

Approved: 1-18-96  
Date

## MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairman Robin Jennison at 1:30 p.m. on January 9, 1996 in Room 514-S of the Capitol.

All members were present except: Representative Edlund, Excused  
Representative Gross, Excused  
Representative Reinhardt, Excused

Committee staff present: Alan Conroy, Russell Mills, Susan Wieggers, Legislative Research Department  
Jim Wilson, Revisor of Statutes  
Tim Kukula, Appropriations Secretary; Todd Fertig, Administrative Aide

Conferees appearing before the committee: Warren Corman, Dir. of Facilities for the Board of Regent  
Bill Caton, Kansas Division of Financial Authority  
Stephen Jordan, Representing the Board of Regents  
John Hebert, Chairman, Board of Regents

Others attending: See attached list

Chairman Jennison welcomed new members Wilson and Edmonds, and noted changes in subcommittee assignments. Rep. Wilson will serve on the Appropriations subcommittee for Tax, Commerce, and Transportation, Rep. Edmonds will serve on the Appropriations subcommittee for Education and Chairman Jennison will serve on the Subcommittee for S.R.S.

Alan Conroy gave the committee a brief preview of the meeting as the Legislative Research Staff distributed a handout outlining Non-Regents topic Proposals 47 - Prison Population and Expansion Issues; 48 - Creation of Special Projects Positions; 49 - Conservation Fee Fund; 50 - KBI -- Reimbursement Fees for Services; and 60 - Review of the Kansas Department of Wildlife and Parks; and Regents topic Proposals 51- Budgeting for Regents Institutions; 52- Enrollment Adjustments; 53 - Postsecondary Student Financial Aid; 61- Midwest Student Exchange Program; 62 - Sponsored Research Overhead; 63 - Servicing New Buildings; 64 - Regents Utility Expenditures; 65 - Medical Student Loan Repayment Fund (Attachment 1).

Chairman Jennison recognized Leah Robinson, Kathy Porter, Carolyn Rampey and Russell Mills to brief the committee on the proposals of non-Regents topics, and recognized Laura Howard and Russell Mills to brief the committee on the Regents topics.

Warren Corman, Director of Facilities for the Board of Regents, presented to the committee "Of Aging Campuses & Crumbling Classrooms." Corman briefed the committee on the current situations and conditions of Kansas Regent schools and offered "A Possible Solution." Corman stated that the best thing that has happened with the EBF in his 50 years as an architect is the \$10 million a year the State Legislature has given it over the past 7 years. Corman then briefed the committee on the status of the Educational Building Fund (EBF) and presented several tables, charts, and statistics (Attachments 2 & 3).

Corman explained to the committee that due to the American Disabilities Act and State Fire Codes, additional money is needed at Regent Universities to meet Federal and State mandates. A booklet was distributed containing pictures, charts and graphs to emphasize capital needs for Kansas higher education (Attachment 4).

Corman addressed bond interest rates versus the increase in the cost of construction. He presented testimony on behalf of the Board of Regents that now is a good time to consider bonds for capital improvement projects since interest rates are low (Attachment 5).

Several questions came from the floor with concerns about the necessity of renovations, new construction, and additions and concerns about proper projections of bond issues. Stephen Jordan and John Hebert were recognized by Chairman Jennison to address those concerns.

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, Room 514-S Statehouse, at 1:30 P.M. on January 9, 1996.

Bill Caton was recognized to address the committee and stated: "The cost of borrowing money is less than the cost of borrowing time." Representative Edmonds questioned if the Board had accurately forecasted all of the possibilities of what could occur in the future to ensure that we don't get locked in to financial handcuffs.

The meeting adjourned at 3:40 p.m.

The next meeting is scheduled for January 10, 1996.

LEGISLATIVE BUDGET COMMITTEE

DATE JAN 9, 1996

NAME ADDRESS REPRESENTING

NAME	ADDRESS	REPRESENTING
Don M. Bezac	Emmett	S.E.A.K
Merenda Mitchell	Gov's Office	Governor
Hannon Jones	700 E JACKSON	SILCK
Julie Hein	Topeka	Hein, Ebert & Witt
David G. Moxical	Topeka	Washburn Univ
Alan Holmes	Topeka	Division of Budget
Kelth Jennings	Topeka	KAPE
Bill Hollenback	Pittsburg	PSO
Denise Mussen	700 SW Hamilton	Board of Regents
Am. Pflanz	Hays	FHSU
Henry [unclear]	Emporia	ESU
Donna Dickman	Topeka	KCC
Bill Watts	Topeka	KDOT
Eldine Frisbie	Topeka	Div. of the Budget
James [unclear]	Topeka	Benson [unclear]
Ed Washburn	Topeka	Washburn Univ
Thaine Hoffman	Topeka	DOAS
Dick Korth	" "	KDWP
Joe PETERSON	Manhattan	Kansas State University
Jon Jossard	Lawrence	KU
ERIC Sexton	Wichita	WSU
Roger Franke	Topeka	KGC
TED D. AYRES	TOPEKA	REGENTS STAFF





**Interim Committee Recommendations**  
**Special Committee on Ways and Means/Appropriations**  
**Legislative Budget Committee**

**NON-REGENTS TOPICS**

Proposal No. 47 -- Monitor the Status of the State General Fund  
Prison Population and Expansion Issues

Proposal No. 48 -- Creation of Special Projects Positions

Proposal No. 49 -- Conservation Fee Fund

Proposal No. 50 -- KBI -- Reimbursement Fees for Services

Proposal No. 60 -- Review of the Kansas Department of Wildlife and Parks

**REGENTS TOPICS**

Proposal No. 51 -- Budgeting for Regents Institutions

Proposal No. 52 -- Enrollment Adjustment

Proposal No. 53 -- Postsecondary Student Financial Aid

Proposal No. 61-- Midwest Student Exchange Program

Proposal No. 62 -- Sponsored Research Overhead

Proposal No. 63 -- Servicing New Buildings

Proposal No. 64 -- Regents Utility Expenditures

Proposal No. 65 -- Medical Student Loan Repayment Fund

## Legislative Budget

**Proposal No. 47 – Monitor Status of State General Fund – Prison Population and Expansion Issues.** The Committee recommends that the Department of Corrections (DOC) explore alternatives in addition to its requested expansion at El Dorado Correctional Facility. Among those alternatives are: the possible use of a mental health or mental retardation facility should one be made available to DOC; conversion of Ellsworth Correctional Facility, which is currently used to house parole violators, back to general population housing; increased utilization of halfway house placements; increased utilization of intermediate sanctions such as house arrest and electronic monitoring; more structured parole supervision plans; housing inmates in nonstate-owned or operated facilities; and other alternatives developed by DOC. The Committee also recommends that the Department continue to pursue short-term expansion projects at all of its facilities. In addition, the Committee notes that population projections made by the new Prophet Projection model show that if five bills currently pending before the Legislature were to be enacted, the inmate population could increase by an additional 971 inmates by 2005, and 3,243 inmates by 2015. The Committee recommends that the 1996 Legislature, in its consideration of this legislation, consider the serious impact the bills would have on prison populations.

**Proposal No. 48 – Creation of Special Projects Positions.** The Committee recommends that both the Executive and Legislative branches continue to review existing special project appointments and that any requests for additional special project appointments be closely scrutinized. The Committee also recommends adding statutory language which provides that no person shall be appointed to a position in the Executive Branch under the provisions of that paragraph unless the position is specifically approved by the Governor or by statute.

**FTE Reductions.** The Committee recommends introducing legislation that would codify the Governor's recommendation to reduce FTE positions by 2 percent in FY 1996 and 3 percent in FY 1997 in cabinet level agencies.

**Proposal No. 49 – Conservation Fee Fund.** The Committee recommends that the State Corporation Commission make every effort to identify and document the number of abandoned, unplugged wells in the state; develop a multiyear plan for dealing with abandoned, unplugged wells that categorizes wells according to the risk they pose to health and property, sets forth a schedule for plugging the wells that are causing the most serious damage, and addresses how the plan will be funded; identify and request statutory changes that would enhance the Commission's ability to reduce the number of newly abandoned wells each year; continue efforts to make the operations of the Conservation Division more efficient; be sure that the public is informed about unplugged wells that are dangerous; and seek input from representatives of the oil and gas industry in the development of its multiyear strategy to plug abandoned wells.

**Proposal No. 50 – KBI – Reimbursement Fees for Services.** The Committee supports the continuing efforts of the Kansas Bureau of Investigation (KBI) and Kansas Department of Health and Environment (KDHE) toward automating the record check process between the two agencies. The Committee recommends that the KBI, KDHE, and the Information Network of Kansas continue to explore options for automating record check and registration and licensing procedures.

**Proposal No. 51 – Budgeting for Regents Institutions.** The Committee recommends introduction of legislation to authorize the Director of Purchases to delegate local purchasing authority in amounts up to \$25,000 to Regents institutions, an increase from \$10,000 in current law.

The Committee also recommends that Regents budgeting be shifted in a direction which emphasizes greater flexibility at the institutional level and budget review focused on clear policy and performance objectives. The Committee recommends that discussion ensue regarding a shift to a State General Fund operating grant tied to institutional attainment of performance objectives, along with institutional control over tuition revenues.

The Committee also concludes that it is time to consider modifications to current state printing practices, including the potential for privatization or contracting out of state printing responsibilities. To provide additional information on this issue, the Committee recommends that the Legislative Post Auditor conduct an audit designed to assess the real costs and capacity for printing at the State Printing Plant and other state agency facilities, cost and service advantages that might accrue through merger of facilities or privatization, and the impact on the State Printer if the Legislature migrated to a paperless environment.

**Proposal No. 52 – Enrollment Adjustment.** The Committee makes no recommendations on this topic. Endorsement of institutional control over tuition and the recommendation to establish a State General Fund operating grant would eliminate a specific enrollment adjustment.

**Proposal No. 53 – Postsecondary Student Financial Aid.** The Committee recommends that no action be taken on the issue of creating a comprehensive grant program at this time. The Committee does express its general support for the concept of merging some of the existing Kansas financial aid programs into one comprehensive grant program.

## Ways and Means/ Appropriations

**Proposal No. 60 – Review of the Kansas Department of Wildlife and Parks.** The Committee made several recommendations regarding general management issues in the Department, including the need to seek technical assistance to implement a stronger accounting system, the creation of a new "clearing fund" to better track federal and state dollars, and the need to review the feasibility of creating a separate Parks Division. The Committee also recommends that there be no further use of State General Fund dollars for any federal aid diversion repayments which occur after FY 1995.

**Proposal No. 61 – Midwest Student Exchange Program.** The Committee concludes that the student exchange program does not appear to be meeting the original program goals and recommends that the Kansas representatives to the Midwest Higher Education Commission communicate the Committee's concerns and suggestions regarding the program focus to the Commission for its review.

**Proposal No. 62 – Sponsored Research Overhead Funds.** The Committee sees no need to control positions funded through sponsored research funds and supports the current Board of Regents policy regarding expenditure of these funds.

**Proposal No. 63 – Servicing New Buildings.** The Committee recommends that the staffing formula for new buildings be changed to allow for the addition of 1.0 FTE position for each 16,000 gross square feet of new space. The Committee also recommends that Regents institutions adopt this same standard as a target goal for existing campus space.

**Proposal No. 64 – Regents Utility Expenditures.** The Committee recommends that the current practice of funding utility expenditures through a separate line-item be discontinued and that utilities be funded as a part of general institutional operating expenditures. Institutions would be allowed to retain utility savings for other uses but would be required to absorb additional utility expenses. A three-year phase-in period is recommended, and institutions are encouraged to establish reserve funds over that time period. The Committee recommends that utilities for new buildings be funded at a level equal to 60 percent of the institution's average cost for all space.

**Proposal No. 65 – Medical Student Loan Repayment Fund.** The Committee requests that the Medical Center provide a list of alternatives which reduce or eliminate the need for State General Fund dollars to support the medical loan program in future years for consideration by the 1996 Legislature, including structural program modifications and alternative sources of financial support for the program.

## Proposal No. 47

**STUDY TOPIC: Monitor the status of the State General Fund.**

### **BACKGROUND**

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The Legislative Budget Committee, as provided by law (K.S.A. 46-1208), can set its own agenda. In addition to the usual monitoring of State General Fund (SGF) and Gaming Revenues Fund finances, the Committee reviewed the investment practices of the State Treasurer and Department of Corrections' issues, including prison population and inmate capacity expansion issues.

### **State Finances**

At each meeting, staff of the Legislative Research Department presented a report comparing estimated and actual receipts to the SGF and responded to questions raised by the Committee. Staff also presented the following memos or tables: Actual FY 1995 Resources, Demands, and Balances of the SGF; SGF Receipts, Expenditures, and Ending Balances, FYs 1966-1996 (estimated); Percent Increase in SGF Expenditures – Actual and Real – FYs 1966-1995; Per Capita Disposable Personal Income; SGF and All Funds Expenditures and Kansas Personal Income Percentage Increases – FYs 1966-1995; SGF receipts, FY 1995; SGF Revenue Estimates since FY 1975 (the record of the Consensus Estimating Group); SGF Receipts, Actual FY 1995 compared with the current estimate for FY 1996; Salary Increases for State Classified Employees, Regents' Faculty and Classroom Teachers of Local School Districts, in Private Sector Wages, and in the Rate of Inflation – FYs 1974-1996; a review of *Kansas Fiscal Facts*; SGF Profile, FYs 1995-2000; and Potential SGF Adjustments for FY 1996 and FY 1997. All of the memos and tables presented to the Committee by staff are available from the Legislative Research Department.

### **Lottery and Racing Revenues**

In October and December, the Committee received a staff report on lottery and parimutuel revenues and transfers to the State Gaming Revenues Fund (SGRF) in FYs 1994, 1995, and estimated 1996 and 1997. It was noted that any time SGRF transfers exceed \$50 million, the excess is deposited in the SGF. The estimated amount of the SGF transfer in FY 1996 is slightly over \$8.7 million while for FY 1997 it is slightly less than \$8.9 million. Staff of the Legislative Division of Post Audit presented a performance audit report which reviewed the operations of the Woodlands Racetrack. Representatives of the Racing Commission were present and responded to several Committee questions concerning the resignation of its Executive Director, the status of the new race track at Frontenac, and the impact of riverboat gambling in the Kansas City area on the Woodlands race track.

