potential land surplus program, A&M discovered several critical pieces of data:

- » The Dept. of Corrections has already made attempts to sell surplus land.
- » In the past, state legislature required an inventory of all state land and the sale of any land determined to be surplus. Land was sold at WCF (Winfield) and the Dept. of Corrections attempted to sell land at LCF (Lansing) and KJCC (Topeka) but had no bidders.
- » The Department of Corrections currently leases land to farmers at NCF (Norton) and LCMHF (Larned). KCI farms land at LCF and HCF (wild horse program).
- » Similar inquiries have been made with regard to the status of excess land owned by the Adjutant General; however, due to the complexity of funding allocations and mission goals, the Adjutant General demonstrated limited interest in selling any of the identified properties.

#### State Owned Surplus Land

Agency	Address	Size	Value
El Dorado Correctional Facility	1737 SE Highway 54, El Dorado, KS	615 Acres	\$300,000
Dept. of Labor	6425 SW 6th Ave, Topeka, KS	82 Acres	\$1,235,096
Kansas Neurological Institute	3107 W 21st St, Topeka, KS	221 Acres	\$3,730,566
Dept. of Veterans Affairs	5181 Wildcat Creek Road, Manhattan, KS	90 Acres	\$163,212
Estimated Sales Total:			\$5,428,874
Estimated State Tax Revenue:			\$74,004

- The chart below estimates potential revenue from the sale or lease of 10% of the land listed (> 80 Acres).

### Findings

- El Dorado Correctional Facility – 1737 SE Highway 54, El Dorado, KS: The Department of Corrections has indicated that it has taken portions of its owned portfolio to market in the past with mixed levels of success. Given that the sale process would be streamlined through creation of a single PMO dedicated solely to property dispositions, and considering the large amount of land,

there would be a higher potential for a successful sale if this property were to be taken to market. Additionally, given the fact that there have been previous attempts to sell portions of Lansing Correctional Facility, and Topeka Correctional Facility, which were unsuccessful, A&M anticipates a high probability of a successful solicitation.

- Dept. of Labor - 6425 SW 6<sup>th</sup> Ave, Topeka, KS: While redevelopment attempts have been made for this land, indicating a state interest in the disposition of the property, there has been limited success. Under a joint solicitation through a single PMO structure, there is a much greater probability of a successful sale.
- Kansas Neurological Institute - 3107 W 21st St, Topeka, KS: Development attempts have been made on this parcel, indicating a state interest in its potential sale. Several market factors such as the properties proximity to a VA hospital and the KNI would need to be considered for the solicitation of this land.
- Dept. of Veterans Affairs – 5181 Wildcat Creek Road, Manhattan, KS: The real estate market in Manhattan has grown considerably over the past decade with increased population of Kansas State, indicating a high potential for sale. A portion of the property is being utilized as a VA graveyard, so additional due diligence will be necessary to verify the viability of the sale.

#### Critical Steps to Implement

- Attaining the buy-in and cooperation of respective state agencies will be crucial to the disposition process. A&M recommends that the state institute a one-year moratorium on the law requiring 80% of net proceeds from state land dispositions to go to KPERS. This moratorium is also critical for implementing Recommendation #4.
- Additionally, the state would need to grant a temporary credence such that once properties have been identified as surplus, property value can be confirmed in-house (within the DOA) eliminating the necessity of a third party appraiser. This will greatly increase the speed of transaction execution.
- Speed to market will also be a critical component of to the successful disposition of state owned

surplus properties. A&M recommends that the state form an external Project Management Office (PMO) to auction or lease identified excess land beginning in February 2016, ending November 2016.

- With regard to excess land parcel in high value areas, the state should finalize which parcels are indeed surplus and move to group and sell/lease these properties.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$3,817	\$3,817	\$122	\$122	\$1,834

### **Recommendation #4 – Enter into a long-term ground lease agreement for Lot #4, a state-owned piece of property adjacent to the State Judicial Complex in Topeka**

#### Background & Strategy

- In 2013, the state issued an RFP for the sale of Lot #2, a 60,000 sq. ft. parcel currently being used as a parking lot, immediately South of the Docking Building.
- The state received a winning bid of \$2,500,000; however, concerns about the sale of the property given its adjacency to the State Capitol Building were raised and the solicitation was terminated.
- Lot #4, slightly smaller at around 50,000 sq. ft. is South of Lot #2. While it is adjacent to a parking area servicing the Kansas Judicial Center, it has less of a visual impact on the green space surrounding the state Capitol Building. In all other terms of size, location and access, it is identical to Lot #2.
- The strategy around the disposition of Lot #4 would be to ground lease the property long-term and accelerate the lease payments to one payment at closing—essentially providing all the value up-front to the state.
- Instead of a fee simple sale of a strategic property close to the Capitol core, the state could maintain long-term control over the site and would also

## ED.03 - Reorganization of KSDE IT functions



with the goals of federal grant programs and interest areas among foundations with a focus on public education.

