

Approved: 5-31-91
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson George Teagarden at 1:30 p.m. on April 24, 1991 in room 514-S of the Capitol.

All members were present except: Representatives Solbach and Lowther (both excused).

Committee staff present:

Ellen Piekalkiewicz, Legislative Research Department
Debra Duncan, Legislative Research Department
Jim Wilson, Revisor of Statutes
Susan Miller, Administrative Aide
Sue Krische, Committee Secretary

Conferees appearing before the committee:

Marlin Rein, University of Kansas Medical Center
Warren Corman, Board of Regents

Others attending: see attached list.

SB 439 - Vehicles of Civil Air Patrol are federal assets.

Paul West, Kansas Legislative Research Department, explained that SB 439 declares the vehicles of the Civil Air Patrol to be federal assets. During the budget review of this agency, it was determined that the insurance that covers the Civil Air Patrol does not name the state of Kansas and this would require the Patrol to purchase insurance at approximately \$2,000 per year for its vehicles. By providing that the Civil Air Patrol vehicles are federal assets, funding for both vehicle insurance and registration would be provided by federal sources. Representative Patrick moved that SB 439 be recommended favorably for passage. Representative Dean seconded. Motion carried.

HB 2638 - KUMC, hospital and school of medicine budgeted as separate agencies.

Marlin Rein, KUMC, explained that HB 2638 requires a separation between KUMC School of Medicine and the Hospital in the budget documents and reports prepared by the Director of the Budget and the Governor and all relating legislative reports and measures submitted by the Legislature effective for FY93. Mr. Rein advised the bill will require technical amendments, if enacted, to recognize, in addition to the school of medicine, the school of nursing, the allied health program, the Wichita program, the Salina program, etc. Mr. Rein stated the Medical Center's understanding of legislative intent was to separate the hospital from the remainder of the institution and this is the way they planned to proceed in next year's budget submission. Mr. Rein does not feel the legislation is necessary. He suggested a minor modification in HB 2086 to facilitate the separation by creating a restricted fee account into which the hospital could reimburse the rest of the institution for overhead. No action was taken on HB 2638 pending consideration of required amendments.

Chairman Teagarden advised that due to action by the Joint Committee on State Building Construction, the Committee will need to reconsider the introduction of the omnibus bill. Representative Heinemann moved to reconsider Committee action on the introduction of the omnibus bill. Representative Turnquist seconded. Motion carried.

Representative Kline explained that the Joint Committee on State Building Construction has recommended the purchase of the building which the Insurance Department presently leases at 420 S.W. 9th (Attachment 1). The Committee's recommendation is a purchase price of \$1,575,000, which is the appraised value, to be financed with bonds over 15 years. The debt service would be \$177,373 annually compared to the current annual rent payment of \$195,754.80. The financing and payments include a factor for major structural and mechanical repair with routine maintenance contracted out separately by the Insurance Department. The staff revisor stated authorization in statute for this purchase would require State Finance Council approval before bonds are issued. It was noted the first payment would be due in FY92. Representative Patrick expressed concern that the Insurance Department apparently did not look at any other property in Topeka for possible purchase. He feels it would be beneficial to evaluate other office space in Topeka before making a commitment on 420 S.W. 9th. Representative Kline feels the location of this building is a very significant factor in its purchase. Back on the motion to introduce the omnibus bill, Representative Kline made a substitute motion to include the authority to purchase through bond financing the Insurance Department office building at 420 S.W. 9th in the omnibus bill. Representative Heinemann seconded. Substitute motion carried.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, room 514-S Statehouse, at 1:30 p.m.
on April 24, 1991.

Regarding Kansas State University - Salina, College of Technology, Warren Corman, Director of Facilities, Kansas Board of Regents, stated the Joint Committee on State Building Construction recommends to the Legislature, the construction of the college center at the Salina campus funded by Salina sales tax, the construction of a residence hall to be funded by Salina sales tax and a bond issue, construction of a technology center addition funded by Salina sales tax and approval of the razing of five old buildings on the site (Attachment 2). Representative Turnquist moved inclusion of the Joint Committee on State Building Construction recommendation regarding Kansas State University - Salina in the omnibus bill. Representative Hamm seconded. Motion carried.