### **Update on Investment Practices**

On August 24, State Treasurer Sally Thompson reviewed the status on investment practices of the Office of the Kansas State Treasurer. She covered the impact on state and local investments resulting from the 1992 change in the State Investment Law and the Kansas Municipal Investment Pool (MIP). State Treasurer Thompson said the amount of interest earned by the State of Kansas has doubled in the past three years, that local units of government remain better off investing their money in the MIP than investing it themselves and that \$90 million in interest to cities, counties, school districts, and the state has been returned from the MIP. She recommended that 1995 legislation requiring the state to remove all of its money from the MIP be amended to keep \$50 million in the Fund to act as an insurance policy. According to State Treasurer Thompson, if the local units remove all their money from the MIP, the state could be left with a \$20 million paper loss.

State Treasurer Thompson responded to questions from the Committee and conceded that she lacked the experience to make investments for the



MIP during a period of rising interest rates in 1994. She said her office is currently in the process of hiring a consultant to provide advice on MIP investments.

### **Prison Population and Expansion Issues**

On August 24, staff presented a background memorandum on corrections' expansion options including privatization. The topic was initiated by the Committee in light of rising prison populations and the need for appropriate housing for offenders. At its August 24 and October 24 meetings, the Committee heard testimony from the Secretary of Corrections, and from the Chair of the Kansas Parole Board, the Executive Directors of the Kansas Sentencing Commission, the Koch Crime Commission, and the Governor's Hospital Closure Commission. In addition, the Committee heard testimony from representatives of Kiowa County who propose to build a correctional facility which could provide housing for state inmates, and from representatives of the Juvenile Assistance and Information Liaison (JAIL) program at Lansing Correctional Facility who explained a program aimed at juveniles with the ultimate goal of keeping them out of the adult correctional system. On October 24, the Committee authorized the Chair to write a letter to the Secretary of Corrections expressing the Committee's concern that the Department of Corrections was focusing too narrowly on new expansion at El Dorado Correctional Facility and not sufficiently exploring other, less costly, alternatives. At its November 30 meeting, the Committee was apprised of the population projections compiled by the Kansas Sentencing Commission using the new Prophet projection model.

### **CONCLUSIONS AND RECOMMENDATIONS**

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The Committee notes its serious concerns with issues related to population growth within the Kansas correctional system. The Governor and the 1995 Legislature recognized the need for additional space during the 1995 Session, and approved the expenditure of \$600,000 from the Correctional Institutions Building Fund (CIBF) for

planning new general population housing units. That funding was appropriated subject to release by the State Finance Council. At the time the funding was released by the State Finance Council in September 1995, however, the legislative members of the Council expressed concern that the Department's use of the planning funds should not be limited to planning for an expansion at El Dorado Correctional Facility (EDCF), but should also be utilized for exploring other alternatives. In spite of the concerns raised, the State Finance Council voted to release the planning funds.

The Committee believes that it will be difficult for the Department of Corrections (DOC) to obtain legislative authorization for its requested expansion at EDCF from the 1996 Legislature unless very substantial federal funding were to materialize. The Committee is convinced that there are other alternatives which can be utilized to free up general population space. The Committee recommends that the Department consider and be prepared to discuss the following alternatives, which should be reviewed and considered by the subcommittees considering the DOC budget:

- possible use of a mental health or mental retardation facility following recommendations made by the Governor's Hospital Closure Commission (uses could include housing for parole violators, geriatric inmates, developmentally disabled inmates, or for intensive substance abuse programs);
- conversion of Ellsworth Correctional Facility back to a facility for general population inmates and shifting parole violators to another location, perhaps a mental health or mental retardation facility that might become available;
- increased utilization of halfway house placements;
- more structured parole supervision plans which could encourage the Parole Board to parole a larger number of potentially suitable offenders;

- increased utilization of intermediate sanctions, such as electronic monitoring and house arrest;
- housing state inmates in nonstate owned/operated facilities;
- the formation of a consensus panel consisting of representatives of DOC, Kansas Sentencing Commission, Kansas Parole Board, and other appropriate parties to estimate future trends in inmate population, identify alternative strategies which can be employed, and develop methods for assessing the impact of these alternatives; and
- any other alternatives developed by the DOC.

The Department also indicated it was in the process of planning other potential short-term capacity expansion projects. Those projects include:

- **Double-Celling Two Floors of "A" Dorm at Norton Correctional Facility.** This would provide 104 additional beds and require renovation costs estimated at \$158,000. Additional operating costs are estimated at \$800,000, excluding program and medical services costs.
- **Reoccupying Space at Winfield Correctional Facility, Scheduled to be Emptied in January, 1996 When Inmates are Moved to the Garland Building.** This would increase capacity by 132 beds and require \$150,000 for renovation and repairs. Additional operating costs, excluding program and medical services costs, are estimated at \$1.1 million.
- **Renovating the Adjustment and Treatment (A&T) Building at Lansing Correctional Facility.** This would provide an additional 100 beds, at an estimated renovation cost of \$1 million. Estimates of staffing and other operating costs have not yet been made.

In addition, the Department has requested permission from the United States District Court to double-cell the medium unit at Lansing Correctional Facility. The request, which is currently under advisement, would provide an additional 280 beds.

When all of the above beds are added to the Department's capacity, the total operating capacity would increase by 616 beds to 8,086. The Committee notes, however, that certain short-term projects are viewed by the Department as temporary. Specifically, the Department considers 491 of the beds recently added to be temporary in nature. Those projects include a 100 bed addition at Hutchinson Correctional Facility, a 114 bed addition at El Dorado Correctional Facility (EDCF), and double-celling in two cellhouses at EDCF. Even considering those projects temporary, the Committee believes that capacity could be substantially increased with options already under consideration by the Department and urges the Department to continue working on these and other short-term, lower cost options.

The Committee was provided information by the Sentencing Commission on the Prophet projection model. The Governor recommended, and the 1995 Legislature approved, the expenditure of \$25,000 in the budget of the Kansas Sentencing Commission to allow for acquisition of the necessary software and technical support needed for the model. The model was developed to allow for more accurate long-term population projections and is based upon assumptions agreed on by the Kansas Department of Corrections, the Kansas Sentencing Commission, and the Kansas Parole Board. That projection model estimates that the inmate population will grow from an actual number of 7,131 in October 1995 to 8,421 in FY 2005. These projections are based on no changes in current law.

The Prophet projection model also has the capability to project additional bedspace which would be required by the passage of pending legislation. The model has made estimates for five currently pending bills. Those bills are: H.B. 2424 which increases the severity levels for the crimes of rape and criminal discharge of a firearm; H.B. 2425 which, among other things, doubles sentencing ranges in the top three severity levels of the sentencing guidelines nondrug grid; H.B. 2025

which provides the new sentencing option of life imprisonment with no possibility of parole for an offender convicted of an off-grid crime (murder in the first degree, capital murder, or treason), a severity level 1, 2, or 3 person felony, or a sexually violent crime with a prior conviction for one of those crimes; H.B. 2155, which is similar to H.B. 2025, but includes additional crimes such as aggravated battery, and several child abuse crimes; and S.B. 241 which amends current law to define a person who has been convicted for a second time of a sexually violent crime as persistent sex offender and allows the offender to be sentenced to life imprisonment without the possibility of parole.

The additional bedspace required upon passage of the above legislation is estimated to increase

the inmate population by 876 to 971 by FY 2005, and by 2,842 to 3,243 by FY 2015. The Committee notes that the proposal by the Department of Corrections to add 1,024 beds at EDCF is estimated to cost approximately \$35 million, or a cost of roughly \$34,000 per bed in double-bunked cells. Even at that conservative amount, the addition of 3,243 beds would cost approximately \$110 million. Many of the sentences being adjusted in these bills are high severity level crimes and inmates sentenced under those provisions might not be appropriately housed in double-bunked cells. If anything, the cost could actually be significantly higher. The Committee cautions the Legislature to carefully consider that impact during consideration of these bills during the 1996 Session.



# Proposal No. 48

**STUDY TOPIC:** *Why special project appointments are created by state agencies, what oversight exists regarding their creation, and the need for some mechanism for oversight or control over such positions.\**

## **BACKGROUND**

### **Special Project Appointments**

On July 31, staff presented a background memorandum on the topic, "Why special project appointments are created by state agencies, what oversight exists regarding their creation, and the need for some mechanism for oversight or control over such positions." This topic was recommended for interim review by the Senate Ways and Means Subcommittee reviewing the Kansas Department of Health and Environment (KDHE) budget during the 1995 Legislative Session. The growth in special project appointments within KDHE prompted the Senate Ways and Means Subcommittee to request an interim study to provide the Legislature with more information on this issue. The Committee also received testimony from the Director of the Budget on this issue.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Special Project Appointments**

The Committee notes that, after this topic was recommended for interim review by a Senate Ways and Means Subcommittee, several events occurred which led the Committee to conclude that there will be increased oversight and control over agency use of special project appointments. On April 20, 1995, Governor Graves submitted a Governor's Budget Amendment that included the

recommendation to convert 1,384.4 special project appointments and intermittent positions to FTE positions. The *Governor's Budget Amendment* includes the following explanation:

"In my message to the 1995 Legislature in January, I discussed my commitment to truth in budgeting – putting a stop to hiding the real size of our state workforce by labeling employees as 'special project officers' when in fact they are full time employees. I also indicated that my administration would perform an agency-by-agency review to justify the need for each position. To this end, I propose that 1,384.4 FTE positions be added to certain agencies in order to account properly for the number of state employees performing work of an ongoing basis . . . ."

"My intent in making this budget amendment is two-fold: to require full disclosure by the state of the number of employees in the state workforce and to remove the ability of agencies to manipulate the system through the addition of positions under the guise of 'special projects.' Effective June 18, 1995, I will no longer allow state agencies under my authority to establish unclassified positions without my specific prior approval. Such approval will be granted only in extreme or unusual cases . . . ."

The 1995 Legislature agreed to convert to FTE positions only the intermittent positions and two groups of SRS special project appointments: 191.5 classified special project appointments (primarily Child Support Enforcement positions) and 249.0 classified permanent positions outside the agency's position limitation (primarily Family Support and Preservation Workers and Long-Term Care Workers). In discussion, the Senate Committee noted that these two groups of SRS employees had classified status. If not converted to FTE positions, these employees would move to unclassified temporary status under the SHARP system. A total of 622.2 special project appointments were not converted to FTE positions and will become unclassified temporary positions with the implementation of the SHARP system in December, 1995.

\* H. B. 2604 accompanies this report.

The Committee strongly approves of the Governor's stated intent to carefully review agency requests for special project appointments and to grant approval for new special project appointments "only in extreme or unusual cases." The Committee received testimony that the Governor has instructed his staff, the Division of the Budget, and the Secretary of Administration to review each request for a new position to determine whether it is appropriate to add a position, what the salary should be, what funding source should be used, and whether the position should be an FTE position or a special project appointment. The Committee notes that, beginning with the *Governor's Budget Report* for FY 1996 and the *Kansas Legislative Research Department FY 1996 Budget Analysis*, both documents report the number of special project appointments in addition to the number of FTE positions authorized and that the Legislature will again have the opportunity to review existing special project appointments and make recommendations during the 1996 Legislative Session. The Committee further notes that the Statewide Human Resources and Payroll (SHARP) System, which will be implemented in December, 1995, will provide the ability to track special project appointments by agency.

The Committee recommends that both the Executive and Legislative branches continue to review existing special project appointments and that any requests for additional special project appointments be closely scrutinized. The Committee also recommends adding language to K.S.A. 1994 Supp. 75-2935(i) (the statutory authority for special project appointments) which provides that no person shall be appointed to a position in the Executive Branch under the provisions of that paragraph unless the position is specifically approved by the Governor or by statute. The Committee further recommends deleting language in K.S.A. 1994 Supp. 75-5733(c) and K.S.A. 76-12a08(c) that authorizes the Secretary of Human Resources, the Secretary of the Department of Social and Rehabilitation Services (SRS), and other SRS officials to make special project appointments. Those agencies would still be able to make special project appointments under the authority of K.S.A. 1994 Supp. 75-2935(i).

## FTE Reductions

On September 19, 1995, Governor Graves directed his Cabinet Secretaries to reduce their full-time equivalent (FTE) positions by 2 percent in FY 1996 and 3 percent in FY 1997. The Committee recommends introducing legislation that would codify the Governor's recommendation. \_\_\_ B. \_\_\_ would codify the recommendation for the following agencies: the Department of Transportation, the Department of Health and Environment, the Department of Wildlife and Parks, the Department of Human Resources, the Department of Commerce and Housing, the Department of Agriculture, the Department of Social and Rehabilitation Services, Larned State Hospital, Rainbow Mental Health Facility, Topeka State Hospital, Kansas Neurological Institute, Winfield State Hospital and Training Center, Parsons State Hospital, the Youth Center at Atchison, the Youth Center at Beloit, the Youth Center at Topeka, and the Department of Revenue.



HOUSE BILL No. 2604

By Legislative Budget Committee

Re Proposal No. 48

12-20

9 AN ACT concerning state officers and employees; amending K.S.A. 1995 Supp. 75-2935, 75-5733 and 76-12a08  
10 and repealing the existing sections; also repealing K.S.A. 1995 Supp. 75-2935e and 76-12a08a.  
11

12 *Be it enacted by the Legislature of the State of Kansas:*

13 New Section 1. *Position Limitations.* (a) On the effective date of this act, the position limitation for the  
14 department of transportation for fiscal year 1996, comprised of the position limitation established by section 3  
15 of chapter 199 of the 1995 Session Laws of Kansas plus the 0.5 position prescribed by section 31 of chapter 270  
16 of the 1995 Session Laws of Kansas, is hereby decreased from 3304.5 to 3238.4.