- Identify qualified grant writers.
- Host a workshop with key grants management personnel to discuss best practices and approaches utilized in other states. Maryland and Minnesota have reorganized and centralized grants management in recent years using this type of workshop approach.

### Recommendation #3 – Pursue Cost Savings Opportunities through Centralization and Shared Services Agreements

Centralizing IT functions can improve standardization, improve internal communication, facilitate best practice sharing, and reduce duplication of effort. Development and implementation of a support system for centralized IT personnel can help ensure that agencies are able to access timely technical support. Coordinating similar functions across state agencies can also reduce duplication of effort and improve the quality and efficiency of service provided to constituents. In addition, it can facilitate the creation of policies, programs and guidelines that integrate the perspectives of both agencies.

- Shift a portion of the IT positions currently housed within the KSDE to a centralized IT Division.
- Identify additional opportunities where costs for FTEs that focus on data collection can be shared across state agencies.

#### Background and Findings

- The IT Department represents nearly 25% of KSDE's personnel costs.
- Many of these positions are "split-funded" across state and federal sources. Redeployment of resources should be done to maximize utility of non-state funded sources.
- The KSDE IT staff created a series of customized applications to collect program data and comply with federal reporting requirements.
- KSDE IT staff supports internal KSDE employees and approximately 40,000 external school dis-

trict staff and partner users across more than 100 web-based applications.

- Descriptions of the roles and responsibilities for different departments within the KSDE include similar functions related to data collection and reporting.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$500	\$500	\$500	\$500	\$500

#### Key Assumptions

- The custom-developed IT applications can be combined or integrated so that all required data collection activities take place.

#### Critical Steps to Implement

- Conduct in-depth analysis of the IT Department functions as well as the roles and responsibilities of each IT staff member and the applications they manage.
- Explore alternative staffing models drawing on practices used by other states.
- Explore alternative data collection applications to consolidate the current data collection processes.

### Recommendation #4 – K-12 Benefit Program Consolidation

- Currently, K-12 school districts have the opportunity to participate in the State Employee Health Plan (SEHP), though few of the 286 districts are participating because of the current state contribution structure.
- Due to the current purchasing and administration structure, there is significant opportunity for cost savings and efficiency through the development of a consolidated health insurance plan for K-12 district employees and their dependents. This consolidated program will provide greater plan choice offerings and improved contribution structure for members, while reducing the administrative cost and burden of providing healthcare across the districts. The State Employ-

## REAL.02 - Leasing Operations Consolidation - Personnel Savings



## Recommendation #2 – Leasing decisions for all state agencies should be centralized within DOA under the existing state Leasing Coordinator in order to achieve savings on personnel costs

### Background and Findings

- Fifty-eight individuals currently handle leasing operations across all state agencies as part of their responsibilities.
- Titles for these FTEs range widely, from Office Specialist to Executive Director.
- None of the personnel assigned to manage their agency's leasing operations have a real estate title or job description.
- The average FY 2014 salary of all personnel was \$62,476.

### Key Assumptions

- On average, each FTE spends 5%-10% of his/her time on leasing operations.
- Fully burdened cost per FTE at \$84,343 (\$62,476 plus 35% mark-up) on average.
- That state can identify positions for reduction across the agencies.
- Assume that the state can identify positions for reduction across the agencies.

### Critical Steps to Implement

- Dedicate two of the 58 current FTEs into DOA to create a new leasing operations team, reporting to the state leasing director. This personnel shift will be revenue neutral.
- All personnel will handle multiple agencies; however, the two individuals will come from (and continue to have responsibility for) the Department for Children and Families (2), the Department of Revenue, or the Department of Transportation.

Recommendation #2 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$448	\$456	\$466	\$475	\$484

## Recommendation #3 – Hire an external real estate PMO to identify, value, market, and sell surplus state owned building and land

### Background

- According to the property list provided by the state ("Land-Bldg. List.doc"), the state owns nearly 12,300,000 sq. ft. of building space and nearly 179,000 acres of land.
- Utilizing input from the DOA and the Office of the Budget, A&M identified potential surplus properties across different state agencies and provided estimates of their respective potential, to generate value to the state.
- A&M worked closely with each state agency owning surplus property to first confirm that the properties were indeed surplus and to ascertain the most appropriate path to market.

### Findings

- A&M estimates that between surplus building and land inventory within the state's portfolio, there is an estimated \$9 million in potential value.
- A&M found that state agencies might be reluctant to sell any excess property given that the agency only keeps 20% of the proceeds. The remaining 80% would be paid to the state pension fund.
- Additionally, the process for obtaining the appropriate state approval to move surplus properties to market can be too long, leading to an increased potential for sales to not be completed.