Staff reported that the State Building Construction Committee was advised that the Correctional Institutions Building Fund (CIBF) is over-appropriated for FY92 and, therefore, the Committee recommends that the Waste Water Treatment Expansion capital improvement project at Lansing Correctional Facility be shifted from FY92 to FY93. This will ensure adequate balances in the CIBF for FY92. Representative Adam moved that the shift of CIBF funding for the Waste Water Treatment Expansion at Lansing from FY92 to FY93 be included in the omnibus bill. Representative Hensley seconded. Motion carried.

Representative Heinemann moved that the omnibus bill for the 1991 session be introduced with these additional matters included and that the bill be referred to the Committee of the Whole. Representative Turnquist seconded. Motion carried.

The meeting was adjourned at 2:40 p.m. The next meeting is scheduled for Thursday, April 25 at 1:30 p.m. in 514-S.



STATE OF KANSAS

KANSAS INSURANCE DEPARTMENT

420 S.W. 9th
Topeka 66612-1678 913-296-3071

1-800-432-2484
Consumer Assistance
Division calls only

RON TODD
Commissioner

March 21, 1991

The Honorable Arthur Griggs
Acting Secretary of Administration
State Capitol, Second Floor
Topeka, KS 66612

Dear Mr. Griggs:

For several months, we have discussed with you the potential benefits of the state purchasing the building which the Insurance Department presently leases at 420 S.W. 9th. As a result, on January 2, 1991, pursuant to K.S.A. 75-3043a, I requested the State Judicial Administrator to appoint three independent appraisers to determine the market value of our building. On January 23, 1991, the appraisal was completed and the building was assigned a market value of \$1,575,000. On February 26, 1991, we provided testimony to the Joint Committee on State Building Construction indicating that based on the appraised value assigned to the building, it would appear to be in the best interest of the state, financially, to acquire our building. We are now requesting your assistance in going to the Governor and the Joint Committee on State Building Construction and soliciting their recommendation and/or approval to buy our building.

Effective July 1, 1990, the Insurance Department amended its contract with Manhattan Buildings, Inc. to extend its present lease through June 30, 1995. In addition, the contract allows the state to renew the lease for three periods of five years after June 30, 1995. This would allow us to continue renting our building through June 30, 2010. Our rent is \$195,754.80 a year which equates to \$6.44 per square foot. There is a total of 30,395 square feet of office space in our building.

Special Provision 8 of our lease agreement contains an option for the state to buy our building. In that provision, the owner agrees to sell the building to the state at any time during the lease for the appraised value of the building, as provided in K.S.A. 75-3043a.

As I mentioned earlier, effective July 1, 1990, the Insurance Department amended its lease as opposed to letting it expire and signing a new lease. The reason for this was that in 1989 the Legislature enacted

HA
4-24-91
Attachment 1

INSURANCE DEPARTMENT
Topeka

The Honorable Arthur Griggs
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Page 2

House Bill No. 2534 which amended K.S.A. 79-201a. That bill repealed the property tax exemption given to all buildings leased by the state effective with the expiration of each building's lease. In an attempt to keep our building off the property tax roll and save the state property tax it would otherwise have to pay through increased rent, we amended our contract. Even though we amended our lease, Shawnee County may challenge the validity of that amendment. Because our rent was computed based on the property being tax exempt, we agreed to Special Provision 7, Section D of the amended lease which requires our department to reimburse the building owner for any property tax he is required to pay. I have been advised by the Shawnee County Appraiser's Office that had our building been assessed property taxes last December, they would have totaled \$26,162 for the 1990 calendar year based on an appraised value of \$522,100. I have further been advised that the county tentatively plans to appraise our building for the 1991 calendar year at a value of \$1,455,400. Applying the 1990 mill levy to the new valuation would increase the property taxes, if determined to be payable, to approximately \$73,000.