17 (b) On the effective date of this act, the position limitation for the department of health and environment  
18 for fiscal year 1996, comprised of the position limitation established by section 9 of chapter 229 of the 1995  
19 Session Laws of Kansas plus the 1.5 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws  
20 of Kansas, is hereby decreased from 838.6 to 821.8.

21 (c) On the effective date of this act, the position limitation for the department of wildlife and parks for fiscal  
22 year 1996, comprised of the position limitation established by section 9 of chapter 229 of the 1995 Session Laws  
23 of Kansas plus the 9.0 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is  
24 hereby decreased from 415.0 to 406.7.

25 (d) On the effective date of this act, the position limitation for the department of human resources for fiscal  
26 year 1996, comprised of the position limitation established by section 9 of chapter 229 of the 1995 Session Laws  
27 of Kansas plus the 144.7 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas,  
28 is hereby decreased from 1073.2 to 1051.7.

29 (e) On the effective date of this act, the position limitation for the department of commerce and housing  
30 for fiscal year 1996, comprised of the position limitation established by section 10 of chapter 225 of the 1995  
31 Session Laws of Kansas plus the 7.5 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws  
32 of Kansas, is hereby decreased from 124.0 to 121.5.

33 (f) On the effective date of this act, the position limitation for the department of administration for fiscal  
34 year 1996, comprised of the position limitation established by section 8 of chapter 177 of the 1995 Session Laws  
35 of Kansas plus the 15.2 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas,  
36 is hereby decreased from 924.2 to 905.7.

37 (g) On the effective date of this act, the position limitation for the department of corrections for fiscal year  
38 1996, established by section 53(i) of chapter 270 of the 1995 Session Laws of Kansas, is hereby decreased from  
39 3044.5 to 2983.6.

40 (h) On the effective date of this act, the position limitation for the department of agriculture for fiscal year  
41 1996, comprised of the position limitation established by section 8(b) of chapter 270 of the 1995 Session Laws  
42 of Kansas plus the 8.3 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is  
43 hereby decreased from 323.8 to 317.3.

44 (i) On the effective date of this act, the position limitation for the department of aging for fiscal year 1996,  
45 comprised of the position limitation established by section 9 of chapter 229 of the 1995 Session Laws of Kansas  
46 plus the 0.8 position prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is hereby  
47 decreased from 40.8 to 40.0.

48 (j) (1) On the effective date of this act, the position limitation for the department of social and rehabilitation  
49 services for fiscal year 1996, comprised of the position limitation established by section 10 of chapter 219 of  
47 the 1995 Session Laws of Kansas plus the 868.6 positions prescribed by section 31 of chapter 270 of the 1995  
48 Session Laws of Kansas, is hereby decreased from 4776.3 to 4680.8.

49 (2) On the effective date of this act, the position limitation for the Larned state hospital for fiscal year 1996,  
50 comprised of the position limitation established by section 10 of chapter 219 of the 1995 Session Laws of Kansas  
51 plus the .5 position prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is hereby  
52 decreased from 808.6 to 792.4.

53 (3) On the effective date of this act, the position limitation for the Osawatomie state hospital for fiscal year

KFO

1 1996, comprised of the position limitation established by section 10 of chapter 219 of the 1995 Session Laws of  
 2 Kansas plus the 2.1 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is  
 3 hereby decreased from 571.6 to 560.2.

4 (4) On the effective date of this act, the position limitation for the Rainbow mental health facility for fiscal  
 5 year 1996, comprised of the position limitation established by section 10 of chapter 219 of the 1995 Session  
 6 Laws of Kansas plus the 2.4 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of  
 7 Kansas, is hereby decreased from 136.4 to 133.7.

8 (5) On the effective date of this act, the position limitation for the Topeka state hospital for fiscal year 1996,  
 9 comprised of the position limitation established by section 10 of chapter 219 of the 1995 Session Laws of Kansas  
 10 plus the 2.6 positions prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is hereby  
 11 decreased from 570.1 to 558.7.

12 (6) On the effective date of this act, the position limitation for the Kansas neurological institute for fiscal  
 13 year 1996, comprised of the position limitation established by section 10 of chapter 219 of the 1995 Session  
 14 Laws of Kansas plus the .5 position prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas,  
 15 is hereby decreased from 765.0 to 749.7.

16 (7) On the effective date of this act, the position limitation for the Parsons state hospital and training center  
 17 for fiscal year 1996, established by section 10 of chapter 219 of the 1995 Session Laws of Kansas, is hereby  
 18 decreased from 525.0 to 514.5.

19 (8) On the effective date of this act, the position limitation for the Winfield state hospital and training center  
 20 for fiscal year 1996, comprised of the position limitation established by section 10 of chapter 219 of the 1995  
 21 Session Laws of Kansas plus the 1.0 position prescribed by section 31 of chapter 270 of the 1995 Session Laws  
 22 of Kansas, is hereby decreased from 823.5 to 807.0.

23 (9) On the effective date of this act, the position limitation for the Youth center at Topeka for fiscal year  
 24 1996, comprised of the position limitation established by section 15 of chapter 223 of the 1995 Session Laws of  
 25 Kansas plus the 1.0 position prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is  
 26 hereby decreased from 223.0 to 218.5.

27 (10) On the effective date of this act, the position limitation for the Youth center at Beloit for fiscal year  
 28 1996, established by section 15 of chapter 223 of the 1995 Session Laws of Kansas, is hereby decreased from  
 29 103.0 to 100.9.

30 (11) On the effective date of this act, the position limitation for the Youth center at Atchison for fiscal year  
 31 1996, comprised of the position limitation established by section 15 of chapter 223 of the 1995 Session Laws of  
 32 Kansas plus the 0.5 position prescribed by section 31 of chapter 270 of the 1995 Session Laws of Kansas, is  
 33 hereby decreased from 128.0 to 125.4.

34 (12) On the effective date of this act, the position limitation for the Larned state hospital—youth center at  
 35 Larned for fiscal year 1996, established by section 15 of chapter 223 of the 1995 Session Laws of Kansas, is  
 36 hereby decreased from 122.0 to 119.6.

37 (k) On the effective date of this act, the position limitation for the department of revenue for fiscal year  
 38 1996, established by section 10(b) of chapter 225 of the 1995 Session Laws of Kansas, is hereby decreased from  
 39 1244.0 to 1219.1.

40 **New Sec. 2. Position limitations.** The number of full-time and regular part-time positions equated to full-  
 41 time, excluding seasonal and temporary positions, paid from appropriations for fiscal year 1997 made in ap-  
 42 propriation acts of the 1996 or 1997 regular session of the legislature for each of the following agencies shall  
 43 not exceed the number of full-time and regular part-time positions equated to full-time, excluding seasonal and  
 44 temporary positions, which equals the product of .97 and the number of full-time and regular part-time positions  
 45 equated to full-time, excluding seasonal and temporary positions, which are authorized by statute to be paid  
 46 from appropriations for fiscal year 1996 for such agency, except as otherwise provided by statute or upon  
 47 approval of the state finance council:

- 48 Department of Transportation
- 49 Department of Health and Environment
- 47 Department of Wildlife and Parks
- 48 Department of Human Resources
- 49 Department of Commerce and Housing
- 50 Department of Administration
- 51 Department of Corrections
- 52 Department of Agriculture
- 53 Department on Aging
- 54 Department of Social and Rehabilitation Services

- 1 Larned State Hospital
- 2 Osawatomie State Hospital
- 3 Rainbow Mental Health Facility
- 4 Topeka State Hospital
- 5 Kansas Neurological Institute
- 6 Parsons State Hospital and Training Center
- 7 Winfield State Hospital and Training Center
- 8 Youth Center at Topeka
- 9 Youth Center at Beloit
- 10 Youth Center at Atchison
- 11 Larned State Hospital—Youth Center at Larned
- 12 Department of Revenue

13 Sec. 3. K.S.A. 1995 Supp. 75-2935 is hereby amended to read as follows: 75-2935. The civil service of the  
 14 state of Kansas is hereby divided into the unclassified and the classified services.

15 (1) The unclassified service comprises positions held by state officers or employees who are:

16 (a) Chosen by election or appointment to fill an elective office;

17 (b) members of boards and commissions, heads of departments required by law to be appointed by the  
 18 governor or by other elective officers, and the executive or administrative heads of offices, departments, divi-  
 19 sions and institutions specifically established by law;

20 (c) except as otherwise provided under this section, one personal secretary to each elective officer of this  
 21 state, and in addition thereto, 10 deputies, clerks or employees designated by such elective officer;

22 (d) all employees in the office of the governor;

23 (e) officers and employees of the senate and house of representatives of the legislature and of the legislative  
 24 coordinating council and all officers and employees of the office of revisor of statutes, of the legislative research  
 25 department, of the division of legislative administrative services, of the division of post audit and the legislative  
 26 counsel;

27 (f) chancellor, president, deans, administrative officers, student health service physicians, pharmacists,  
 28 teaching and research personnel, health care employees and student employees in the institutions under the  
 29 state board of regents, the executive officer of the board of regents and the executive officer's employees other  
 30 than clerical employees, and, at the discretion of the state board of regents, directors or administrative officers  
 31 of departments and divisions of the institution and county extension agents, except that this subsection (1)(f)  
 32 shall not be construed to include the custodial, clerical or maintenance employees, or any employees performing  
 33 duties in connection with the business operations of any such institution, except administrative officers and  
 34 directors; as used in this subsection (1)(f), "health care employees" means employees of the university of Kansas  
 35 medical center who provide health care services at the university of Kansas medical center and who are medical  
 36 technicians or technologists or respiratory therapists, who are licensed professional nurses or licensed practical  
 37 nurses, or who are in job classes which are designated for this purpose by the chancellor of the university of  
 38 Kansas upon a finding by the chancellor that such designation is required for the university of Kansas medical  
 39 center to recruit or retain personnel for positions in the designated job classes; and employees of any institution  
 40 under the state board of regents who are medical technologists;

41 (g) operations, maintenance and security personnel employed to implement agreements entered into by the  
 42 adjutant general and the federal national guard bureau, and officers and enlisted persons in the national guard  
 43 and the naval militia;

44 (h) persons engaged in public work for the state but employed by contractors when the performance of  
 45 such contract is authorized by the legislature or other competent authority;

46 (i) persons temporarily employed or designated by the legislature or by a legislative committee or commis-  
 47 sion or other competent authority to make or conduct a special inquiry, investigation, examination or installa-  
 48 tion, *except that no person shall be appointed to a position in the executive branch under the provisions of this*  
 49 *paragraph unless such position is specifically approved by the governor or by statute;*

47 (j) officers and employees in the office of the attorney general and special counsel to state departments  
 48 appointed by the attorney general, except that officers and employees of the division of the Kansas bureau of  
 49 investigation shall be in the classified or unclassified service as provided in K.S.A. 75-711 and amendments  
 50 thereto;

51 (k) all employees of courts;

52 (l) client, patient and inmate help in any state facility or institution;

53 (m) all attorneys for boards, commissions and departments;

54 (n) the secretary and assistant secretary of the Kansas state historical society;

1 (o) physician specialists, dentists, dental hygienists, pharmacists, medical technologists and long term care  
2 workers employed by the department of social and rehabilitation services;

3 (p) physician specialists, dentists and medical technologists employed by any board, commission or depart-  
4 ment or by any institution under the jurisdiction thereof;

5 (q) student employees enrolled in public institutions of higher learning;

6 (r) administrative officers, directors and teaching personnel of the state board of education and the state  
7 department of education and of any institution under the supervision and control of the state board of education,  
8 except that this subsection (1)(r) shall not be construed to include the custodial, clerical or maintenance em-  
9 ployees, or any employees performing duties in connection with the business operations of any such institution,  
10 except administrative officers and directors;

11 (s) all officers and employees in the office of the secretary of state;

12 (t) one personal secretary and one special assistant to the following: The secretary of administration, the  
13 secretary of aging, the secretary of agriculture, the secretary of commerce and housing, the secretary of cor-  
14 rections, the secretary of health and environment, the superintendent of the Kansas highway patrol, the sec-  
15 retary of human resources, the secretary of revenue, the secretary of social and rehabilitation services, the  
16 secretary of transportation and the secretary of wildlife and parks;

17 (u) one personal secretary and one special assistant to the chancellor and presidents of institutions under  
18 the state board of regents;

19 (v) one personal secretary and one special assistant to the executive vice chancellor of the university of  
20 Kansas medical center;

21 (w) one public information officer and one chief attorney for the following: The department of administra-  
22 tion, the department on aging, the department of agriculture, the department of commerce and housing, the  
23 department of corrections, the department of health and environment, the department of human resources,  
24 the department of revenue, the department of social and rehabilitation services, the department of transpor-  
25 tation and the Kansas department of wildlife and parks;

26 (x) civil service examination monitors;

27 (y) one executive director, one general counsel and one director of public affairs and consumer protection  
28 in the office of the state corporation commission;

29 (z) specifically designated by law as being in the unclassified service; and

30 (aa) all officers and employees of Kansas, Inc., the Kansas technology enterprise corporation and the cor-  
31 poration for change.

32 (2) The classified service comprises all positions now existing or hereafter created which are not included  
33 in the unclassified service. Appointments in the classified service shall be made according to merit and fitness  
34 from eligible pools which so far as practicable shall be competitive. No person shall be appointed, promoted,  
35 reduced or discharged as an officer, clerk, employee or laborer in the classified service in any manner or by  
36 any means other than those prescribed in the Kansas civil service act and the rules adopted in accordance  
37 therewith.

38 (3) For positions involving unskilled, or semiskilled duties, the secretary of administration, as provided by  
39 law, shall establish rules and regulations concerning certifications, appointments, layoffs and reemployment  
40 which may be different from the rules and regulations established concerning these processes for other positions  
41 in the classified service.

42 (4) Officers authorized by law to make appointments to positions in the unclassified service, and appointing  
43 officers of departments or institutions whose employees are exempt from the provisions of the Kansas civil  
44 service act because of the constitutional status of such departments or institutions shall be permitted to make  
45 appointments from appropriate pools of eligibles maintained by the division of personnel services.