### Key Assumptions & Methods

- Estimated values of surplus buildings were calculated using a comparable sales approach combined with market inferences from local brokers and key members of the DOA.
- In the analysis of comparable properties, it was assumed that land value is incorporated into the sale of the building; therefore, building values were estimated on a value per sq. ft. of building area basis. For certain properties containing large tracts of land, or properties located in or near high population areas, land value instead of

## REAL.01 - Leasing Operations Consolidation - Leasing Savings

A&M's analysis for the state of Kansas focused primarily on methods of enhancing DOA's current initiatives and assessing several additional opportunities for savings and revenue generation. A&M concluded that, in addition to maintaining focus on its primary three objectives, stated in the previous section, DOA could further enhance its real estate capabilities through the following actions:

- Create a robust disposition program for surplus property – Unused or underutilized property that agencies have no reasonable use for, should be reverted back into private ownership for revenue generation, maintenance reduction and economic development purposes. DOA has already begun formulating a regimented approach to implementing this program. With some better interagency cooperation and some changes to the existing laws—regarding the proceeds from such dispositions—the property disposition program can be optimized to return maximum value to the state and the taxpayers.
- Leasing Operations Consolidation – Separate state agencies currently have 58 positions dedicated either in part or whole to leasing and real estate functions. One of DOA's mission goals is to act as a dispassionate agent for agencies' real estate actions, in order to optimize efficiency and cost effectiveness. Much like the General Services Administration manages the Federal leased and owned real estate portfolio through its Public Buildings Service, DOA's Office of Facilities and Property Management can perform the same function for the state. Savings can be achieved both through a portfolio-centric style of management and through reduced personnel costs.
- Ground Lease of Lot #4 – The state had previously solicited purchasers for a 64,625 sf parcel of state-owned land immediately south of the Docking Building, called Lot #2. It received a winning bid of \$2.5 million. The solicitation was subsequently rescinded; however, the same opportunity exists to lease Lot #4, which is south of Lot #2. The state can lease the lot, maintaining long-term control of the site, for a period of time between 50 to 99 years and realize the same value.
- Capitol Complex managed printing services solution – In 2014, DOA initiated a pilot program with Xerox to test the cost-savings benefits of a man-

aged-print services system for the Kansas Department of Health and the Environment (KDHE) at the Landon and Curtis Office Buildings. In the 12 complete reporting months since the rollout of the program, the new system saved an estimated \$96,670 in printing costs—a 22% average reduction in previous printing costs. (Xerox performed the original pilot program over a 13-month reporting period; however, A&M only utilized the first 12 months to report findings on an annual basis). This program should be expanded to other Capitol Complex buildings in order to generate more savings and eliminate waste.

- Cell Tower Leasing Program for excess land – A significant portion of state-owned land is unmarketable due to its remote location, lack of access to transportation, additional infrastructure and market factors, which hinder its value in the private market. The continued penetration of the telecommunications companies into previously underserved, rural markets presents an opportunity to place state-owned parcels into a clearinghouse for bidding that may bring the state some additional revenue from previously un-utilized land.

### **Recommendation #1 – Leasing decisions for all state agencies should be centralized within DOA under the existing state Leasing Coordinator in order to achieve savings on rolling leases**

#### Background and Findings

- The state currently maintains 298 leased office spaces for state agencies.
- There are approximately 170 state leases expiring or entering option periods from the date of this report through the end of FY 2021.
- While DOA has execution authority over all leases in the state's portfolio, it has historically not actively involved itself in agency leasing decisions until last year.
- DOA is well suited to act as the state's agent in these transactions and to identify the most cost-

effective solutions on behalf of the taxpayers. It can also identify alternative space solutions such as consolidations that may contribute to cost savings throughout the portfolio. While individual agencies will always seek to enhance ability to serve their particular missions, they may not necessarily make real estate decisions with the long-term cost or value in mind.

- The bulk of the large money leases (primarily the three leases DOA executed on behalf of the Department of Revenue to facilitate its relocation from the Docking building and a new 90,000 sq. ft. lease just executed for DCF in Topeka) have already been executed and the savings have already been realized.
- DOAs past performance suggests that it is reasonable to expect that it can discount expiring contract rents between 3% to 5% to better align with the market, simply based on the position of the state in the market. This discount can also be applied to pre-negotiated option rents.

#### Key Assumptions

- Based on prior performance of DOA lease evaluation and consolidation, a 4% discount was applied to all of the expiring contract rents (not applied to expenses if broken out separately).
- The savings are contingent upon the implementation of Recommendation #2.