Attached, please find two separate lease versus purchase option analyses which indicate a gross savings of \$1,808,985 and \$2,495,000 over a 20 year period if the state exercises its purchase option and acquires the building at the appraised value of \$1,575,000. The following assumptions and estimates were used in the analyses.

Lease Options

Option 1

- (a) Rent and Maintenance - It is assumed that the annual rent will increase 5% once every five years when the lease is renewed. In FY 1990, the Insurance Department's building maintenance costs totaled \$7,690. To adjust this for FY 1992 and every year thereafter in the analysis, we applied an annual inflation rate of 5%.

- (b) Property Taxes - For FY 1992, property taxes are estimated to be the amount that would have actually been assessed on the building for 1990 had the building been subject to property tax. For each year thereafter, the property tax has been adjusted for an inflationary rate of 5%.

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Option 2

- (a) Rent and Maintenance - Under our present lease, for Fiscal Years 1991 through 1995, the state is required to pay rent of \$6.44 per square foot. For each five year renewal period, the rent per square foot is specified in the contract not to exceed \$7.50 for the first five year extension, \$8.50 for the second five year extension and \$9.50 for the third five year extension. This option takes into consideration these amounts in determining the annual rent. Maintenance is computed utilizing the same assumptions used under Option 1.
- (b) Property Tax - Property tax is computed using the same assumptions utilized in Option 1.

Options 1 and 2

Purchase

- (a) Interest Rate - The interest rate on the bonds is conservatively estimated at 7%. Although the interest rate for the March 2, 1991 Bond Buyer 20 Bond Index was 7.06%, bonds issued through the Kansas Development Finance Authority frequently have a more favorable rate.
- (b) Bond Issuance Costs - The cost of issuing the bonds is estimated to be 2.25% of the bond principal or \$40,500. The remainder of the \$220,000 would be used to establish a bond reserve fund.
- (c) Major Maintenance - Since the building owner is responsible for the repair and maintenance of the heating, cooling and electrical systems, sewer and plumbing lines, and roof, the analyses factor in costs that the state would have to bear if it purchases the building. Both the analyses for FY 1992 assume \$.90 per square foot for major maintenance based on recently released BOMA (Building Operators and Managers Association) data. Subsequent years are inflated 5%.

Again, as I mentioned previously, it appears from the attached analyses that the state could achieve a substantial savings by purchasing the Insurance Department building rather than continuing to lease it. We believe that our comparisons are extremely conservative, especially

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considering the fact that should our building be placed on the county tax roll, the property tax assessed on the building will likely be closer to \$73,000 than the \$27,470 used in our analyses. The difference in these amounts over 19 years and adjusted 5% a year for inflation would generate an additional savings of \$1.3 million to the state.

Given the significant savings the state can realize by exercising its option to purchase our building, we would appreciate your expression of support of our recommendation to Governor Finney and the Legislature.

Very truly yours,

Ron Todd
Commissioner of Insurance

RT:jas
2325rn

OPTION #1

KDFA

19-Mar-91

approved

 INSURANCE DEPT BUILDING

 LEASE VS. PURCHASE ANALYSIS

LEASE PARAMETERS

PURCHASE PARAMETERS

LEASEABLE SPACE 30,395 s.f.
 RENTAL RATES:
 FY 1992-1995 \$6.44 /s.f.
 FY 1996-2000 \$6.76 /s.f.
 FY 2001-2005 \$7.10 /s.f.
 FY 2006-2010 \$7.46 /s.f.
 FY 2111 \$7.83 /s.f.
 1992 MAINTENANCE \$8,478
 1990 PROPERTY TAXES \$26,162
 1991 PROPERTY INSURANCE \$1,500

PURCHASE PRICE: \$1,575,000
 ISSUE COST: \$220,000
 BOND PRIN: \$1,795,000
 INT RATE: 7.00%
 TERM: 15 YEARS
 MAINTENANCE COST: \$0.90 /s.f.
 INFLATION: 5.00%