46 Sec. 4. K.S.A. 1995 Supp. 75-5733 is hereby amended to read as follows: 75-5733. (a) Whenever any moneys  
47 are granted, collected from or given by any person, firm, corporation or association, or by the United States or  
48 any department, instrumentality or agency thereof, to the department of human resources or to the office of  
49 the secretary of human resources, which moneys are granted, collected or given for a specific use or purpose,  
47 the secretary of human resources, on behalf of the office of the secretary, the department of human resources  
48 or the state, may accept or reject any such grant, collection or gift and may enter into contracts or agreements  
49 necessary or expedient to the acceptance, collection, management or accountability of such grant, collection or  
50 gift. Any grant, collection or gift so accepted and the program therefor shall be known as a special project.

51 (b) The secretary of human resources shall remit all moneys received by or for the secretary for any special  
52 project to the state treasurer at least monthly. Upon receipt of any such remittance, the state treasurer shall  
53 deposit the entire amount thereof in the state treasury. The entire amount of any such deposit shall be credited  
54 to the human resources special projects fund, which fund is hereby created. All expenditures from such fund

1 shall be made in accordance with appropriation acts and any applicable contract or agreement upon warrants  
2 of the director of accounts and reports issued pursuant to vouchers approved by the secretary, or by a person  
3 or persons designated by the secretary.

4 (e) The secretary of human resources may employ such personnel as may be necessary, in the judgment of  
5 the secretary, to effect any special project. All persons employed for any special project, including the director  
6 of each special project, which special project shall have a noncontingent and nonrenewable duration of less  
7 than 300 consecutive calendar days, shall be in the unclassified service of the Kansas civil service act and shall  
8 receive salaries fixed by the secretary, with the approval of the governor. All persons employed for any other  
9 special project, or where conditions of the grant, collection, contract, agreement or gift so stipulate, shall be in  
10 the classified service under the Kansas civil service act.

11 Sec. 5. K.S.A. 1995 Supp. 76-12a08 is hereby amended to read as follows: 76-12a08. (a) Whenever any  
12 money is granted or given by any person, firm, corporation or association, or by the United States or any  
13 department, instrumentality or agency thereof, to any institution, the state, the secretary or the division of  
14 mental health and ~~retardation services~~ *developmental disabilities*, which money is granted or given for a specific  
15 use or purpose, the secretary, the institution, the state or the division of mental health and ~~retardation services~~  
16 *developmental disabilities*, may accept or reject any such grant or gift and may enter into contracts or agree-  
17 ments necessary or expedient to the acceptance or management of the grant or gift. Any grant or gift so accepted  
18 and the program therefor shall be known as a special project.

19 (b) The secretary and superintendent of each institution shall remit all moneys received by or for either of  
20 them, for any special project to the state treasurer at least monthly. Upon receipt of any such remittance the  
21 state treasurer shall deposit the entire amount thereof in the state treasury. The entire amount of any such  
22 deposit shall be credited to the other federal grants and assistance fund of the department of social and reha-  
23 bilitation services.

24 (c) All persons having professional, technical or unusual qualifications employed for any special project,  
25 including the director of each special project, shall be appointed by the director (or the superintendent of the  
26 institution when so designated by the director) and shall be in the unclassified service of the Kansas civil service  
27 act and shall receive salaries fixed by the secretary and approved by the state finance council. Other special  
28 projects personnel shall be in the classified service of the Kansas civil service act.

29 Sec. 6. K.S.A. 1995 Supp. 75-2935, 75-2935e, 75-5733, 76-12a08 and 76-12a08a are hereby repealed.

30 Sec. 7. This act shall take effect and be in force from and after its publication in the Kansas register.



# Proposal No. 49

## **STUDY TOPIC: Conservation Fee Fund.**

### **BACKGROUND**

#### **COMMITTEE MEETINGS**

The Legislative Budget Committee was assigned the following topic: "Conservation Fee Fund – estimated revenues and expenditures, including the need for additional revenues for the Fund (especially in view of declining oil production which could be linked to an increase in abandoned oil wells and a corresponding increase in the number of wells that need to be plugged)." The impetus for the study was a shortfall to the State Corporation Commission's Conservation Fee Fund in FY 1994 that resulted in a reduction of activities and a threatened furlough of state employees. Although the furlough was averted, some Legislators remained concerned that activities of the Conservation Division had been adversely affected by the shortfall and that an increase in receipts to the Fund would have to occur in the near future if another shortfall is to be avoided.

**Conservation Fee Fund.** The Conservation Fee Fund was created by K.S.A. 55-143 and is used by the State Corporation Commission to pay the costs of regulating the production of oil and gas.

The Fund is a major source of financing for Commission activities and accounts for more than 40 percent of the Commission's expenditures. (Of the \$12,694,185 approved for agency operating expenditures in FY 1996, \$5,337,056, or 42 percent, is from the Conservation Fee Fund.) From an organizational perspective, the Fund finances most of the activities of the Commission's Conservation Division, which is headquartered in Wichita and has field offices in Wichita, Chanute, Dodge City, and Hays. In addition, some overhead costs are financed from the Fund.

The main sources of revenue to the Fund are assessments on oil marketed or used and gas produced. By rule and regulation, the Commission imposes an assessment of 21.0 mills on each barrel of crude oil or petroleum marketed or used. It was largely the decline in the production of oil that caused the Conservation Fee Fund to experience the shortfall in FY 1994. Based on the Commission's estimates, revenues from the oil assessment are expected to continue to decline by 7 percent in both FY 1996 and FY 1997.

In contrast to oil production, the sale of gas in Kansas had risen steadily during the 1990s. By rule and regulation, the Commission imposes an assessment of 5.5 mills on each 1,000 cubic feet (Metric Cubic Feet (MCF)) of gas sold or marketed. This assessment is the single largest revenue source to the Fund, amounting to \$4,136,904 in FY 1995 (71 percent of total receipts). Estimated receipts for FY 1996 are \$4,374,680 (74 percent of the total) and \$4,593,414 for FY 1997 (76 percent of the total). Estimates made by the Commission are based on the assumption that gas production will increase by 7 percent in both FY 1996 and FY 1997.

Other sources of revenue to the Fund are application fees for injection wells and salt water disposal (\$200 for the initial application); plugged well inspection and supervision fees (\$35 per well or \$.0325 per foot of well depth plugged, whichever is greater); annual license fees for oil and gas operators and contractors (\$100 per license, plus \$25 per rig operated by the applicant); fees from the sale of printed materials; and penalties assessed oil and gas operators and contractors.

**Shortfall to the Fund.** In December, 1992, the Conservation Division staff informed the Commissioners that the Conservation Fee Fund was experiencing a shortfall and a fee increase was necessary. On October 21, 1993, the Commission raised the assessment on barrels of oil from 13.5 mills to 21.0 mills and on gas from 4.3 mills to 5.5 mills. In spite of the fee increase, the several-month lag between raising fees and actually realizing increased revenues, plus the fact that the Fund was in a weakened condition, made

it necessary for the Commission to curtail activities and to begin planning to furlough employees.

The Commission developed a number of cost-savings measures during FY 1994 and FY 1995. Vacant positions in the Conservation Division were held open in order to generate salary savings, staff travel was reimbursed at the central motor pool vehicle rate instead of the higher private car rate, and costs assessed the Conservation Fee Fund for general administrative expenses of the Commission were deferred. In addition, well-plugging activities, which had been budgeted at \$500,000, were limited to \$300,000 in FY 1994. Savings realized from these activities, coupled with increased revenues from the higher fees that began to come in during the spring of 1994, resulted in sufficient revenues to avert the furlough.

**The Conservation Division.** Of the 213.0 FTE approved positions authorized the Corporation Commission, 83 are assigned to the Conservation Division. Division employees are located in field offices in Wichita (11 FTE), Chanute (15 FTE), Dodge City (9 FTE), and Hays (13 FTE) and at the division headquarters in Wichita (34 FTE). In addition, there is a Conservation Division employee in Topeka. The Conservation Division is responsible for regulating oil and gas activities in the state. Its duties include licensing persons who are responsible for the physical operation and control of wells (operators), reviewing and approving applications to drill new wells, monitoring and overseeing remediation activities that involve oil and gas production, administering the federal Underground Injection Control Program under an agreement with the U.S. Environmental Protection Agency, and overseeing well-plugging activities. Most of the operations of the Division are financed from the Conservation Fee Fund, although there is federal money for the Underground Injection Control Program (in the range of \$230,000 a year) and other federal grants for specific projects.

One of the Division's activities that received considerable attention during the 1994 and 1995 Sessions was well plugging. The law requires that when a well ceases production the operator must plug it so that groundwater will be protected from pollution and, if environmental damage has

occurred, the land will be restored to its prior condition. Operators must notify the Conservation Division that they plan to plug a well so that the staff can approve the proposed plugging method and, whenever possible, actually observe the well being plugged to be sure it is done correctly. The cost is borne by the operator. It is estimated that between 2,800 and 3,200 wells are plugged at the expense of operators each year.

When the Conservation Division cannot determine who the operator is or the operator is unable to pay, the Division becomes responsible for seeing that the well is plugged. Payment for this activity is made from the Conservation Fee Fund. For the most part, these wells are discovered when the staff is in the field in connection with other duties or when someone makes a complaint. The Conservation Division's priority is to plug those wells that pose the most threat to the environment. The actual plugging is done by private companies working under contract to the state. It is the practice of the Conservation Division to have a staff member observe ("witness") all well pluggings paid for by the state and to witness some of the wells plugged at industry expense. The part of the state that has the most serious problem is southeast Kansas, where there are thousands of abandoned wells. However, because of the decline in oil production and the resulting depression of the oil industry, there has been an increase in the number of abandoned wells in all parts of the state. In general, the wells in western Kansas are more expensive to plug because they are deeper.

The table below contains information about the number of abandoned wells plugged with state funds since FY 1990:

## COMMITTEE ACTIVITIES

<u>Fiscal Year</u>	<u>Number of Wells Plugged</u>	<u>Total Exp.*</u>	<u>Average Cost Per Well</u>
1990	148	\$ 456,918	\$ 3,087
1991	217	733,654	3,381
1992	144	444,836	3,089
1993	83	489,242	5,894
1994	77	311,220	4,042
1995	252	800,000	3,175
1996 (est.)	150	500,000	3,333

\* Expenditures for each fiscal year 1990 through 1994 may include some encumbrances that were not spent on wells plugged that year.

**Receipts and Expenditures.** For the fiscal years 1990 through 1994, expenditures from the Conservation Fee Fund exceeded the amount of new receipts. By the end of FY 1994, the Commission had begun to receive increased money generated from the fee increase earlier in the year. (The fee increase generated approximately \$1.2 million in new receipts.) By the end of FY 1995, new revenues exceeded expenditures and the ending balance had begun to climb. The Commission estimates that, for FY 1996, the total available in the Fund (new receipts and carry forward balances) will amount to more than \$6.8 million and that expenditures from the Fund will be almost \$5.5 million, leaving a balance forward of almost \$1.4 million in FY 1997.

Although Commission staff told the 1995 Legislature that it was likely that fees would have to be raised or new revenue sources found by FY 1997, it now appears that the combination of healthier receipts than had been estimated originally and the imposition of cost-savings measures in FY 1994 and FY 1995 has averted the likelihood that new revenues will be needed in the next fiscal year.

The Committee conducted hearings on activities funded from the Conservation Fee Fund and received testimony from Susan M. Seltsam, Chairperson of the State Corporation Commission; Steve Korf, Acting Director of the Commission's Conservation Division; and representatives of the Kansas Independent Oil and Gas Association, the Eastern Kansas Oil and Gas Association, and the Kansas Petroleum Council.

**Commission Testimony.** Ms. Seltsam described cost-savings measures being taken by the Commission, such as leaving Conservation Division positions vacant, and said the commitment to manage scarce personnel and fiscal resources is being balanced with the need to see that district office operations are not being compromised. She told the Committee that, while no increase in fees or other sources of revenues is being proposed for FY 1997, it will be necessary to identify alternate sources of funding for the Conservation Fee Fund "in the very near term" in order to maintain current staffing and operational levels. It is the Commission's position that additional funding should come from the State Water Plan Fund and from severance taxes credited to the State General Fund.

Mr. Korf informed the Committee that field office staff, by matching filings of intents to drill with plugging reports, maps, and other documents, has determined that currently there are an estimated 91,000 abandoned, unplugged wells. Of this number, the Conservation Division estimates that operators are known or may be found for an estimated 42,000. The remaining 49,000 are abandoned, unplugged wells for which no responsible party can be found. The Commission acknowledges that identifying the number of abandoned wells is problematic, due in part to the fact that some wells were dug decades ago and documentation is old, sometimes inaccurate, and not always easy to use. (According to Mr. Korf, the Conservation Division knows the location of each well, but does not always know specific characteristics of the wells, such as how deep they are.) For that reason, it is a priority of the Conservation Division to microfilm paper

documents and to implement a database management system that will computerize paper records and create a network to link the division's field offices. That project, begun in FY 1995, will be completed sometime in FY 1997. At this time, each field office has been connected to the network, except for the Dodge City office and the central office in Wichita. When the system is complete, exact information will be entered in the database that will indicate the county, township, range, section, and spot location for each well, as well as the lease name, the principal responsible party, if known, and whether the well is Priority I or Priority II. It also may be possible for the Conservation Division to enter subcategories within the Priority I and II classifications.

Of the estimated 49,000 abandoned wells which are the state's responsibility, the Conservation Division considers 14,759 to be "Priority I" wells - wells that are an imminent threat to the environment because they are leaking gas or are polluting groundwater or surface water that has municipal or farm uses. The remaining 34,000 wells are "Priority II" wells that likely do not pose a threat to the environment. These numbers continue to grow. The Commission estimates that an additional 450 wells are abandoned each year for which no responsible party can be found, of which 180 are Priority I wells. If it is assumed that it costs \$3,175 to plug a well (the FY 1995 average), the Commission estimates it would cost approximately \$46.9 million to plug the Priority I wells and \$107.5 million to plug the Priority II wells for which no responsible parties are known, for a total of \$154.4 million. (The average cost of plugging wells varies from year to year, depending primarily on the difficulty of plugging the wells and also upon terms the Commission is able to negotiate with contractors. As a result, the actual cost to plug all wells could vary from the estimate.)