#### Critical Steps to Implement

- Implement Recommendation #2.
- Maintain vigilance over the following 31 leases, which represent the largest cost leases and 68% of the 5-year expiring portfolio. Pay special attention to fluctuation in market rent rates and vacancies as these leases progress toward expiration (following chart).
- The Department of Social Rehabilitation Services represents approximately 47% of the expiring lease value, and will require special attention by the DOA.

Recommendation #1 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$116	\$226	\$218	\$278	\$313

Agency	City	Address	Total Cost	Expiration
SRS	Atchison	410 Commercial St.	\$157,600	6/30/2017
SRS	Colby	1135 S Country Club Dr.	\$131,928	6/30/2020
SRS	Columbus	215 E Maple	\$134,551	6/30/2019
SRS	Emporia	1701 Wheeler	\$231,291	8/31/2018
SRS	Great Bend	1305 Patton	\$184,135	10/14/2019
SRS	Junction City	1010 W 6th St.	\$190,572	8/31/2018
DOCorrections	Kansas City	155 S 18th St.	\$105,631	12/31/2015
KU Medical Center	Kansas City	2100 W 36th St.	\$884,928	12/31/2016
SRS	Leavenworth	515 Limit St.	\$150,476	10/31/2015
SRS	Newton	411 SW Washinton Rd.	\$187,114	5/31/2017
DOCorrections	Olathe	804 N Meadowbrook Dr.	\$166,355	2/28/2017
IDS	Olathe	115 E Park St. #1	\$125,731	2/28/2019
SRS	Ottawa	221 S Elm St.	\$171,023	7/31/2018
Wichita St. U.	Park City	1229 E 79th St.	\$715,500	TBD
SRS	Parsons	300 N 17th St.	\$144,844	12/31/2015
SRS	Phillipsburg	111 E Hgwy 36	\$112,430	11/30/2019
SRS	Pittsburg	320 S Broadway	\$279,499	11/30/2016
DOHE	Salina	2501 Marketplace	\$100,280	6/30/2020
SRS	South Hutchinson	600 Andrew Ave.	\$293,683	7/31/2019
Agriculture DOCorrections	Topeka	Forbes Field	\$489,142	12/31/2019
	Topeka	1430 SW Topeka Blvd.	\$117,915	10/31/2015
Board of Healing Arts	Topeka	800 SW Jackson	\$187,745	1/31/2016
IDS	Topeka	700 SW Jackson	\$158,280	2/28/2019
Securities Commissioner	Topeka	109 SW 9th St.	\$119,968	6/30/2020
SRS	Topeka	2820 SW Fairlawn	\$1,035,802	9/30/2017
SRS	Topeka	503 S Kansas Ave.	\$556,077	1/31/2018
DOA	Topeka	800 SW Jackson	\$241,802	12/31/2016
Aging	Topeka	503 S Kansas Ave.	\$456,450	1/31/2018
DOCorrections	Wichita	212 S Market	\$289,768	3/31/2017
IDS	Wichita	604 N Main	\$123,628	4/30/2016
Wichita St. U.	Wichita	358 N Main	\$225,000	5/31/2017

#### FY Savings Summary

FY 2016	\$25,700
FY 2017	\$116,285
FY 2018	\$225,540
FY 2019	\$217,903
FY 2020	\$277,845
FY 2021	\$313,450
Total	\$1,176,722

## REAL.05 - Managed Print Service for the Capitol Complex

have controls and covenants built into the lease to provide approvals over change in use and other pertinent matters.

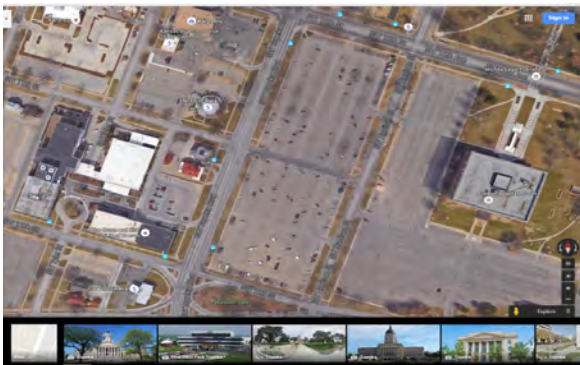
- The prospective winner for Lot #2 was working with a national drug store chain and was most likely going to use the site for that purpose. Lot #4 should prove to be suitable for that use as well, but the site is also adjacent to Blue Cross/Blue Shield, which might take an interest in controlling the site, potentially positively impacting the sale.

### Key Assumptions

- The market still exists to provide another competitive offer similar to that of Lot #2.
- Multiple potential owners/users become interested in controlling the site.