LEASE OPTION

PURCHASE OPTION

FISCAL YEAR	LEASE OPTION			EFFECTIVE RENTAL RATE	PURCHASE OPTION			EFFECTIVE RENTAL RATE	
	RENT & MAINT	PROPERTY TAX	TOTAL COST		DEBT SERVICE	MAJOR MAINTENANCE	PROPERTY INSURANCE		TOTAL COST
1992	204,222	26,162	230,384	7.58	177,373	27,356	1,500	206,229	6.78
1993	204,646	27,470	232,116	7.64	177,373	28,723	1,575	207,671	6.83
1994	205,091	28,844	233,935	7.69	177,373	30,159	1,654	209,186	6.88
1995	205,558	30,286	235,844	7.76	177,373	31,667	1,736	210,777	6.93
1996	215,776	31,800	247,576	8.14	177,373	33,251	1,823	212,447	6.99
1997	216,291	33,390	249,681	8.21	177,373	34,913	1,914	214,201	7.05
1998	216,832	35,060	251,891	8.29	177,373	36,659	2,010	216,042	7.11
1999	217,400	36,813	254,212	8.36	177,373	38,492	2,111	217,976	7.17
2000	217,996	38,653	256,650	8.44	177,373	40,417	2,216	220,006	7.24
2001	228,957	40,586	269,543	8.87	177,373	42,437	2,327	222,138	7.31
2002	229,615	42,615	272,230	8.95	177,373	44,559	2,443	224,376	7.38
2003	230,305	44,746	275,051	9.05	177,373	46,787	2,566	226,726	7.46
2004	231,030	46,983	278,013	9.14	177,373	49,127	2,694	229,194	7.54
2005	231,791	49,332	281,124	9.25	177,373	51,583	2,828	231,785	7.62
2006	243,533	51,799	295,332	9.71	177,373	54,162	2,970	234,505	7.71
2007	244,372	54,389	298,761	9.83	0	56,870	0	56,870	1.87
2008	245,254	57,108	302,362	9.95	0	59,714	0	59,714	1.96
2009	246,179	59,964	306,143	10.07	0	62,699	0	62,699	2.06
2010	247,151	62,962	310,113	10.20	0	65,834	0	65,834	2.17
2011	259,417	66,110	325,527	10.71	0	69,126	0	69,126	2.27
	4,541,416	865,071	5,406,487		2,660,598	904,536	32,368	3,597,502	

BENEFITS OF PURCHASE OPTION

 GROSS DOLLAR SAVINGS \$1,808,985
 PRESENT VALUE SAVINGS \$689,599
 OVERALL COST REDUCTION 50.28%

OPTION #2

KDFA

 INSURANCE DEPT BUILDING

 LEASE VS. PURCHASE ANALYSIS

19-Mar-91

LEASE PARAMETERS

PURCHASE PARAMETERS

LEASEABLE SPACE 30,395 s.f.

PURCHASE PRICE: \$1,575,000

RENTAL RATES:

ISSUE COST: \$220,000

FY 1992-1995 \$6.44 /s.f.
 FY 1996-2000 \$7.50 /s.f.
 FY 2001-2005 \$8.50 /s.f.
 FY 2006-2010 \$9.50 /s.f.
 FY 2111 \$9.50 /s.f.

BOND PRIN: \$1,795,000
 INT RATE: 7.00%
 TERM: 15 YEARS

1992 MAINTENANCE \$8,478
 1990 PROPERTY TAXES \$26,162
 1991 PROPERTY INSURANCE \$1,500

MAINTENANCE COST: \$0.90 /s.f.