At the request of the Committee, Mr. Korf prepared projections of the number of wells that could be plugged in the short-term (five years) and the long-term (ten and 15 years) based on varying assumptions. Assuming that 180 Priority I wells are added each year and that expenditures for well plugging remain at the current level of approximately \$500,000 to plug an estimated 100 wells per year, the number of unplugged Priority I wells actually will increase in the years to come

because of the number of newly unplugged wells being added. According to Mr. Korf's projections, a net reduction of 240 Priority I wells per year could occur only if expenditures for well plugging were increased to almost \$1.8 million per year. (Because of newly abandoned wells being added to the list, it would be necessary for the Conservation Division to plug 420 wells to realize a net reduction of 240 wells.)

One way the Commission plans to address the problem is to reallocate the workload of the Conservation Division so that less time is devoted to witnessing wells being plugged. At the current time, the Conservation Division witnesses about 80 percent of the well plugging done by the industry and 85 percent of the mechanical integrity tests performed. It plans to reduce the percentage of these wells and tests witnessed to 60, on the grounds that contractors who have good track records can be spot checked on a less frequent basis. The Conservation Division plans to continue to witness all of the wells plugged at state expense.

The Commission also is proposing changes in statutes that could reduce the number of newly abandoned wells which become the state's responsibility each year. These recommendations were made to the 1995 Special Committee on Energy and Natural Resources and include making it illegal to remove a seal on a lease once it has been sealed by the Conservation Division, increasing the fines and severity of violations of Commission statutes so that district attorneys will prosecute operators who are in violation, making it illegal to strip leases and leave abandoned wells, and establishing a superior lien for the Commission that is effective when a well is abandoned to prevent leases from being stripped.

**Industry Testimony.** In general, representatives of the oil and gas industry were supportive of a strong regulatory role for the Commission, united in their opinion that the number and location of abandoned, unplugged wells must be clearly documented, concerned about the fiscal impact of the Commission's regulatory and environmental activities on oil and gas producers, and interested in working cooperatively with the Commission to address issues affecting their industry.

David Bleakley, representing the Eastern Kansas Oil and Gas Association, supported the Commission's recommendation that additional funding for the Conservation Fee Fund should come from the State Water Plan Fund and from severance taxes credited to the State General Fund. He pointed out that some of the polluting sites and abandoned wells existed long before the industry was regulated and should not be the responsibility of current oil and gas producers, many of whom are barely able to stay in business. Mr. Bleakley also recommended that the Commission verify all known abandoned wells; rank Priority I and Priority II wells according to the risk they pose to public health and safety; develop a master plan for plugging the wells, including how the plan will be financed; and implement the plan.

Donald Schnacke, representing the Kansas Independent Oil and Gas Association, supported the use of nonindustry funds to support the environmental activities of the Commission, including well plugging, and specifically endorsed the use of State Water Plan Funds, severance tax receipts to the State General Fund, and any funding from the State Department of Health and Environment and federal funds that could be dedicated to well plugging. It was Mr. Schnacke's position that Conservation Fee Funds should be used only for regulatory activities and not for environmental remediation, restoration, or well plugging.

Clark Duffy, representing the Kansas Petroleum Council, supported strong and effective regulation by the Commission, including the plugging of abandoned wells and the remediation of abandoned contamination sites. His general recommendations were that communications between the Commission and industry should be improved; a plan needs to be developed that identifies the various activities and funding associated with terms such as "regulation," "plugging wells," "clean-up," and "remediation"; fluctuations in revenue should be better managed so that a reduction in production and the corresponding drop in revenues to the Conservation Fee Fund will not trigger an increase in fees at a time when the industry can least afford it; and specific fees for various sources of revenue to the Conservation Fee Fund should all be set either by rules and regulations or by statutes so that whenever a revenue increase is necessary all sources can be considered as a package by the same group of

decision makers. Mr. Duffy also supported a computerized database of information about abandoned wells, including estimated plugging costs; the establishment of a protocol to determine site priorities; strict adherence to the policy that probable responsible parties should be identified and should plug their own abandoned wells, whenever practical; and the continued use of \$500,000 per year from the Conservation Fee Fund to plug wells.

In addition to recommending that there be an investigation and annual report of newly abandoned wells, Mr. Duffy endorsed recommendations made by the Corporation Commission to the 1995 Special Committee on Energy and Natural Resources intended to reduce the number of newly abandoned wells that become the state's responsibility to plug each year. Mr. Duffy recommended continuing education and testing as conditions for licensure of operators and the assessment of a surcharge on annual operators' license fees that would go into a pool to be used by the Conservation Division to pay for plugging newly abandoned wells. Mr. Duffy also recommended that operators be required to have certificates of credit or escrow accounts to show that they are financially solvent and can afford to pay the cost of plugging any wells they abandon.

## **CONCLUSIONS AND RECOMMENDATIONS**

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The Committee is concerned about the number of abandoned, unplugged wells that are the state's responsibility and about the fact that the number continues to grow. It recognizes the burden placed on the industry whose fees support the Conservation Division's activities but also believes the state has a responsibility to protect Kansas residents whose health and property are affected by the contamination of ground and surface water. The fact that the Conservation Fee Fund experienced a shortfall in FY 1994 makes it imperative that the Corporation Commission make a greater effort to identify the magnitude of the problem and to develop a strategy for addressing it. Therefore, the Committee makes the following recommendations:



1. The Corporation Commission should make every effort to identify and document the number of abandoned, unplugged wells in the state. The problem of addressing the state's responsibility for abandoned, unplugged wells is made more difficult by the fact that there is controversy about how many wells need to be plugged. Although the Conservation Division believes it knows the number and location of abandoned, unplugged wells in the state, it relies on documentation that is, by its own admission, old and sometimes inaccurate. The Committee places a high priority on the effort already begun by the Commission to computerize records of the Conservation Division and to network the district offices. When this system is complete, it will include information about the exact location and characteristics of each abandoned, unplugged well in the state. In FY 1995 and FY 1996, the Legislature approved funding from the Conservation Fee Fund and from federal funds for the project. The Commission estimates the cost of the system to be approximately \$200,000 in FY 1996, which it hopes will be funded by a federal grant. If that grant is not received, the Commission will ask the 1996 Legislature for authority to shift financing to the Conservation Fee Fund. For FY 1997, the Commission is estimating expenditures of approximately \$87,000 from the Conservation Fee Fund. (The Commission also will make application for federal funds for the project in FY 1997.)
2. The Commission should develop a multi-year plan for dealing with abandoned, unplugged wells that categorizes wells according to the risk they pose to health and property, sets forth a schedule for plugging the wells that are causing the most serious damage, and addresses how the plan will be funded. The Committee knows that presently wells are classified as Priority I and Priority II, but believes that within these categories there are wells that pose more serious threats than others and

should be plugged first. It asks the Commission to develop a classification scheme that establishes subcategories within each classification and to develop a multi-year plan, including estimated costs and plans for financing, to plug the wells that constitute the most serious threat to health and property. It is the Committee's opinion that, when a plan is developed that clearly identifies the wells that need to be plugged first, consideration should be given to using the following revenue sources to fund the plan: the State Water Plan Fund, severance taxes credited to the State General Fund, the Economic Development Initiatives Fund, and royalty payments from mineral production on federal lands in Kansas credited to the State General Fund.

3. The Corporation Commission should identify and request statutory changes that would enhance its ability to reduce the number of newly abandoned wells each year. The Commission has identified several areas in which its authority could be strengthened or other changes made that would make it more difficult for operators to abandon wells without plugging them. These include making it illegal to remove a seal on a lease that has been sealed by the Commission and expanding the definition of tampering with a well to include removal of surface equipment. The Committee encourages the Commission to bring any proposals that could reduce the number of newly abandoned wells that become the state's responsibility to the 1996 Legislature for its consideration.
4. The Corporation Commission should continue to make efforts to make the operations of the Conservation Division more efficient in order to make better use of staff and other resources. The Committee notes that the Conservation Division proposes to reduce the number of well pluggings it witnesses that are paid

for by operators. The Committee encourages the Conservation Division to identify other ways it can cut costs and still carry out its responsibilities.

5. The Corporation Commission should be sure that the public is informed about unplugged wells that are dangerous because they are leaking gas or other contaminants. The Committee understands it is the policy of the Conservation Division to inform the public when abandoned, unplugged wells are leaking gas, polluting water, or in some other way threatening public health and safety. The Committee believes the public should be informed of any activities in which the Commission is engaged that involve environmental damage that could put the public at risk.

6. The Corporation Commission should seek input from representatives of the oil and gas industry in the development of its multi-year strategy to plug abandoned wells, including the development of proposals to fund the plan and to seek statutory changes to improve its regulatory authority. The Committee notes that the Commission already has begun this activity by holding meetings at which the Conservation Division staff met with approximately 20 representatives of the Eastern Kansas Oil and Gas Association, the Kansas Oil and Gas Association, the Kansas Petroleum Council, and individual oil and gas producers. This group has divided into two committees, one of which will work on developing the sub-categories of Priority I and II wells and the other which will identify changes in the statutes and rules and regulations that will reduce the number of newly abandoned wells that become the state's responsibility each year.

## Proposal No. 50

**STUDY TOPIC:** *Kansas Bureau of Investigation record check and laboratory testing services for state agencies and local law enforcement agencies – the need to charge fees for reimbursement of these services.*

### **BACKGROUND**

The Legislative Coordinating Council (LCC) assigned the topic of fees for record check and laboratory testing services provided by the Kansas Bureau of Investigation (KBI) to the Legislative Budget Committee for interim review. During the 1995 Legislative Session, two subcommittees reviewing the KBI and Kansas Department of Health and Environment (KDHE) budgets made recommendations on this issue. The House Appropriations Subcommittee reviewing the KBI budget made the following observation and recommendation:

"The Subcommittee reviewed the issue of whether the KBI should seek reimbursement for services provided to other state agencies and local law enforcement entities. The Bureau's Criminal Justice Records Section and laboratory provide two primary services: record check services, which provide information on individual criminal histories, and laboratory testing of criminal evidence. The Subcommittee notes that an April 1993 Legislative Post Audit Report, *Reimbursement for Services Provided by the Kansas Bureau of Investigation*, stated that the KBI is not reimbursed for the criminal history record checks provided for the Kansas Department of Health and Environment. The KDHE record checks are largely due to legislation enacted by the 1985 Legislature which prohibits felons from working or residing in a licensed day care facility. The report also states that, like other states surveyed, Kansas generally does not charge for laboratory services provided to local law enforcement agencies. The KBI does charge a \$375 fee for DNA tests, which offsets the cost of supplies and training and does not recover the overall cost of conducting the DNA tests. The Subcommittee

recommends an interim study of whether the KBI should charge for these services, the appropriate amounts of reimbursement, and other related issues."

The Senate Ways and Means Subcommittee reviewing the KDHE budget included the following narrative in their subcommittee report:

"When a law was passed during the 1985 legislative session prohibiting felons from working or residing in a licensed day care facility, it was estimated that the KBI would need to do around 30,000 record checks a year for the Department. To pay for the checks, the Department increased its child care licensing fees, which are credited to the State General Fund. The additional State General Fund moneys were used to add two KBI record check clerks to conduct the estimated 30,000 record checks annually. In the view of the Department, the addition of the two KBI positions satisfied an agreement between the Department and the KBI that the additional costs incurred as the result of the criminal record checks be paid for from child care licensing fees generated by the Department. Further, the Department cites K.S.A. 1994 Supp. 65-516(d), which gives the Secretary of Health and Environment access to KBI criminal record check information for purposes of checking those who wish to work in a child care facility. The statute makes no reference to as to whether the Department is to be billed for the checks. The Department maintains that no payment is required and refused to pay a bill submitted by the KBI in FY 1987. Since then, the KBI has not billed the Department, although it has kept records of the amounts owed. According to the KBI, the total owed from July, 1986, to March, 1995, is approximately \$2.0 million. Costs are high because the annual number of record checks has risen from the initially estimated 30,000 in 1985 to around 100,000 currently. However, the Subcommittee questions the accuracy of the KBI's records. According to the KBI, to continue the current system of record checks, it needs 3.3 more FTE positions to conduct the record checks. Costs of these 3.3 FTE positions are significantly less than the \$400,377 that the KBI says was owed by the

Department just for FY 1994. Billing amounts appear to be significantly more than the cost of staff to run the criminal checks.

"The Subcommittee understands that the Department of Health and Environment is the only state agency not paying for its record checks . . . . An alternative that has been proposed by the two agencies involves automated record checks. It appears that differences between the agencies still need to be worked out before the automation can take place. The Senate Subcommittee wants the two agencies to confer and report at the beginning of the 1996 Session to the full Senate Ways and Means Committee on a solution to resolve this issue."

## COMMITTEE ACTIVITIES

The Committee reviewed a staff memorandum about the record check and laboratory testing services provided by the KBI. Through a proviso included annually in its appropriations bill, the KBI is authorized to collect a fee for the record checks, investigations for the Kansas Lottery and Kansas Racing Commission, and DNA laboratory tests it performs. Requests for KBI record check services come from three primary sources: law enforcement agencies, including local agencies, the courts, law enforcement agencies from other states, and federal agencies; private employers; and state agencies, usually from agencies acting in a regulatory capacity. The KBI charges \$10 for a criminal history record check, \$17 for a record and KBI fingerprint check, and \$41 for those requests forwarded to the Federal Bureau of Investigation (FBI) for record and fingerprint checks. Of the \$41 fee for FBI checks, \$22 is paid to the FBI. Law enforcement agencies are not charged a fee for record check services. Background checks performed for the Kansas Lottery and the Kansas Racing Commission are funded through transfers from those agencies to the KBI. The KBI operates the State Crime Lab, which serves both KBI agents and local law enforcement agencies. Services provided by the KBI laboratory may be divided into five categories: biology, such as DNA tests, serology, and hair and fiber analyses; chemistry, which includes

the analysis of drugs; criminalistics, which includes firearms and documents analyses; latents, or fingerprints; and toxicology, or blood alcohol tests. The KBI currently charges a fee for only one of the laboratory services it provides: the DNA test, for which local law enforcement agencies are charged \$375. The staff memorandum is available from the Kansas Legislative Research Department.