### Critical Steps to Implement

- Repurpose the RFP for Lot #2 and implement the same execution strategy with the ground lease structure instead of the sale structure.
- Obtain verification that the ground lease structure voids the necessity to transfer 80% of the net proceeds to KPERS.



Recommendation #4 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$2,500	\$0	\$0	\$0	\$0

## **Recommendation #5 – Hire a third party office printing management company to assume management for all office printing and copying within the State Capitol Complex**

### Background

- In 2014, DOA and Xerox initiated a pilot program with KDHE in the Landon and Curtis state office buildings to streamline office printing. The goal of this pilot was to make all office printing more efficient.
- The pilot helped to quantify the benefits of entering into a contract with a print management company (Xerox).
- The chart below illustrates the reduction in printing seen over 13 months. The cost avoidance through reduction in printing was calculated as well.
- 
- Key Assumptions
- Special attention needs to be paid to the method in which the printing management companies perform the baseline printing analysis to ensure accuracy in accounting for savings.
- The state would run an open procurement in accordance with state policy to select a print management company.
- Based on the total FTEs from the Xerox pilot, A&M calculated the potential savings per FTE generated from switching to a print management service to be \$116.
- For the purpose of calculating savings to the state from printing reduction, A&M assumed that buildings leased within a 4-block radius from the State Capitol Complex would be eligible to receive printing management services. The number of FTE's used in A&M's analysis is the sum of FTE's from the Xerox pilot program and FTE's in leased buildings (based on state provided leasing data).
- While the initial Xerox study was performed and



recorded over a 13-month period, for the purpose of demonstrating savings on an annual basis, A&M only utilized the first 12 months of the collected data. (Data on opposite side)

### Key Benefits to the State

- Decreased energy consumption.
- Decreased solid waste.
- Savings on printing costs.
- Savings monitoring and programmatic feedback.
- Through printer consolidation and the implementation of more effective printing management systems, the cost associated with printing and level of printing activity would be reduced.
- The printing management company would then bill the state for all printing jobs at the end of every month.
- Increased efficiencies would generate significant savings for the state.

### Process

- The State of Kansas would contract a third party print management company to replace all.
- Printing systems in the State Capitol Complex buildings.
- The selected print management company would then install more efficient printers a more efficient printing management system.

Recommendation #5 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$250	\$250	\$250	\$250	\$250

Cumulative Cost Avoidance & Printed Image Summary		
Baseline Printing Spend (Monthly)	\$36,782	
	Sep	Oct
Cost Avoidance	\$7,522	\$7,246
% Cost Avoidance	20%	20%
B&W Print Total	456,319	522,494
Color Print Total	111,107	105,777
	Nov	Dec
Cost Avoidance	\$6,716	\$11,228
% Cost Avoidance	18%	31%
B&W Print Total	442,256	206,692
Color Print Total	91,183	41,030
	Jan (2015)	Feb
Cost Avoidance	\$6,052	\$8,382
% Cost Avoidance	16%	23%
B&W Print Total	665,871	428,874
Color Print Total	155,867	110,246
	Mar	Apr
Cost Avoidance	\$8,257	\$8,129
% Cost Avoidance	22%	22%
B&W Print Total	375,239	344,239
Color Print Total	104,531	113,519
	May	Jun
Cost Avoidance	\$8,710	\$9,199
% Cost Avoidance	24%	25%
B&W Print Total	356,728	330,603
Color Print Total	99,960	87,579
	Jul	Aug
Cost Avoidance	\$8,134	\$7,095
% Cost Avoidance	22%	19%
B&W Print Total	363,227	343,424
Color Print Total	108,829	133,001
	Cumulative	
Total Annual Cost Avoidance	\$96,670	
Average Percent Cost Avoidance	22%	
**Data provided by Xerox		
Total Savings	\$96,670	
FTEs for intimal survey	827	
Savings Per FTE	\$117	
Estimated Total FTE Through Active		1,314
Estimated Potential Annual Savings		\$153,597

## ED.02 - New Grant and Foundation Opportunities

## Recommendation #2 – Apply for Additional Funds from Public and Private Sources

KSDE should centralize ownership and management of applying for grant funds. Centralizing the grants management process will improve access to additional funds by increasing internal capacity to develop strong grant applications. It will also likely result in the creation of strong portfolios of grants that are organized with clear goals and outcomes for education in Kansas. Finally, centralizing grant management will make it easier to ensure effective, efficient and compliant grants management practices:

- Review the list of identified federal grant programs for which KSDE is eligible to apply, to determine the degree to which these opportunities advance KSDE's educational goals and desired outcomes and prepare applicable application(s) .
- Apply for new federal funds expected to be available this fiscal year and pursue discretionary grant opportunities that align with KSDE's policy goals. Particular attention should be given to the US Department of Education's priority focus areas including:
  - » A new Equity and Outcomes Pilot with Title I Funds
  - » \$11.7 billion for the IDEA Grants to States
  - » \$750 million for the Preschool Development Grants
  - » \$504 million for the IDEA Grants for Infants and Families program
  - » \$2.3 billion for Improving Teacher Quality State Grants
  - » \$1 billion in 2016 for Teaching for Tomorrow (TFT)
  - » \$350 million for Excellent Educators Grants
  - » \$200 million for improved Educational Technology State Grants
- Develop an outreach and communications strategy to create effective working relationships with a prioritized set of foundations within Kansas, who may be interested in providing fiscal support to advance KSDE's programmatic goals.

Recommendation #2 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$299	\$299	\$299	\$299	\$299

### Key Assumptions

- The estimated increase in federal funding levels is based on the identification of four example education related grants that peer states have received that Kansas did not receive.
- The estimated value for those grants was based on the average award received for the peer states that received funding, which totaled \$3.3 million in average awards.
- A probability of award of 10 percent was applied to the grants to create a net potential value.
- One of the four grants identified required the negotiation of matching funds in the award, which was assumed to require a 50 percent match to obtain funds.
- The value of the priority focus areas have not been estimated, and represent potential for increased federal funding above the current estimate provided
- Anticipated federal funding opportunities will materialize.
- KSDE will have the resources necessary to prepare and submit high quality grant applications that clearly express Kansas' goals and desired outcomes for public education.
- KSDE's goals and objectives can be articulated in such a way that policy goals can be easily aligned with foundations' interest areas.

### Critical Steps to Implement

The critical steps necessary to complete the implementation of the recommendation include:

- Develop a consolidated statement of KSDE's education policy goals.
- Develop a strategy for using federal education programs to advance KSDE's strategic goals and objectives.
- Align KSDE's education policy and outcome goals

with the goals of federal grant programs and interest areas among foundations with a focus on public education.

- Identify qualified grant writers.
- Host a workshop with key grants management personnel to discuss best practices and approaches utilized in other states. Maryland and Minnesota have reorganized and centralized grants management in recent years using this type of workshop approach.

### Recommendation #3 – Pursue Cost Savings Opportunities through Centralization and Shared Services Agreements

Centralizing IT functions can improve standardization, improve internal communication, facilitate best practice sharing, and reduce duplication of effort. Development and implementation of a support system for centralized IT personnel can help ensure that agencies are able to access timely technical support. Coordinating similar functions across state agencies can also reduce duplication of effort and improve the quality and efficiency of service provided to constituents. In addition, it can facilitate the creation of policies, programs and guidelines that integrate the perspectives of both agencies.

- Shift a portion of the IT positions currently housed within the KSDE to a centralized IT Division.
- Identify additional opportunities where costs for FTEs that focus on data collection can be shared across state agencies.

#### Background and Findings

- The IT Department represents nearly 25% of KSDE's personnel costs.
- Many of these positions are "split-funded" across state and federal sources. Redeployment of resources should be done to maximize utility of non-state funded sources.
- The KSDE IT staff created a series of customized applications to collect program data and comply with federal reporting requirements.
- KSDE IT staff supports internal KSDE employees and approximately 40,000 external school dis-

trict staff and partner users across more than 100 web-based applications.

- Descriptions of the roles and responsibilities for different departments within the KSDE include similar functions related to data collection and reporting.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$500	\$500	\$500	\$500	\$500

#### Key Assumptions

- The custom-developed IT applications can be combined or integrated so that all required data collection activities take place.

#### Critical Steps to Implement

- Conduct in-depth analysis of the IT Department functions as well as the roles and responsibilities of each IT staff member and the applications they manage.
- Explore alternative staffing models drawing on practices used by other states.
- Explore alternative data collection applications to consolidate the current data collection processes.

### Recommendation #4 – K-12 Benefit Program Consolidation

- Currently, K-12 school districts have the opportunity to participate in the State Employee Health Plan (SEHP), though few of the 286 districts are participating because of the current state contribution structure.
- Due to the current purchasing and administration structure, there is significant opportunity for cost savings and efficiency through the development of a consolidated health insurance plan for K-12 district employees and their dependents. This consolidated program will provide greater plan choice offerings and improved contribution structure for members, while reducing the administrative cost and burden of providing healthcare across the districts. The State Employ-

## REAL.06 - Telecommunications Partnership

## Recommendation #6 – Enter into an agreement with a cell tower leasing company and allow for the potential lease of small state owned land parcels or rooftops

### Background

- The State of Kansas should—through an open solicitation process—engage a cell tower leasing company to analyze the portfolio of state owned real estate.
- Large cellular data providers would likely pay a premium for access to strategic land in locations with increasing population and cellular activity.
- Kansas City, Topeka and Wichita as well as areas along transportation corridors would likely be desirable locations in which cellular companies would be interested in leasing space.
- Verizon and T-Mobile are the most active carriers in the market. AT&T has indicated some growth in Kansas for 2016.
- There are needs for more cellular infrastructure around parts of western Kansas along transportation corridors and some continued coverage upgrades. More cellular infrastructure is expected in rural Kansas in the next 3-5 years.
- The growing market for cellular infrastructure represents a considerable market opportunity for the State of Kansas, with regard to surplus real estate assets.