INFLATION: 5.00%

LEASE OPTION

PURCHASE OPTION

FISCAL YEAR	LEASE OPTION			EFFECTIVE RENTAL RATE	PURCHASE OPTION				EFFECTIVE RENTAL RATE
	RENT & MAINT	PROPERTY TAX	TOTAL COST		DEBT SERVICE	MAJOR MAINTENANCE	PROPERTY INSURANCE	TOTAL COST	
1992	204,222	26,162	230,384	7.58	177,373	27,356	1,500	206,229	6.78
1993	204,646	27,470	232,116	7.64	177,373	28,723	1,575	207,671	6.83
1994	205,091	28,844	233,935	7.69	177,373	30,159	1,654	209,186	6.88
1995	205,558	30,286	235,844	7.76	177,373	31,667	1,736	210,777	6.93
1996	238,268	31,800	270,068	8.88	177,373	33,251	1,823	212,447	6.99
1997	238,783	33,390	272,173	8.95	177,373	34,913	1,914	214,201	7.05
1998	239,324	35,060	274,384	9.03	177,373	36,659	2,010	216,042	7.11
1999	239,892	36,813	276,705	9.10	177,373	38,492	2,111	217,976	7.17
2000	240,489	38,653	279,142	9.18	177,373	40,417	2,216	220,006	7.24
2001	271,510	40,586	312,096	10.27	177,373	42,437	2,327	222,138	7.31
2002	272,168	42,615	314,783	10.35	177,373	44,559	2,443	224,376	7.38
2003	272,858	44,746	317,604	10.45	177,373	46,787	2,566	226,726	7.46
2004	273,583	46,983	320,566	10.54	177,373	49,127	2,694	229,194	7.54
2005	274,344	49,332	323,677	10.65	177,373	51,583	2,828	231,785	7.62
2006	305,539	51,799	357,338	11.75	177,373	54,162	2,970	234,505	7.71
2007	306,378	54,389	360,767	11.87	0	56,870	0	56,870	1.87
2008	307,259	57,108	364,368	11.99	0	59,714	0	59,714	1.96
2009	308,185	59,964	368,149	12.11	0	62,699	0	62,699	2.06
2010	309,156	62,962	372,118	12.24	0	65,834	0	65,834	2.17
2011	310,177	66,110	376,287	12.38	0	69,126	0	69,126	2.27
	5,227,431	865,071	6,092,502		2,660,598	904,536	32,368	3,597,502	

BENEFITS OF PURCHASE OPTION

GROSS DOLLAR SAVINGS	\$2,495,000
PRESENT VALUE SAVINGS	\$966,573
OVERALL COST REDUCTION	69.35%

MARCH
29
1991 4/24/
#7

KANSAS STATE UNIVERSITY - SALINA
COLLEGE OF TECHNOLOGY

SUMMARY

PURPOSE

In October, 1989, the Kansas Board of Regents established a task force to study and make recommendations regarding the future of Kansas College of Technology. On May 30, 1990, the task force recommended a merger of Kansas College of Technology with Kansas State University, with the new name of "Kansas State University - Salina, College of Technology". The task force believes that a merger of Kansas College of Technology into Kansas State University will strengthen both institutions and provide significant benefits.

FUNDING

The total cost of the merger is \$10.44 million. It will be raised by the following sources:

<u>Funding Source</u>	<u>Amount</u>	<u>Purpose</u>
KSU Foundation	\$2.00 Million	Scholarships
Revenue Bonds/Dorm Fees	\$1.35 Million	Residence Hall
State of Kansas	\$1.59 Million	Aeronautical Center Ad. (20 year pay back to the Salina Airport Authority)
Sale of south KCT campus	\$1.00 Million	Capitol Improvements, Equipment & Scholarships
Salina sales tax proceeds	* <u>\$4.50 Million</u>	Capital Improvements
Total	\$10.44 Million	

* Includes \$400,000 for Residence Hall Construction.

CAPITAL IMPROVEMENTS

There is adequate space for most of the academic and administrative activities of the two and four year programs, without additional construction. However, there are several areas that need to be addressed: 1) better quality and additional laboratories for the expanding aeronautical program and the mechanical/manufacturing curriculum, 2) library space for stacks and study, 3) housing and related facilities on campus, 4) large lecture hall for academic and other college activities, 5) centrally located student services that are convenient and convey a positive image.