The Committee heard testimony from the Director of the KBI and several KBI officials, the Director of Health and the Director of the Child Care Licensing and Registration Program for KDHE, and a representative of the Kansas Peace Officers Association and the Kansas Sheriffs Association. Written testimony was presented on behalf of the Kansas Association of Counties. The majority of conferees presented written testimony, copies of which are included as attachments to the Committee meeting minutes and are available from Legislative Administrative Services.

Representatives of the KBI and the Department of Health and Environment testified that the agencies have been collaborating in an attempt to set up an electronic data transfer of record check requests from KDHE. KDHE would enter the names and other identifying information to be transferred electronically on a scheduled basis to the KBI for record checks. The Committee was informed that KDHE has agreed to loan a computer programmer to the KBI for six weeks to begin the automation process.

## CONCLUSIONS AND RECOMMENDATIONS

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### *Automation of KDHE Records Checks*

The Committee supports the continuing efforts of the KBI and KDHE toward automating the record check process between the two agencies. In particular, the Committee approves of KDHE's offer to loan a computer programmer to the KBI to begin the automation process. The Committee believes that the automation process between the two agencies can be accomplished with the existing level of staffing at both agencies.

### ***Information Network of Kansas (INK)***

The Committee recommended that the KBI contact the Information Network of Kansas (INK) to discuss alternatives for automating record check requests. Representatives of the KBI and KDHE met with INK staff members and reviewed KDHE licensing procedures and restrictions placed on the dissemination of KBI criminal history records. Because INK provides access only to information that is considered open to the public, the persons involved concluded that INK could not be responsible for the dissemination of criminal history information and could not maintain any part of the KBI records database on the INK network. However, INK may be interested in the possibility of working with KDHE to provide an automated registration and licensing procedure through local health agencies for persons who want to provide day care services.

INK may also be interested in providing on-line access to noncriminal justice agencies, businesses, and individuals who currently request KBI record checks by mail. INK would provide a dedicated computer, modem, and fax machine to the KBI so that requests could be transmitted by computer. KBI records personnel would then review the record check requests, verify valid user agreements, and respond to the inquiry by fax. In addition, KBI and INK officials plan to discuss the possibility of providing public computer access to private investigator licensing and the sex offender registration file through INK.

The Committee recommends that the KBI, KDHE, and INK continue to explore options for automating record check and registration and licensing procedures.

## Proposal No. 60

**STUDY TOPIC:** *Review of the Kansas Department of Wildlife and Parks.*

### **BACKGROUND**

Under Proposal No. 60, the Special Committee on Ways and Means/Appropriations was directed to conduct a review of the Kansas Department of Wildlife and Parks. Staff provided a summary overview of the mission, organization, and funding of the Department of Wildlife and Parks. Staff of the Legislative Division of Post Audit discussed recent performance audits which have reviewed the management and operations of the Department of Wildlife and Parks, including issues which have been raised in federal audits. Lastly, the Secretary of Wildlife and Parks and other staff members made several presentations to the Special Committee. Further information was developed as requested by the Committee.

### **Kansas Department of Wildlife and Parks**

**Mission.** The mission of the Kansas Department of Wildlife and Parks, as stated in "A Plan For Kansas Wildlife and Parks, 1991-96," is to:

- **Conserve and enhance** Kansas' natural heritage, its wildlife and its habitats – to ensure future generations the benefits of the state's diverse, living resources.
- **Provide** the public with opportunities for use and appreciation of the natural resources of Kansas, consistent with the conservation of those resources.
- **Inform** the public of the status of the natural resources of Kansas to promote understanding and gain assistance in achieving this mission.

### **History and Current Organizational Structure**

The Kansas Department of Wildlife and Parks (KDWP) is a cabinet-level agency administered by the Secretary of Wildlife and Parks. The Secretary is appointed by the Governor, subject to confirmation by the Senate. The Kansas Wildlife and Parks Commission, a seven-member board appointed by the Governor, serves in an advisory role to the Secretary, although the Commission does have the authority to approve the Department's rules and regulations. The Secretary and the Assistant Secretary for Administration are located at the administrative offices in Topeka, while the Assistant Secretary for Operations is located in Pratt. The Department is administered by staff in the Topeka office, while field operations are managed from the office in Pratt.

The current Department of Wildlife and Parks was created through the merger of two then-existing state agencies: the former Park and Resources Authority (located in Topeka) and the former Fish and Game Commission (located in Pratt). The Park and Resources Authority had responsibility for developing and maintaining the state's parks and recreation areas; the Fish and Game Commission was responsible for developing and preserving the state's wildlife and natural resources. The existing Department was created by Executive Reorganization Order No. 22 which was issued by then-Governor Hayden on February 10, 1987. The 1987 Session of the Legislature approved Executive Reorganization No. 22, effective July 1, 1987. The statutes pertaining to the Department are found generally at K.S.A. 32-801 et seq. The new Department was given Cabinet-level status by Governor Hayden.

The approved budget for FY 1996 for the Department of Wildlife and Parks totals \$30,720,776, including \$4,997,945 from the State General Fund (SGF). The approved staffing complement is 425.0 positions, including 414.0 FTE and 11.0 special project positions. As will be discussed below, the Department is supported through a combination of user fees, federal funds, and SGF dollars. The Department is organized into five line divisions: Administrative Services, Executive

services, Law Enforcement, Parks and Public Lands, and Fisheries and Wildlife. The functions of these five divisions are summarized below.

**Administrative Services.** The Administrative Services Division, located in Pratt, provides for the general administration of the Department's personnel. The Division oversees business and fiscal management, data processing, licensing and revenue, and educational efforts. Administrative Services staff develop and issue the licenses and permits purchased by hunters, anglers, trappers, boaters, and state park visitors. The approved staffing level for Administrative Services is 49.5 FTE positions.

**Executive Services.** The Executive Services Division, located in Topeka and Pratt, was created effective April 1, 1993 following an internal reorganization of the Department. The Division includes the Office of the Secretary of Wildlife and Parks and oversees the functions of engineering, budget, policy and planning, environmental services, and public information. The purpose of Executive Services is to establish sound management practices throughout the Department and to provide direction and support to continue the agency's mission. Developing budgetary information and public information efforts are included in this Division. The approved staffing level is 51.0 positions, including 47.0 FTE and 4.0 special project positions. Of the 51.0 positions, 20.0 are located in Topeka and 31.0 are located in Pratt.

**Law Enforcement.** The Law Enforcement Division, located in Pratt, provides for the enforcement of all wildlife laws (hunting, fishing, and trapping), boating laws, state park laws, departmental regulations, and the Hunter Safety Act, as well as the enforcement of many federal regulations. Staff of the Law Enforcement Division also assist other state and federal law enforcement agencies, provide mandatory law enforcement training to departmental personnel, and coordinate state boating programs with the U.S. Coast Guard. The Division also encourages public involvement in reporting wildlife law violations. The approved staffing level is 75.0 FTE positions.

**Parks and Public Lands.** The Parks and Public Lands Division, located in Pratt, has responsibility

for the development, maintenance, and operation of the state park system, the state fishing lakes, and public wildlife areas. The Division oversees properties including 37 state fishing lakes, 25 federally licensed wildlife areas, 24 state parks, nine river access areas, and 45 other areas and facilities. This Division also coordinates with the Law Enforcement Division for law enforcement at the state park facilities. As a result of an internal audit, the agency has divided the operation of this program into two separate subprograms (Parks and Public Lands) for budgetary purposes. The management of these facilities is divided among five administrative regions in the state, with a regional office in each region. The regional offices are located in Hays (Region 1), Topeka (Region 2), Dodge City (Region 3), Valley Center (Region 4), and Chanute (Region 5). Each region is responsible for planning, development, and management of the facilities within that region, subject to overall management by the Department. The approved staffing level is 163.5 FTE positions.

**Fisheries and Wildlife.** The Fisheries and Wildlife Division, located in Pratt, is responsible for the operation of the state's fish hatcheries, habitat development on state and private land, and research and analysis of factors relating to fish and wildlife populations. The Division provides the technical expertise to manage the fish and wildlife resources of the state. The Division also prepares wildlife management plans to improve the quality of hunting and fishing in the state, as well as to address nongame wildlife concerns. In addition, this program is responsible for compliance with the Threatened and Endangered Species Act. This Division also administers the Kansas Nongame Improvement Program (KNIP) from the funding originated through the Chickadee Checkoff located on the state income tax form. The approved staffing level is 86.0 positions, including 79.0 FTE and 7.0 special project positions.

**Capital Improvements.** In addition to the operational divisions summarized above, the Department also conducts an on-going program of capital improvements which provides for capital repair or construction projects at state-owned or administered areas under the Department's jurisdiction. For example, the 1995

Legislature approved funding of \$5,968,800 (including \$725,000 from the SGF) for capital improvement projects in FY 1996. Major approved projects include: flood damage repair at the state parks (\$650,000 SGF and \$100,000 State Budget Stabilization Fund); continuation of the Cheyenne Bottoms renovation project (\$1.0 million each from the State Water Plan Fund and federal funds); fisheries enhancements (\$140,000 Wildlife Fee Fund); major maintenance and rehabilitation (\$177,700 Wildlife Fee Fund); boating access and safety (\$216,100 from the Boating Fee Fund); state park access road maintenance (\$1.35 million from the State Highway Fund); and continuation of the Prairie Spirit Rails-to-Trails project (a total of \$985,000 including \$75,000 SGF, \$75,000 EDIF, \$27,000 private funds, and \$808,000 in federal funds).

### Funding Sources for the Department

As noted above, the approved FY 1996 budget of the Department of Wildlife and Parks totals \$30.7 million, of which about \$5.0 million is from the SGF. For most of its income, the Department relies on fees paid by the public: the purchase of hunting and fishing licenses and state park permits accounts for roughly 47 percent of the Department's funding. Another 26 percent comes from excise taxes paid on hunting, fishing, and other outdoor equipment, which is distributed back to the state by the federal government. SGF dollars account for only about 16 percent of the total funding. The remaining funding comes from a variety of smaller special revenue funds. The following table shows the Department's FY 1996 approved budget, by funding source.

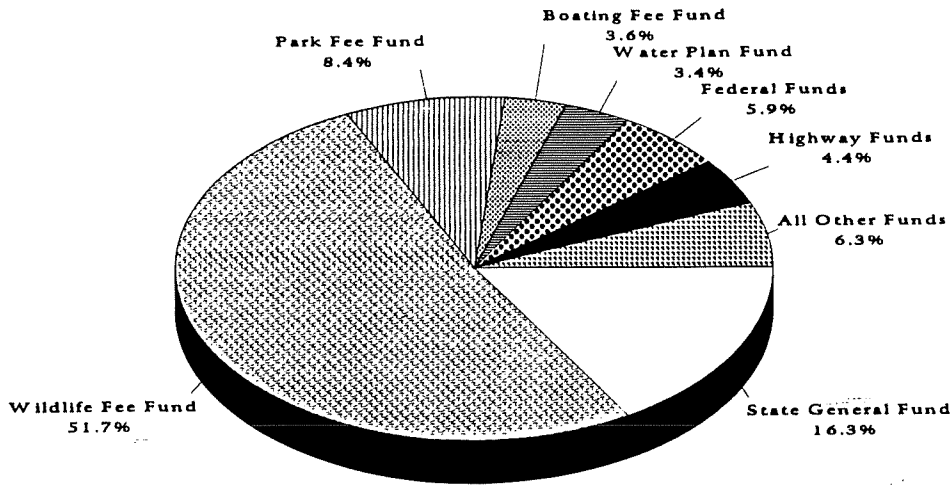
### Wildlife and Parks FY 1996 Approved

SGF:	
Operating	\$ 4,272,945
Capital Improvements	725,000
Subtotal - SGF	<u>\$ 4,997,945</u>
Wildlife Fee Fund	\$ 15,875,849
Wildlife and Parks Nonrestricted Fund	225,000
Wildlife Conservation Fund	120,000
State Budget Stabilization Fund	100,000
Nongame (Chickadee Checkoff) Fund	206,000
Federal Licensed Wildlife Area	400,000
Parks Fee Fund	2,592,710
Boating Fee Fund	1,108,107
Development and Promotion Fund	40,000
Land and Water Conservation Fund	300,000
Migratory Bird Fund	245,000
Gifts and Donations	47,000
Federal Grants Fund	135,165
Renovate Cheyenne Bottoms Federal Fund	1,000,000
Water Plan Fund	1,050,000
ISTEA Fund (Prairie Spirit Rail-Trail)	808,000
Fish and Game Restitution Fund	5,000
EDIF	115,000
Highway Fund	1,350,000
TOTAL	<u><u>\$ 30,720,776</u></u>

The following pie chart shows the Department's FY 1996 approved budget and illustrates the percentage of the major funding sources.



## FY 1996 Approved Funding (Includes Capital Improvements)



The following paragraphs summarize the four largest fee funds of the Department. Generally, fees collected by the Department are established by the Kansas Wildlife and Parks Commission by approval of rules and regulations submitted by the Secretary. Statutory minimums and maximums are established by the Legislature.

**Wildlife Fee Fund.** The major source of receipts to the Wildlife Fee Fund is from the sale of hunting, fishing, and trapping licenses, and from federal funds. Receipts to the Wildlife Fee Fund generally range from \$15 million to \$18 million annually, and similar expenditures are usually approved. The Fund usually has an ending balance in the \$6 million to \$7 million range. Expenditures from this Fund are to be used for fish and wildlife purposes.

**Parks Fee Fund.** The Parks Fee Fund is the depository for moneys received from state park permit fees, and other rents and charges derived from the operation of the state parks. The fees include motor vehicle fees, camping fees, utilities costs, and other special use permits. Receipts to the Parks Fee Fund generally range from \$2 million to \$3 million annually, as receipts from camping are strongly affected by the weather. Expenditures are usually approved in the same

range. Expenditures from this Fund are to be used in the administration and operation of state parks.