### Process

- At no cost to the state, the cell tower leasing company would provide a comprehensive radio frequency (RF) analysis, which the state could consider to include in the wireless master plan.
- At no cost to the state, the cell tower company would provide an analysis of state owned assets and a final list of assets which they would be interested in entering into a long term ground lease.
- The cell tower leasing company would assume management and maintenance of all existing, state owned cell

towers.

- The cell tower leasing company would have the opportunity to lease state real estate assets, which could range from a solitary rooftop to larger tracts of land.
- For every land parcel leased by the cell tower leasing company, the state would receive a ground lease payment and an additional payment for every sublease to the cell tower.
- The cell tower leasing would then market the wireless master plan to wireless service providers and gauge interest in collocating on any existing and/or proposed sites within the wireless master plan.
- The cell tower leasing company would own any wireless communication facilities that it constructs on state owned or controlled land.
- Additionally, the state would have the ability to lease any fiber optic communication systems, which may have been previously installed.

Recommendation #6 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$0	\$296	\$296	\$296	\$296

### Key Benefits to the State

- No upfront capital payments from the state.
- Opportunity to receive lease payments on small portions of land that would otherwise go unused.
- The cell towers require minimal land (~2,500 sq. ft.) and are minimally invasive.

### Critical Steps to Implement

- The state should implement a project management function to analyze the state's current portfolio of wireless facilities as well as produce a list of land and building assets, which would be feasible to lease (to the cell tower leasing company).
- The state should solicit to select the most qualified cell tower leasing company.
- Upon selection of the most qualified company, and after a careful review of legal premises, the state should enter into a MOU with the cell tower



leasing company, which would grant the company exclusive access to particular state owned assets.

- The state would begin to receive ground lease payments upon the execution of each individual ground lease, with additional participation fees paid to the state for each sublease to the cell tower facilities.

### Case Study

- For illustrative purposes, A&M created a case study to model potential revenue to the State of Kansas.
- Assumptions
  - » Assumed 0 revenue for the first two years while the leasing company acquires land, constructs towers, and acquires sub lessors.
  - » Assumed 4 towers in Kansas City and the surrounding metropolitan areas.
  - » Assumed 2 towers in Wichita.
  - » Assumes 2 towers in Topeka.
  - » Assumes 2 towers in Lawrence.
  - » Assumes 2 towers in Manhattan.
  - » Assumes 2 Towers along the Kansas Turnpike.
  - » Assumes that each tower will have two cellular providers holding sub-leases.
  - » Assumes that the State will have a 40% participation in all sub-lease revenue. (The state should require a base lease payment as well as a participation payment for each lease and sub-lease, but for the purpose of this analysis, we will assume that the state only receives a 40% participation payment).

REAL.04 - RFP for Ground Lease for Lot #4

there would be a higher potential for a successful sale if this property were to be taken to market. Additionally, given the fact that there have been previous attempts to sell portions of Lansing Correctional Facility, and Topeka Correctional Facility, which were unsuccessful, A&M anticipates a high probability of a successful solicitation.

- Dept. of Labor - 6425 SW 6<sup>th</sup> Ave, Topeka, KS: While redevelopment attempts have been made for this land, indicating a state interest in the disposition of the property, there has been limited success. Under a joint solicitation through a single PMO structure, there is a much greater probability of a successful sale.
- Kansas Neurological Institute - 3107 W 21st St, Topeka, KS: Development attempts have been made on this parcel, indicating a state interest in its potential sale. Several market factors such as the properties proximity to a VA hospital and the KNI would need to be considered for the solicitation of this land.
- Dept. of Veterans Affairs – 5181 Wildcat Creek Road, Manhattan, KS: The real estate market in Manhattan has grown considerably over the past decade with increased population of Kansas State, indicating a high potential for sale. A portion of the property is being utilized as a VA graveyard, so additional due diligence will be necessary to verify the viability of the sale.