Plans are to sell the south campus and to vacate/remove as many sub-standard buildings as possible. These measures should provide revenues for other needs, reduce utilities and maintenance costs and improve the appearance of the main campus. The following diagram summarizes the capital improvement projects:

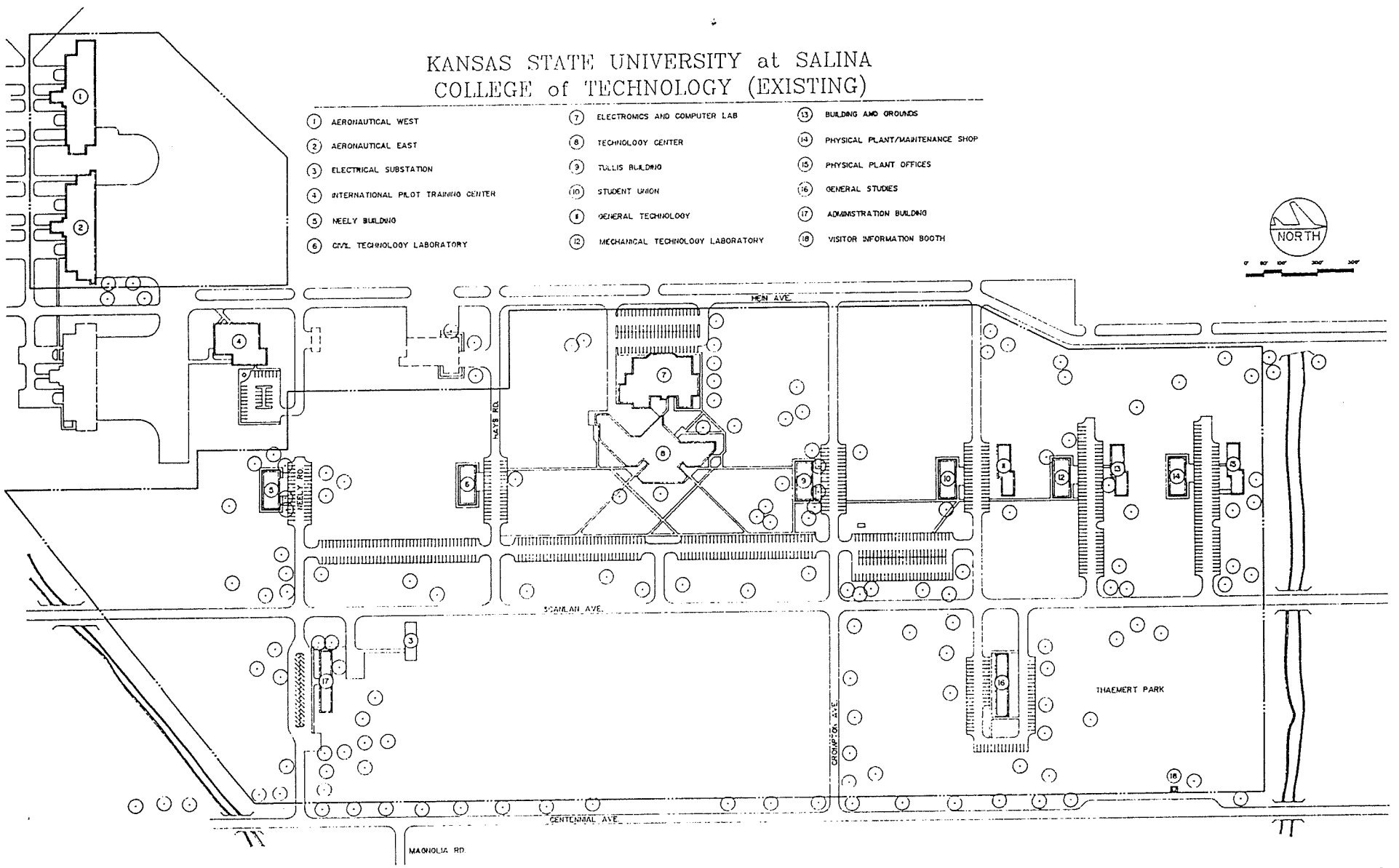
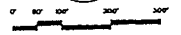
HA
4-24-91
Attachment 2