**Boating Fee Fund.** The Boating Fee Fund derives revenue from boat registrations and from federal aid from the U.S. Coast Guard for boating safety and regulation programs. Annual receipts are about \$940,000, with approved expenditures in the same range. Expenditures from this Fund are to be used for boating-related purposes.

**Nongame Wildlife Improvement Fund.** The Nongame Wildlife Improvement Fund derives revenue from gifts and donations, principally the "Chickadee Checkoff" on Kansas income tax forms. Receipts are usually about \$190,000 annually, with approved expenditures in the same range. Expenditures are to be related to nongame wildlife programs.

### Other Issues

**1993 Flood Damage.** During the summer of 1993, flooding caused widespread damage at many of the Department's properties: several state parks were wholly or partially closed due to

flooding. Three of these parks – Glen Elder, Wilson, and Tuttle Creek – remained closed through the end of 1993. The agency states that wave action, exposure to wind, rain, and freezing will continue to damage park structures, many of which were 20 to 25 years of age and in poor physical condition. The Legislature has approved flood damage repair funding of \$500,000 (SGF) for FY 1994; \$1.0 million State Budget Stabilization Fund (SBSF) for FY 1995; and \$750,000 (\$650,000 SGF and \$100,000 SBSF) for FY 1996.

**1995 Flood Damage.** Following shortly after the significant flood damage of 1993, the spring of 1995 also saw widespread flooding at several of the state park sites, including some of which were not affected during 1993. The Department is attempting to keep a separate accounting of the flood damage for each of the two years. The presentation by the Secretary included an update of the flood damage and needed repairs resulting from the 1995 flood.

**Federal Audit Issues.** Since 1993, the Department has been involved with the federal government as a result of improper expenditures of federal reimbursements. The initial audit covered the period of FYs 1989-1992. The financial obligation of the Department for this time period, in summary form, is two-fold:

1. the amount of funds in diversion has been finalized at \$1,900,109 and the Department must transfer this amount from another funding source to the Wildlife Fee Fund (the Legislature has already transferred about \$1.2 million from the SGF to the Wildlife Fee Fund); and
2. to comply with inadequate base fisheries expenditures in this period, the Department must expend \$3,541,526 for fisheries programs over the period FYs 1995-1997 (the Legislature has approved expenditures of about \$2.3 million for FY 1995 and FY 1996).

The staff person with the Legislative Division of Post Audit who has conducted two recent audits of the Department of Wildlife and Parks reviewed these audits for the Committee.

More recently, a draft audit covering the period FYs 1993-1994 has been released by the Office of the Inspector General of the U.S. Department of the Interior. This newest audit is still in draft form and the Department is preparing its response to the audit. The Secretary indicated that the audit for FYs 1993-94 revealed that diversion of \$1,669,396 had occurred during this time period.

**El Dorado State Park Payment.** During testimony before the House Appropriations Committee during the 1995 Session, the then-Secretary of Wildlife and Parks discussed the issue of the payment to the U.S. Corps of Engineers for El Dorado State Park. Prior to development of El Dorado, the Department had entered into an agreement with the Corps of Engineers to pay for half of the development costs at El Dorado within 50 years after development of the Park was begun. Development began in 1978. In its FY 1996 budget request, the Department requested \$450,000 in FY 1996 to begin 34 annual payments (for a total of \$15.3 million) to the Corps. The Governor recommended no funding for this purpose and none was appropriated. The House Committee was advised that the Department was currently in negotiations with federal officials in an attempt to reach a one-time settlement payment of a smaller dollar amount. As these negotiations were on-going during the 1995 Session, no action was taken, except to direct the Secretary to report any available options to the 1996 Session.

**Fee Increases.** At its meeting on June 15, 1995, the Kansas Wildlife and Parks Commission approved increases in a number of the fees for various permits issued by the Department. The approved increases will be effective on January 1, 1996. The following table lists the existing fees and the new fees for the various categories of permits and licenses. Secretary Williams, in a cover letter concerning the fee increases, stated that the increases "are a short-term measure to continue operations until a long-term base of financing can be established for the Department." The fee increases are expected to generate additional annual revenues of \$1,328,350 for the Wildlife Fee Fund and \$907,000 for the Park Fee Fund.

**Fees Increased by Commission on Wildlife and Parks Regulatory Action  
Taken June 15, 1995 and Effective January 1, 1996**

	Existing Fee	New Fee	%
			Increase
Resident Hunting License	\$ 13	\$ 15	15.4%
Nonresident Hunting License	60	65	8.3
Resident Fishing License	13	15	15.4
Nonresident Fishing License	30	35	16.7
Five-Day Nonresident Fishing License	13	15	15.4
Resident Combination Fishing and Hunting License	26	30	15.4
Nonresident Mussel Fishing License	400	1,000	150.0
Annual Camping Permit	35	Eliminate	-
Overnight Camping Permit	2.50	4.50	80.0
Fourteen-Day Camping Permit (New Permit First Effective 1/1/96)	N/A	50	-
Utilities – Electricity, Water, Sewage:			
Any or All Utilities	5/Night	N/A	-
Any One Utility	N/A	5/Night	-
Any Two Utilities	N/A	6/Night	-
Any Three Utilities	N/A	7/Night	-
One-Day Temporary Motor Vehicle Permit	2.50	3.50	40.0
Annual Motor Vehicle Permit	20	29.50	47.5
Additional Annual Motor Vehicle Permit (2nd Vehicle)	5	14.50	190.0

Lastly, it should be noted that the House Appropriations Committee, during its review of the Department's budget, included the following language in the Subcommittee Report:

"The House Committee recommends that the Department of Wildlife and Parks prepare legislation (either in the 1995 Session or the 1996 Session) to increase its current fees or to revise the entire fee structure in order to properly fund its operations. Such legislation was considered during the 1994 Session, but was not enacted."

**COMMITTEE ACTIVITIES**

The Special Committee reviewed a background memorandum which provided a general overview

of the Department, its operations, and funding sources. The Committee also received briefings by staff of Legislative Post Audit. Lastly, the Secretary of Wildlife and Parks and other staff members made presentations to the Committee.

**Legislative Post Audit Review.** Staff of the Division of Legislative Post Audit, presented an explanation of two audits regarding the assessment of the Department of Wildlife and Parks' compliance with federal requirements as related to fish and wildlife programs, as well as financial management, efficiency, and effectiveness of the Department.

The first audit (94-44) addressed the following questions regarding financial management of federal funding. The following summarizes the findings of the audits:

1. **Did the Department of Wildlife and Parks divert hunting and fishing license fees to unallowed purposes and, if so, how much was diverted?**

During FYs 1989-1992, the Department of Wildlife and Parks spent about \$3 million of wildlife monies on parks-related activities. Parks' moneys were used to pay a portion of wildlife employee salaries and about \$400,000 was not subject to the federal diversion prohibition; \$1.7 million must be repaid to the Wildlife Fee Fund.

2. **Did the Department of Wildlife and Parks comply with the federal requirement for a minimum level of state funding for fisheries?**

Minimum federal funding requirement for fishery programs was underspent by about \$3.5 million by the Department between 1986 and 1992.

3. **Did the Kansas Department of Wildlife and Parks have adequate financial management practices?**

Significant shortcomings in financial management practices contributed to the Department's diversion of restricted moneys to unallowed purposes. The Department should establish a separate fund for the moneys it receives that are subject to federal restrictions; establish a system for allocating staff time, overhead costs, and other shared program costs to Wildlife and Park programs; periodically compare estimated or allocated costs with actual costs; and periodically reconcile its own records regarding program receipts, expenses, and balances with established state accounting and reporting systems.

The latter audit (95-37) was required by K-GOAL in order to provide operational information to the Legislature. Post Audit reviewed the organizational chart and explained professional staffing in

the various divisions and the problems with territorial responsibilities between parks and public lands personnel, fish and wildlife personnel, and law enforcement personnel. Questions addressed in this audit were:

1. **Has the Department of Wildlife and Parks established adequate and appropriate financial-management practices related to state parks and fish and game activities?**

Federal regulations prohibit the Department from spending hunting and fishing license fees and related federal reimbursement for nonwildlife related activities. State law places even more stringent requirements on the Department's expenditures. The Department's financial-management practices are not adequate to provide needed accountability for restricted moneys, nor do they allow the Department to make full and effective use of the moneys available. One of the most critical needs of the Department is to ensure that restricted moneys are spent only for the purposes allowed, meet its financial obligations, maximize the federal moneys it receives, and make the most cost-effective use of the moneys available to it. Violations of federal requirements cost the SGF \$1.7 million for FYs 1989-1992 with the possibility of additional violations for 1993-94. Violations of state law for 1989-1992 were nearly \$4 million.

2. **Have the potential savings and efficiencies from merging the Park and Resources Authority and the Fish and Game Commission been achieved?**

Costs increased due to increase in number of employees, reclassification of employee positions, and increase in equipment purchases. Merger which combined staffs created greater flexibility in use of staff and equipment but the combination of park rangers and wildlife conservation officers into one law enforcement staff was not successful. Department attempts

to solve diversion of federally restricted funds by strictly segregating the work of park and wildlife staff has negated many efficiencies gained from the merger. Accounting solutions to the problem should be developed immediately. Severe morale problems and dissatisfaction with upper level management should be addressed by the Secretary for the Department.

3. **Are the primary missions, goals, and objectives of the state's parks and fish and game areas being met, and if not, how can those operations be improved?**

The Department has done well in meeting some goals, but not others.

Budget cuts and lack of funding could be averted by better financial-management practices as well as the avoidance of spending additional money for legal violations. Focusing on the existing strategic plan, the measurement of actual performance, and consistent review of goals and objectives would be an overall suggestion for improvement.

4. **How can the Department of Wildlife and Parks be structured more efficiently?**

The combination of the departments contributed to organizational inefficiency because of an increased need for procedures to prevent diversion of restricted moneys and competition by different programs for limited resources. Numbers of support personnel and activities outweigh those involved in field programs than in other states. Of 25 other state programs reviewed, only Texas and Kansas do not have a separate parks division. A disadvantage of the combination is the increased risk that moneys restricted to wildlife activities by federal and state requirements could be spent for parks activities. An additional layer of management within the Department may be hampering communication and leading to morale and efficiency problems. It is

recommended that the Department consider merging the Law Enforcement with the Fisheries and Wildlife Division.

**Department of Wildlife and Parks – I.** Secretary Steve Williams of the Department of Wildlife and Parks gave an overview of the agency and results of the federal audits of 1989-1992 and 1993-1994. Results of the 1989-1992 audit will require the State of Kansas and the Department of Wildlife and Parks to expend \$1.9 million in nonwildlife fee funds on wildlife projects due to diversion of federal aid receipts; expend \$3.5 million in wildlife fee funds on unreimbursed federally approved fisheries projects; and expend \$845,000 in nonwildlife fee funds on unreimbursed federally approved wildlife projects as the money was spent on unapproved projects. There is a three-year, FY 1995-1997, schedule for payment in the amount of \$1.9 million to the WFF from the SGF.

The audit for FYs 1993-1994 made a preliminary finding that the department diverted about \$2 million in wildlife funds, fell almost \$1 million short in required base fisheries spending, and expended nearly \$250,000 on unapproved projects. Negotiations between the U.S. Fish and Wildlife Service and DWP have resulted in conceptual agreement on methods for correction. The Department's response was to be sent to the Inspector General's Office, Department of the Interior, by October 31, 1995. The SGF will probably be asked to meet the financial obligations of the diversion.

In response to questions regarding the adequacy and appropriateness of the mission statement of the Department as well as its competency of current personnel and structure, the Secretary stated that a formal evaluation system is being established which will focus on what is essential and how well goals are being met. Outside assistance is being used to set up such an evaluation system. Resolution of the diversion of funds is a foremost consideration. Restructuring of the Department will involve focusing on what is essential work and contributes to the actual mission of the Department.

There are currently approximately 400 employees in the Department of Wildlife and Parks with an annual budget of \$30 million. The Director of Administrative Services of the Department currently serves as the chief financial officer. No specific accounting experience is currently required for this position, but a CPA designation is required for a person serving below this administrative position. There is an auditor on board who reports to the budget section.

Secretary Williams stated that negotiations are underway for a one-time lump sum payment to the Corps of Engineers for the El Dorado State Park project. The Department of Justice is the agency which will be involved in these negotiations with the Department of Wildlife and Parks. The final payment is scheduled for 15 years down the road. The budget request for FY 1997 includes an amount of \$450,000 to start making the payments on El Dorado. A long-term funding source for the Department is being explored by a task force regarding funding in other states, using public forums, and input on alternate funding mechanisms. Additional fees charged for the public park system in comparison to other states as well as their costs will be explored. The results of the task force will be reported to the Legislature in 1997.

**Department of Wildlife and Parks – II.** The Secretary of Wildlife and Parks and staff members appeared again at the Committee's November meeting to make a second presentation in response to Committee questions. The Secretary's presentation is summarized below. Secretary Williams discussed the issue of diversion of federal aid funds to nonwildlife related areas, beginning with the federal audit for FYs 1989-1992. He noted that the most recent federal audit, covering the period FYs 1993-1994 had revealed that diversion has also occurred, totaling \$1,669,396 which was spent on nonwildlife programs in violation of federal requirements; he stated that the Department proposes to use 200 inmates for a two-year period to work in wildlife areas and state fishing lakes, as an in-kind contribution to offset the diversion, as well as a transfer of \$230,000 from the Boat Fee Fund to the Wildlife Fee Fund. The Secretary stated that he has conducted an in-house review of the Department's FY 1995 spending, and had discovered the

diversion of wildlife funds of \$274,437 to the boat program and \$512,372 to the park program. The Department will seek some General Fund dollars to correct the FY 1995 overspending.

