

Approved

Jan. 13, 1983  
Date

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by BILL BUNTEN at \_\_\_\_\_  
Chairperson

1:34 ~~am~~ p.m. on Wednesday, January 12, 1983 in room 514-S of the Capitol.

All members were present except:

Committee staff present: Marlin Rein -- Research Department  
Lyn Entrikin-Goering -- Research Department  
Bill Gilmore -- Research Department  
Jim Wilson -- Revisors Office  
LewJene Schneider -- Administrative Assistant  
Charlene Wilson -- Committee Secretary

Conferees appearing before the committee:

Patrick Hurley, Secretary of Administration

OTHERS PRESENT: See attached list.

The meeting was called to order by Chairman Buntten at 1:34 p.m.

The Chairman introduced Secretary Hurley from the Department of Administration to brief the committee on the sale of the 500 block of Kansas Avenue and the purchase of the Santa Fe Building. (See Attached Memorandum concerning Secretary Hurley's statements as well as the Attached Memorandum from Legislative Research concerning the Purchase of the Santa Fe Building, I & II).

Secretary Hurley stated that they feel that the total transaction is very desirable as far as the state is concerned and the cost figures are good figures from the state's point of view. What the state will be getting from this is all the office space and flexibility of dealing with office space that they need for at least 10 years without having to consider the construction of, or purchase of, another building of this size. Also, they will be obtaining all the space needed for computer operations for an indefinite period of time.

Secretary Hurley also commented that if the city comes through with their part of the deal, in delivering a sight within the time frame of all three contracts, Santa Fe will remain in Topeka and hundreds of jobs and payroll in the area of \$100,000,000.00 will significantly benefit the state as well.

Representative Heinemann asked when the loan from the Pooled Money Investment Board would take place. In response to that question, Secretary Hurley indicated that the loan would take place sometime after February 1, as soon as an escrow agent is appointed. It would remain in escrow until payment is made to Santa Fe upon occupation of the Santa Fe Building.

Chairman Buntten asked Secretary Hurley to review, for the committee, where interim spaces are that have been offered to the state and also to give the costs involved in remodeling of the Santa Fe building and computer area in the State Office Building.

In reply, Secretary Hurley indicated that a substantial amount of space has been offered to the state from the private sector. Some of the possible locations being Security Benefit, the partnership in the Jayhawk Towers, the owner of the building that IBM will be vacating, and possible use of all or part of the old Meninger complex, as well as many other owners of space around the Topeka area. However, he stated that none of the agreements have been finalized at this time. He also referred the committee to the Summary of Alternatives, (see attachment I -- page 2, 1/2/82), in response to the question of costs of remodeling the Santa Fe Building and computer area in the State Office Building.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS,  
room 514-S, Statehouse, at 1:30 ~~xxx~~/p.m. on Wednesday, January 12, 1983

Representative Farrar questioned whether the battery back-up units would be left in tact at the Santa Fe sight. Secretary Hurley assured that they would be left at the location.

Chairman Bunten questioned the cost of rental space in the new KPERS building, being in the area of \$11.00 per sq. foot. Secretary Hurley remarked that he would not move KPERS into that space at the high rate being asked. They are currently housed in the Jayhawk Towers.

Representative Luzzati asked about parking facilities for those who would be housed in the Santa Fe building. Secretary Hurley stated that the possibility exists that the Motor Pool would be relocated to some other location. They feel that parking will not be a problem.

The meeting was adjourned at 2:30 p.m.

GUESTS

DATE Jan 12, 1983

NAME	ADDRESS	REPRESENTING
1. <i>Cynda Jones</i>		<i>Hayden's office</i>
2. <i>Keith Stelling</i>		<i>Arch Services</i>
3. <i>John Harris</i>		<i>Dept of Admin</i>
4. <i>Pat Hill</i>		<i>Santa Fe</i>
5. <i>Jimmy Johnson</i>		<i>Intern - WSD</i>
6. <i>Patrick Husley</i>		<i>Sec of Admin</i>
7. <i>Arthur Cross</i>		<i>Dept of Admin</i>
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		
18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		

D. J.

STATE OF KANSAS  
DEPARTMENT OF ADMINISTRATION  
JOHN CARLIN, Governor  
PATRICK J. HURLEY, Secretary of Administration  
Room 263-E, Capitol Building  
(913) 296-3011

**MEMORANDUM**

TO: House Ways and Means Committee

FROM: Patrick J. Hurley, Secretary of Administration *PJH.*

DATE: January 12, 1983

SUBJECT: Overview of 500 Block and Santa Fe Transactions

I. Overview of Contract for Purchase of  
Santa Fe Building and Financing

The purchase price is \$11,245,000, which would be paid to Santa Fe at the time they turn over possession of the building to the State. Santa Fe is to give the State possession of the building no later than September 1, 1986.