<u>PROJECT</u>	<u>APPROX. GSF</u>	<u>BUDGET</u>	<u>COMPLETION</u>	<u>REPLACES</u>
Aeronautical Center Ad. (labs, offices, class rooms, support space)	30,248	\$1,590,000	Aug '92	Neely Building Aero East Aero West
- College Center (cafeteria, student union, bookstore, administrative/ student service offices, 300 seat lecture room support space)	18,915	\$2,400,000 ^s	Dec '93	Cafeteria on South Campus Student Union Tullis Building Admin. Building
- Residence Hall (resident rooms for 200 students, lobby, individual bath rooms, support space)	19,305	* \$1,750,000	Jul '93	Residence Hall on South Campus
- Technology Center Addition (Library stack/study space, mechanical lab space, support space)	6,500	\$700,000 ^s	Apr '94	Civil Lab Building
<i>raze 5 old bldgs.</i> North Boundary Road		\$250,000	Apr '92	
South Boundary Road		\$60,000	Feb '94	
Campus Entrance Road		\$75,000	Oct '91	
Infrastructure/Equipment		<u>\$615,000</u>	Jan '94	
Subtotal	74,908	\$7,440,000		
KSU Foundation		\$2,000,000		
Sale of South Campus		<u>\$1,000,000</u>		
TOTAL	74,968	\$10,440,000		

*\$1,350,000 from Revenue Bonds/Dorm Fees & \$400,000 from Salina Sales Tax Proceeds.

KANSAS STATE UNIVERSITY at SALINA COLLEGE of TECHNOLOGY (EXISTING)

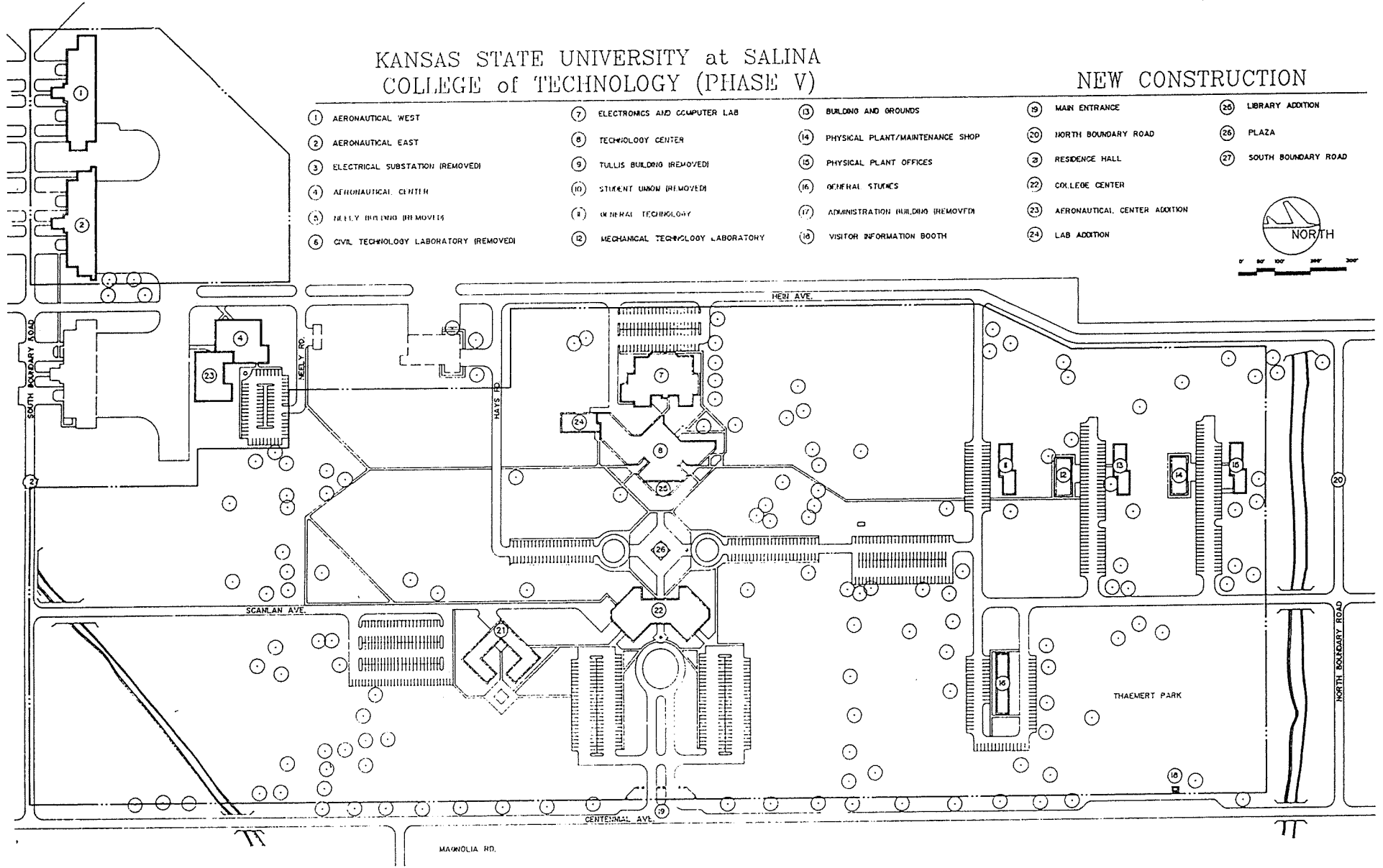
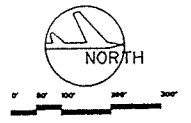
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| <ul style="list-style-type: none"> ① AERONAUTICAL WEST ② AERONAUTICAL EAST ③ ELECTRICAL SUBSTATION ④ INTERNATIONAL PILOT TRAINING CENTER ⑤ NEELY BUILDING ⑥ CIVIL TECHNOLOGY LABORATORY | <ul style="list-style-type: none"> ⑦ ELECTRONICS AND COMPUTER LAB ⑧ TECHNOLOGY CENTER ⑨ TULLIS BUILDING ⑩ STUDENT UNION ⑪ GENERAL TECHNOLOGY ⑫ MECHANICAL TECHNOLOGY LABORATORY | <ul style="list-style-type: none"> ⑬ BUILDING AND GROUNDS ⑭ PHYSICAL PLANT/MAINTENANCE SHOP ⑮ PHYSICAL PLANT OFFICES ⑯ GENERAL STUDIES ⑰ ADMINISTRATION BUILDING ⑱ VISITOR INFORMATION BOOTH |
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KANSAS STATE UNIVERSITY at SALINA COLLEGE of TECHNOLOGY (PHASE V)