#### Critical Steps to Implement

- Attaining the buy-in and cooperation of respective state agencies will be crucial to the disposition process. A&M recommends that the state institute a one-year moratorium on the law requiring 80% of net proceeds from state land dispositions to go to KPERS. This moratorium is also critical for implementing Recommendation #4.
- Additionally, the state would need to grant a temporary credence such that once properties have been identified as surplus, property value can be confirmed in-house (within the DOA) eliminating the necessity of a third party appraiser. This will greatly increase the speed of transaction execution.
- Speed to market will also be a critical component of to the successful disposition of state owned

surplus properties. A&M recommends that the state form an external Project Management Office (PMO) to auction or lease identified excess land beginning in February 2016, ending November 2016.

- With regard to excess land parcel in high value areas, the state should finalize which parcels are indeed surplus and move to group and sell/lease these properties.

Recommendation #3 - (dollars in 000's)				
FY17	FY18	FY19	FY20	FY21
\$3,817	\$3,817	\$122	\$122	\$1,834

### **Recommendation #4 – Enter into a long-term ground lease agreement for Lot #4, a state-owned piece of property adjacent to the State Judicial Complex in Topeka**

#### Background & Strategy

- In 2013, the state issued an RFP for the sale of Lot #2, a 60,000 sq. ft. parcel currently being used as a parking lot, immediately South of the Docking Building.
- The state received a winning bid of \$2,500,000; however, concerns about the sale of the property given its adjacency to the State Capitol Building were raised and the solicitation was terminated.
- Lot #4, slightly smaller at around 50,000 sq. ft. is South of Lot #2. While it is adjacent to a parking area servicing the Kansas Judicial Center, it has less of a visual impact on the green space surrounding the state Capitol Building. In all other terms of size, location and access, it is identical to Lot #2.
- The strategy around the disposition of Lot #4 would be to ground lease the property long-term and accelerate the lease payments to one payment at closing—essentially providing all the value up-front to the state.
- Instead of a fee simple sale of a strategic property close to the Capitol core, the state could maintain long-term control over the site and would also

have controls and covenants built into the lease to provide approvals over change in use and other pertinent matters.

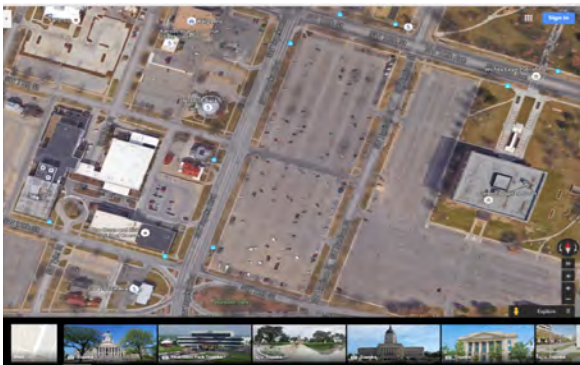
- The prospective winner for Lot #2 was working with a national drug store chain and was most likely going to use the site for that purpose. Lot #4 should prove to be suitable for that use as well, but the site is also adjacent to Blue Cross/Blue Shield, which might take an interest in controlling the site, potentially positively impacting the sale.

### Key Assumptions

- The market still exists to provide another competitive offer similar to that of Lot #2.
- Multiple potential owners/users become interested in controlling the site.

### Critical Steps to Implement

- Repurpose the RFP for Lot #2 and implement the same execution strategy with the ground lease structure instead of the sale structure.
- Obtain verification that the ground lease structure voids the necessity to transfer 80% of the net proceeds to KPERS.



Recommendation #4 - (dollars in 000's)

FY17	FY18	FY19	FY20	FY21
\$2,500	\$0	\$0	\$0	\$0

## **Recommendation #5 – Hire a third party office printing management company to assume management for all office printing and copying within the State Capitol Complex**

### Background

- In 2014, DOA and Xerox initiated a pilot program with KDHE in the Landon and Curtis state office buildings to streamline office printing. The goal of this pilot was to make all office printing more efficient.
- The pilot helped to quantify the benefits of entering into a contract with a print management company (Xerox).
- The chart below illustrates the reduction in printing seen over 13 months. The cost avoidance through reduction in printing was calculated as well.
- 
- Key Assumptions
- Special attention needs to be paid to the method in which the printing management companies perform the baseline printing analysis to ensure accuracy in accounting for savings.
- The state would run an open procurement in accordance with state policy to select a print management company.
- Based on the total FTEs from the Xerox pilot, A&M calculated the potential savings per FTE generated from switching to a print management service to be \$116.
- For the purpose of calculating savings to the state from printing reduction, A&M assumed that buildings leased within a 4-block radius from the State Capitol Complex would be eligible to receive printing management services. The number of FTE's used in A&M's analysis is the sum of FTE's from the Xerox pilot program and FTE's in leased buildings (based on state provided leasing data).
- While the initial Xerox study was performed and