Funds to acquire the building will be derived from a loan of State funds held by the Pooled Money Investment Board. The interest rate on the loan will be equal to the interest rate being paid on State inactive account moneys at the time the loan is made. The proceeds from the Pooled Money Investment Board loan will be held in escrow and invested until they are paid to Santa Fe, which will be approximately 3 to 3 1/2 years.

The escrow agreement provided an opportunity for the State to realize additional interest income because of the forecasted 2% plus difference between the estimated Pooled Money Investment Board loan rate (7.90%) and the estimated interest earning on Federal agency obligations. As of the market close on December 31, 1982, Federal agency obligations maturing in December of 1985 ranged from 10.09% to 10.48%. Based upon only a 2% difference (a 9.9% rate), and interest income being received and invested semiannually at the same rate, over a thirty-six (36) month period, approximately \$937,000 in additional interest income would be realized.

Until the State takes possession of the building, Santa Fe remains responsible for its maintenance, utilities, taxes and other operating costs. If there is no contract for a new Santa Fe building site in effect between Santa Fe and the City of Topeka on September 1, 1983, the State's contract to purchase the present Santa Fe building automatically terminates on that date.

*Alc. J.*

Under the terms of the Pooled Money Investment Board loan agreement, the Department of Administration makes an interest payment on September 1, 1986, which would pay all interest owed through August 31, 1986. Thereafter, the loan can be entirely paid off at any time if revenue bonds are utilized. Otherwise, the loan would be paid by making annual principal and interest payments to the Pooled Money Investment Board for twenty (20) years. The payments would be derived as under the current formula by charging a uniform rate for rent to all State agencies located in the State Office Building (352,754 square feet), the Santa Fe building (252,926 square feet), and Forbes Field (80,606 square feet). For the twenty year period, an annual average of \$1.5035 per square foot would pay the entire loan and interest thereon.

## II. Overview of Contract to Sell the State's 500 Block Properties

The contract between the City of Topeka and the Department of Administration for the sale of the State's property in the 500 Block of Kansas Avenue in Topeka provides for a sale price of \$2,335,340, payable at the closing date. If the 500 Block is to be used as the building site for Santa Fe's new facilities, the closing date would be April 15, 1983. If another Santa Fe building site is selected, it is expected that the closing date would be no later than September 1, 1983. The contract allows the State to retain possession of one of the two 500 Block State office buildings, the New England Building at 503 Kansas Avenue, until ninety (90) days after Santa Fe has vacated their building. The State would pay no rents to the City during this period, but would be responsible for utilities, maintenance and repairs. If approved in writing by the City and the Secretary of Administration, the terms of the agreement can be modified, except that the purchase price cannot be decreased without the approval of the State Finance Council or the Legislature.

The proceeds from the sale will be placed in the Property contingency fund and will be used to pay moving and partition costs of agencies located in the 500 Block, retire the bonded indebtedness on the 503 Kansas Avenue building and miscellaneous expenses relating to the sale and moves. The remainder would be available to apply to capital improvements in the Santa Fe Building or costs relating to moving the Division of Information Systems and Computing and other agencies into the Santa Fe Building.

One item of legislation relating to the 500 Block transaction will be recommended to the 1983 Legislature. It will provide a method of crediting interest earnings attributable to the Property contingency fund balance back to that fund. However, the bill is not required to consummate the sale of the 500 Block properties.

# Attachment A

\$11,245,000.00 @ 7.9%

FY87

BASED ON 686,445 s.f.