NEW CONSTRUCTION

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|---|------------------------------------|-------------------------------------|--------------------------------|-----------------------|
| ① AERONAUTICAL WEST | ⑦ ELECTRONICS AND COMPUTER LAB | ⑬ BUILDING AND GROUNDS | ⑲ MAIN ENTRANCE | ⑳ LIBRARY ADDITION |
| ② AERONAUTICAL EAST | ⑧ TECHNOLOGY CENTER | ⑭ PHYSICAL PLANT/MAINTENANCE SHOP | ⑳ NORTH BOUNDARY ROAD | ㉑ PLAZA |
| ③ ELECTRICAL SUBSTATION (REMOVED) | ⑨ TULLUS BUILDING (REMOVED) | ⑮ PHYSICAL PLANT OFFICES | ㉒ RESIDENCE HALL | ㉒ SOUTH BOUNDARY ROAD |
| ④ AERONAUTICAL CENTER | ⑩ STUDENT UNION (REMOVED) | ⑯ GENERAL STUDIES | ㉓ COLLEGE CENTER | |
| ⑤ KELLY BUILDING (REMOVED) | ⑪ GENERAL TECHNOLOGY | ⑰ ADMINISTRATION BUILDING (REMOVED) | ㉔ AERONAUTICAL CENTER ADDITION | |
| ⑥ CIVIL TECHNOLOGY LABORATORY (REMOVED) | ⑫ MECHANICAL TECHNOLOGY LABORATORY | ⑱ VISITOR INFORMATION BOOTH | ㉕ LAB ADDITION | |



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