	PRINCIPAL PAYMENT	INTEREST	TOTAL PAYMENT	\$ s.f.	YEAR END LOAN BALANCE
	562250-	398355-	1450605-	2.12	10,627,500-
	562250-	343937.25	1406187.25	2.05	10,170,500-
	562250-	299519.50	1361769.50	1.99	9,552,250-
	562250-	255101.75	1317351.75	1.92	8,936,000-
	562250-	210684-	1272954-	1.86	8,433,750-
	562250-	166266.25	1228516.25	1.79	7,971,500-
	562250-	121849.50	1184092.50	1.73	7,309,250-
	562250-	77430.75	1139680.75	1.67	6,747,000-
	562250-	33013-	1095263-	1.60	6,184,750-
	562250-	49895.25	1050945.25	1.54	5,672,500-
	562250-	444177.50	1006427.50	1.47	5,060,250-
	562250-	39759.75	962009.75	1.41	4,498,000-
	562250-	35534.2-	917592-	1.34	3,935,750-
	562250-	31072.25	873174.25	1.28	3,373,500-
	562250-	266506.50	828756.50	1.21	2,811,250-
	562250-	222288.75	784338.75	1.15	2,249,000-
	562250-	1776.71-	739921-	1.08	1,686,750-
	562250-	133253.25	695503.25	1.02	1,124,500-
	562250-	88835.50	651085.50	.95	562250-
	FY2007 562250-	44417.75	606667.75	.89	
	11245000-	9327727.50	20572727.50	AVE	

AVE  
\$1.5035

500 BLOCK PROPERTIES - SUMMARY

Appraisals

David Craig, MAI - Topeka:	\$2,750,000
Robert Taggart, MAI - Topeka:	3,975,000
Herman Oakes, MAI - Wichita:	3,565,000

Costs and expenditures

1. The State used revenue bonds to fund the purchase of the 500 Block properties.
  - A. 535 Kansas Ave. (with ground): \$ 800,000  
10 year bonds at 2.97% int.
  - B. 503-529 Kansas Ave. (w/ground): 1,300,000  
20 year bonds at 5.39% int.
  - C. 509 Kansas Avenue was purchased for \$78,583  
from the State General Fund.
  
2. The State actually expended to the sellers the following sums from the proceeds of the revenue bonds:
  - A. 535 Kansas Avenue..... \$ 600,000
  - B. 503 Kansas Avenue..... 470,000
  - C. 529 Kansas Avenue ..... 37,500
  - D. Land ..... 351,250
  - Total: \$1,458,750
  
3. Total cost to purchase all property in the 500 Block:

\$1,458,750
78,583
Total: \$1,537,333
  
4. The balance of the funds from the proceeds of the revenue bonds in the amount of \$641,250 was used for improvements.
  
5. The Division of Accounts and Reports carries un-depreciated inventory values of \$2,486,190 on all 500 Block property.

Indebtedness

- 1..As of October 1, 1982, the indebtedness to the Pooled money Investment Board for the 503-529 Kansas Avenue revenue bond purchase was .....\$845,000.
2. Interest accruing to the Pooled Money Investment Board on Sept. 1, 1983..... 41,749  

Total: \$886,749
3. No indebtedness remains on the 535 Kansas Avenue property.

Selling Price

In accordance with the terms set forth in the November 22, 1982 letter from Secretary of Administration Patrick J. Hurley to Mayor William McCormick and the acceptance of those terms by the City Council on November 24, 1982, the following purchase price was established:

Value per low appraisal .....	\$2,750,000
Moving costs to be incurred by state agencies as a result of the sale .....	217,000
	\$2,967,000

<u>Less</u> offset credit for the occupancy of 503 Kansas Ave.....	(631,660)
Total selling price:	\$2,335,340

Encumbrances against proceeds of sale

1. Moving and partition expense:
 

A. 535-529 Kansas Ave. (1983) ...	\$ 296,271
B. 535-529 Kansas Ave. (1986) ...	68,370
C. 503 Kansas Ave. (1986) .....	372,679
D. Storage move .....	20,245
Total:	\$ 757,565
2. Miscellaneous including legal expense, title policy, printing, etc..... \$ 20,000
3. Bonded indebtedness (see above).... \$ 886,749  

Total encumbrance against  
selling price 9/1/83..... \$1,664,314



SANTA FE FACILITY - SUMMARY

Physical characteristics

- |   |   |
|---|---|
| 1. Overall size:  | 352,696 square feet   |
| 2. Net usable size:   | 252,926 square feet   |
| 3. Computer (hardware) area with independent support systems: | 24,194 square feet  |
| 4. Self-contained heating and cooling capabilities:           | 2 - 100 H.P. boilers<br>2 - 90 H.P. boilers<br>2 - 375 ton centrifugal chillers |
| 5. Self-contained standby generator building:                 | 4 - 1000 KW diesel gen.   |
| 6. Seven automatic elevators                                  |   |
| 7. Structure:   | reinforced concrete with granite, stone and masonry exterior                    |

Appraisals

David Craig, MAI - Topeka:	\$12,500,000
Robert Taggart, MAI - Topeka:	11,245,000
Herman Oakes, MAI - Wichita:	12,500,000

Average of three appraisals: \$12,081,667

Replacement cost

The estimated 1986 construction cost for office facilities is projected from today's cost of \$65.00 per square foot at a conservative 6% per year increase to \$77.50.

$$352,696 \text{ sq. ft.} \times 77.5 = \$27,333,940$$

The cost of the computer area and the computer support systems (HVAC, uninterruptible power, standby generation, raised floor, etc.) is estimated to cost an additional \$5,500,000.

	\$27,333,940
	5,500,000
1986 replacement cost:	<u>\$32,833,940</u>

Land cost is NOT included.

Capital improvements

The entire Santa Fe facility can be fully utilized upon vacation by the Santa Fe by the various agencies scheduled for occupancy without major renovation or remodeling. It is desirable, however, to complete the building updating initiated by Santa Fe and have all occupied space both environmentally acceptable as well as equitably finished. The desirable improvements are:

Life safety items .....	\$ 18,000
Handicapped accessibility .....	16,000
Receiving dock, safety stair, and freight elevator .....	480,000
General remodeling (removal of partitions, new ceilings & lighting, carpet and paint) .....	2,486,000
	<u>\$3,000,000</u>

Estimated costs do not include fees, contingencies and have not been escalated to 1986:

\$3,000,000 X 1.06 (3 yrs.) .....	3,573,048
Professional fees @ 10% .....	357,000
Contingency @ 10% .....	<u>357,000</u>
1986 total:	\$4,287,048

Alternatives

If the Santa Fe building is not purchased there are three alternatives to satisfy the pressing need of the Division of Information Services and Computing (DISC), the overcrowding in the State Office Building and the objective to consolidate State agencies:

1. D.I.S.C. remains on the 11th floor of the State Office Building and expands to the 10th and 11th floors:

Construction costs for power, HVAC, structural support .....	\$3,292,060
Related space moves and costs for displaced 15,000 square feet .....	687,000
Total:	<u>\$3,979,060</u>

2. New State Office Building on state owned ground (in proximity to present State Office Building). This cost would be similar to the replacement cost of Santa Fe shown before:

350,000 Sq. ft. building ..... \$ 32,833,940

If a parking garage would be constructed to replace the 420 parking spaces displaced by the new office building, additional costs of from \$2,900,000 (420 cars) to \$5,600,000 (800 cars) would be generated.

3. Construct a new building to house D.I.S.C. To house 40,000 square feet of usable area a building of 60,044 Gross gross square feet would be necessary. Including costs for uninterruptible power, HVAC environmental support and special systems, construction costs are estimated to be \$9,000,000.

Special moving costs would have to be added to both the second and third alternatives similar to those identified later for the Santa Fe move.

Moving and related expense

Assuming the Santa Fe facility would be ready for occupancy in July of 1986, the following expenses would be incurred upon moving:

1. Scenario No. 1 identified in the Santa Fe Building Report anticipated the ultimate vacation of the 500 Block properties and moving options that utilized both Santa Fe and the State Office Building to effect agency consolidation and expansion. While changes will occur between now and moving time this scenario is used as the base for cost projections. 225,000 square feet of space would be occupied at moving time with the balance of 27,926 held in reserve for needed expansion or further consolidation from leased areas.
2. D.I.S.C. special moving expense:
 

A. Remove & install computer equip. ....	\$138,400
B. Data communication lines .....	4,389
C. Remove & install modems .....	2,925
D. Circuit installations.....	19,770
E. Moving computer equip.....	15,000
F. Channeling video cables .....	<u>300,000</u>
Total:	\$480,484
3. Other computer moving expense:
 

( A & R, D.H.R., Treasurer, etc.) .....	69,106
---	--------
4. 268,500 square feet of space moves into both Santa Fe and the State Office Building require the following partition, telephone and moving costs:

COST SUMMARYExpenses:

1. Santa Fe Purchase (4/86)	\$11,245,000
2. Estimated Moving Costs	
-535 Ks (4/83)	296,271
-503 Ks (7/86)	481,294
-SOB & Other (7/86)	1,176,806
3. Retire 503 Ks Bonds (4/83)*	867,773
Subtotal	<u>\$14,067,144</u>

Receipts:

1. Sale of 500 Block (4/83)	\$ 2,335,340
2. Estimated Interest Earned	
-Escrow Account Net @ 9.9%	628,618
-500 Block Prop. Contingency	
Fund Balance @ 7.9%	393,362
3. Credit of 500 Block Fund Balances	
-503 Ks Operating Fund	-0-
-503 Ks Depreciation Reserve	29,712
-503 Ks Sinking Fund	114,049
-535 Ks Operating Fund	125,986
-535 Ks Depreciation Reserve	61,497
Subtotal	<u>\$ 3,688,564</u>

NET DIFFERENCE

\$10,378,580

\*Different than 500 Block-Summary due to earlier payment date.

Interim space allocation

Under the terms of the agreement with the City of Topeka the State will vacate the 535 and 529 Kansas Avenue properties, but will continue to occupy 503 Kansas Avenue until Santa Fe vacates their present building.

The 59,974 square feet of space in the 535 facility will be relocated to leased space in the private sector. Several alternative relocation plans have been developed that address the lease needs during the 2½ to 3 year interim period.

Leases will be negotiated by the Department of Administration to reflect the rental amounts currently budgeted by agencies in their FY 1984 operation budgets. No increase in budgeted amounts should be required during FY 84 for either rent or utilities under the criteria established for leasing guidelines. If unforeseen utility rate increases occur during FY 84, any agency shortage in funds would be drawn against the proceeds of the 500 Block property sale.

II

MEMORANDUM

January 11, 1983

TO: House Ways and Means Committee

FROM: Kansas Legislative Research Department

RE: Purchase of Santa Fe Building

Before and during the 1982 Legislative Session, the Secretary of Administration initiated steps to acquire the Santa Fe Office Building in the 900 block of Jackson Avenue and to sell state property in the 500 block of Kansas Avenue. Purchase of the Santa Fe Building was seen as an opportunity to acquire adequate facilities for the state's centralized computer operations, to provide office space in close proximity to the Capital Complex, to improve agency consolidation, and to accommodate some future expansion and agency growth. An added incentive was divestiture of the two office buildings in the 500 block of Kansas Avenue, where rapidly escalating utility rates and needed building repairs would require significant expenditures in upcoming years. In response to this reasoning the 1982 Legislature passed S.B. 896 which authorized the Secretary of Administration to negotiate purchase of Santa Fe and sale of the 500 block, subject to Finance Council approval.

On January 7, 1983 the Finance Council approved the purchase of the Santa Fe Office Building and the sale of the 500 block of Kansas Avenue to the city of Topeka. The agreement to purchase the Santa Fe building calls for a purchase price of \$11,245,000 to be placed in escrow at the time of closing and paid to Santa Fe when the state takes possession, which can be no later than September 1, 1986. The \$11.2 million will be a loan from the Pooled Money Investment Board at the same rate of interest being earned by investment of the state's inactive accounts at the time of the loan (7.9 percent as of February 1). Escrowed funds will be invested with interest earnings credited to the state. Interest earnings in excess of the interest which must be repaid to the Pooled Money Investment Board will be used to finance agency moving costs. At the time the state takes possession of the Santa Fe Building, it will have the option of issuing revenue bonds or extending the term of the loan from the Pooled Money Investment Board, in either case the purchase price to be paid back from revenues from the building rents.

The agreement with the city of Topeka on the sale of the 500 block of Kansas Avenue provides a sale price of \$2,335,340 and stipulates that the state would continue occupancy of the 503 Kansas Avenue office building for 90 days after Santa Fe has vacated their building. Proceeds from the sale would be used to retire the bonds outstanding on 503 Kansas Avenue (\$870,177) and to finance moving and for improvements to the Santa Fe Building. The agreement with the city of Topeka is conditioned upon the state's purchase of the Santa Fe Building and a contract binding Santa Fe to construction of a building in Topeka.

The Finance Council action approved both agreements and raised the expenditure limitation on two funds. The raise on the expenditure limitation on the 900 Jackson Street Acquisition Fund from \$0 to \$11,245,000 enables the Secretary to deliver a warrant for the purchase of the Santa Fe Building to the escrow agent. The expenditure limitation on the Property Contingency Fund was also increased from \$0 to \$890,177. Proceeds from the sale of the 500 block of Kansas Avenue will be credited to this fund and used for the bond retirement and legal costs with the expectation that a

*Wch. II*

further expenditure limitation increase will be requested to cover moving costs, space modification, equipment, and other costs associated with state agency relocations.