The Secretary stated that he will seek to strengthen fund integrity and accounting controls; that the Department has formed pay groups to work within the restrictions of the funds which support their salaries; that the Department will begin reconciling receipts for all object codes relating to the Wildlife Fee Fund, Boat Fee Fund, and the Park Fee Fund on a monthly basis starting in January, 1996; that the Department's planning and budgeting process has been modified to allow for the monthly monitoring of fund expenditures; and that the Department's inventory system can track all equipment by fund source.

The Secretary stated that, in response to the K-GOAL audit, the Department has developed a formal plan for the use of the Wildlife Conservation Fund (which is funded by lifetime permits), which provides for a minimum fund balance and the maximum use of federal aid for wildlife and recreation benefits; that the Department is completing an examination of the organizational structure of the Department, which includes the possibility of separating the Fisheries and Parks divisions; that the Department will continue to obtain wildlife population data through surveys; that the Department will attempt to maximize federal aid dollars; that the resources available for park maintenance are grossly insufficient; that a review of agricultural practices upon departmental lands has been completed; that the Department has no funding to comply with the Corps of Engineer's requested payment for El Dorado State Park; and that the Department is in the process of developing a new strategic plan for the agency.

The Secretary stated that the Department has consulted with federal aid coordinators from other states, as well as a former CEO from the Coleman Company with regard to management issues; that he is not convinced that a management consultant's firm is needed; that the state budget process places the Department in a position of potential diversion each year; that the Private Property Protection Act will require substantial additional Department time in preparation of the required reports; that the Kansas Nongame and Endangered Species Conservation Act requires the

Department to determine if a species may be categorized as threatened or endangered; that one of his top priorities is improving employee morale; and that the Department is currently working on the challenges of federal aid compliance, employee morale, downsizing, funding shortfalls, and operational efficiency.

## **CONCLUSIONS AND RECOMMENDATIONS**

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Following its review of the management, operations, organization, and funding of the Department of Wildlife and Parks, the Special Committee on Ways and Means/Appropriations makes the following recommendations.

**General Management Issues.** At the outset, the Committee wishes to express its frustration that the spending problems which have beset the Department of Wildlife and Parks in recent years are still not solved. The then-Secretary of the Department knew as early as August of 1992 that a problem with the diversion of federal funds to nonwildlife programs existed. Two federal audits, Post Audit reports, and an in-house examination indicated that the diversion problems continued at least through FY 1995. The Committee notes that most of the individuals involved in these years are no longer in Kansas; at any rate, placing blame is not the Committee's goal.

The Committee believes that the problems of the Department of Wildlife and Parks are capable of resolution and that the time has come to solve these problems and that they must be immediately solved. The Committee believes that the diversion problem is a structural problem with the Department and that the problem can be solved through accounting control systems. The Committee feels that there is a technical accounting assistance available through the Department of Administration which the Department should access to develop an accounting system to end the diversion problem. As was noted in one of the Post Audit reports, the State of Mississippi solved a similar problem by using a new state accounting system where the cost accounting system and the fund accounting system shared the same data fields. Internal departmental memo-

randa noted in the Post Audit report indicate that staff of the Department felt that the fund accounting system needed to be strengthened as early as 1992. The Committee recommends that the Department seek technical assistance to implement a stronger accounting system, specifically to preclude further diversions. The Committee also recommends that Wildlife and Parks work with the Department of Social and Rehabilitation Services (SRS) to learn how that agency complies with federal funds expenditure requirements.

The Committee also would comment that the Department has no assurance that the Legislature will see fit to continue the use of SGF dollars to, in effect, reward the Department for overspending federal funds. The Committee recommends that the Department attempt to find alternative ways to provide the necessary funds to correct past diversions of federal funds.

Finally, the Committee was informed that the Department has appointed a task force to seek a dedicated funding source to support the mission of the Department of Wildlife and Parks; such task force is to report to the Legislature within the next year, although the Committee hopes that this recommendation will be available earlier, perhaps in the next six months.

**Diversion Repayments.** The Committee recommends that there be no further use of SGF dollars for diversion repayments for any diversions which occur after FY 1995. If diversion repayments should be required, the Department will have to shift funds from other sources to meet the payments. The Legislature has already approved the expenditure of over \$1.35 million from the SGF as a result of federal audit requirements for the period of FYs 1989-1992, with another \$550,000 being requested for this purpose in the Department's FY 1997 budget request for audits for these same fiscal years. In addition, it appears likely that the SGF will be asked to address the diversion of funds indicated in the audit for FY 1993-1994.

**Creation of Clearing Fund.** The Committee recommends that the Department pursue the feasibility of creating a new "clearing fund" to be used in the same manner as the SRS Social Services Clearing Fund. The Committee believes

creation of such a fund would eliminate some of the problems in keeping track of federal reimbursements, as well as state dollars, and reduce the risk that moneys restricted to wildlife activities by federal and state laws could be spent for parks activities. The Department should report to the appropriate committees during the 1996 Session on the clearing fund concept and its discussions with the Department of Administration and SRS regarding accounting control systems.

**Creation of Separate Parks Division.** The Committee also recommends that the Department

review the feasibility of creating a separate Parks Division, by splitting the existing Parks and Public Lands Division into two entities. The Committee believes that creation of a Parks Division would allow the Department to more easily administer parks' moneys and reduce the chances that federal monies may be diverted. The Post Audit report noted that, of 25 other state programs reviewed, only Texas and Kansas do not have a separate parks division. The Department should report their findings to the appropriate committees during the 1996 Session.



**SENATE BILL No. 402**

**By Legislative Budget Committee  
Re Proposal No. 51**

12-20

9 AN ACT relating to state educational institutions; concerning the purchase of certain goods and services.

10  
11 *Be it enacted by the Legislature of the State of Kansas:*

12 Section 1. (a) As used in this section "state educational institutions" mean the university of Kansas, Kansas  
13 state university of agriculture and applied science, Wichita state university, Emporia state university, Pittsburg  
14 state university, and Fort Hays state university, but does not include the university of Kansas medical center.

15 (b) The state educational institutions are hereby authorized to make direct purchases of goods and services  
16 in amounts of not more than \$25,000 for any individual purchase. Each such purchase may be made in the  
17 open market or in accordance with such procedures and under such conditions as may be prescribed and  
18 established by the chancellor or president of each of the state educational institutions for purchases under this  
19 subsection.

20 (c) No purchase or other acquisition by any state educational institution pursuant to this section or any  
21 contract entered into by any state educational institutional under this section shall be subject to the provisions  
22 of K.S.A. 75-3739, and amendments thereto, and no such purchase, acquisition or contract shall be subject to  
23 approval under any other statute other than those contained in articles 3, 3a, 4, 5, 6 or 7 of chapter 76 of the  
24 Kansas Statutes Annotated.

25 Sec. 2. This act shall take effect and be in force from and after its publication in the statute book.

# Proposal No. 51

***STUDY TOPIC: Budgeting for Regents institutions, including tuition adjustments and incorporating fundamental changes in the interest of greater flexibility and management authority at the institutional and State Board level.\****

## **BACKGROUND**

Both the House Appropriations and Senate Ways and Means subcommittees reviewing the budgets of Regents institutions during the 1995 Session recommended an interim review of Regents budgeting, to include a review of how tuition is currently managed and the degree of flexibility and management authority accorded to the institutions and the Board of Regents.

During the course of the interim, the Legislative Budget Committee received various staff reports on Regents budgeting practices, tuition control and the Regents tuition accountability proposal. Representatives of the Board of Regents, the Council of Presidents and the Council of Business Officers appeared before the Committee to discuss tuition accountability and greater flexibility and management authority.

### **Overview of Regents Budgeting and Tuition Policy**

In Kansas, the terms "general use" and "restricted use" are central to discussion of Regents financing. **General use funds** can be used to provide general financial support of institutional operating budgets. Sources of general use funds include the State General Fund, tuition (general fees funds), interest on certain investments, the hospital revenue fund at the University of Kansas Medical Center, and the federal land grant funds at KSU - Extension. By contrast, **restricted use funds** must be used in a manner consistent with the conditions attached to receipt of the funds. Examples

include federal or private grants, gifts, student fees other than tuition, and income generated by campus revenue-producing activities. Most consideration by the Governor and the Legislature is to the general use portion of the budget, which comprises approximately two-thirds of the total Regents operating budget.

Each university has a general fees fund and tuition receipts are credited to the general fees fund of the institution where the tuition is collected. The receipts are considered to be general use monies - that is, funds which are used to support the general operations of the university. The Legislature appropriates the general fees fund at each university with an expenditure limitation based on estimated receipts and the level of expenditures approved by the Legislature. Tuition receipts are used to finance a portion of the general use budget, along with other funding sources, primarily the State General Fund. In the current method of funding general use operating expenditures, tuition revenues are budgeted interchangeably with, and as an offset to, amounts appropriated from the State General Fund.

A number of factors affect tuition receipts including enrollment levels and the average fee collected. The average fee collected is a function of both student residency status, the number of credit hours (full-time versus part-time students) and the student level (undergraduate/graduate).

In determining the level of state support for a particular institution, the amount of available tuition revenue is first allocated, with State General Fund dollars making up the difference. The Legislature reviews the General Fees Fund estimates for the current year and the budget year based on Fall enrollment data and revisits the availability of tuition revenue to finance institutional operating budgets again when Spring enrollment data is available. The Legislature has been fairly consistent in appropriating supplemental funding from the State General Fund when tuition collections have fallen below estimates to avoid shortfalls in university operating budgets. Conversely, tuition revenues in excess of amounts budgeted to finance approved budget levels have been used to offset State General Fund financing.

\* S.B.402 accompanies this report.

In summary, changes in tuition receipts affect the source of funding available to finance institutional budgets, not the level of total expenditures authorized. By contrast, the enrollment adjustment is a specific formula adjustment which adds or subtracts expenditure authority for Regents institutions based on changes in enrollment.

### Regents Tuition Accountability Proposal

The Board of Regents has proposed that the manner in which tuition revenues are budgeted be modified to allow certain institutions to retain greater control over tuition revenue. Most states allow either institutions or university systems to retain greater control over tuition than is presently the case in Kansas.

The tuition accountability plan proposed by the Board of Regents would allow Regents institutions to maintain greater control over tuition revenues. The plan, as approved by the Board of Regents, consists of the following:

- ▶ The proposal would implement tuition accountability for the University of Kansas, Kansas State University, and Wichita State University beginning in FY 1997. Other institutions would remain on existing budgeting methods, but may submit plans for tuition accountability at a later date.
- ▶ A student credit hour and tuition revenue base will be established, using FY 1996 as a base. This credit hour enrollment base will be redeveloped every third year.
  - Base tuition revenue will continue to be budgeted interchangeably with the State General Fund.
- ▶ **All revenue from enrollment growth** would be retained by KU, KSU, and WSU; however, these institutions would no longer request enrollment adjustment funding.
- ▶ The participating institutions will absorb all reductions in revenue related to **enroll-**

**ment loss**; no requests for supplemental appropriations will be made unless tuition revenue falls below the established base level.

- ▶ KU, KSU, and WSU will also retain a **portion of the revenue associated with tuition rate increases** to address OOE and equipment deficiencies.
  - For FY 1997, the Board has approved retention of 25 percent of the 3 percent increase approved by the Board for general inflation in tuition (\$488,521 at KU, \$278,255 at KSU and \$184,159 at WSU). The remaining 75 percent of the increase due to rate increases will be budgeted as is done currently, interchangeably with the State General Fund.

The Chairman of the Board of Regents indicated that much of the impetus for the tuition accountability concept is the erosion of funding for the state's two research universities compared to their peers over the last decade. The Board attributes this decline to the current policy whereby increases in tuition revenue are used to offset State General Fund dollars in university budgets. The Chairman also indicated that KU and KSU as the two research universities, and WSU as the other major doctoral-granting institution, have different staffing needs, heavier reliance on specialized state-of-the-art equipment and different needs for library materials than other Regents universities. The major change, as indicated by the Chair, is modification of the current policy which provides that tuition be the first dollar used to offset the request for State General Fund dollars. Instead, under the tuition accountability proposal, two components of the tuition dollars would be set aside and not treated interchangeably with the State General Fund – a portion of any rate increase to be used to address long-standing equity problems, and all tuition related to enrollment growth, with the universities no longer requesting funding for enrollment growth. In times of enrollment decline, the Chairman indicated that the Universities would accept the responsibility to reduce budgets accordingly.

## Flexibility and Management Issues

Representatives of the Regents Council of Business Officers appeared before the Committee to discuss ways in which the Regents Universities might improve operating efficiency in administrative areas. One representative reported that the Council is currently discussing a cooperative project with the Department of Administration for a procurement card purchasing process for orders of \$500 or less, with KU, WSU, and one or two other state agencies to pilot the system during the current fiscal year.

The representatives proposed the following additional suggestions to improve operating efficiency:

1. **Allow Universities to Carry Forward Unexpended General Revenue at the End of Each Fiscal Year.**

It was testified that the Regents believe that resources could be managed more effectively because departments would be less likely to hurriedly expend funds at year-end to avoid losing them, and departments would also have the flexibility to budget larger purchases over a multi-year period.

2. **Loosen the Requirement to Use the State Printer for Printing/Binding**

The Regents testified that under current law (K.S.A. 75-1005), Regents universities must use the state printer for all jobs that cannot be handled on the campus unless specific permission to use an outside vendor is obtained from the State Printer on a job-by-job basis. **The Council requested that current law be amended to allow more discretion to secure printing/binding services when it can be shown that the job has significant time constraints or when it can be documented that private vendors would do the job for less.**

3. **Delegate Greater Purchasing Authority to the Universities**

The Council testified that in 1987, legislation was adopted giving the Regents universities greater local authority for the acquisition of goods and services for individual purchases funded at least 50 percent from sponsored program funds. For all other purchases, current law only allows the Director of Purchases to delegate local authority in amounts up to \$10,000 (\$25,000 for the University of Kansas Medical Center).

**The Council requests amendment of current law to allow delegation of up to \$25,000 in local purchasing authority, in a manner similar to 1994 S.B. 531. The bill, which was defeated at the close of the 1994 Session, would have delegated up to \$25,000 in local purchasing authority, permitted greater use of telephone and FAX bids, and changed the advertising requirements for sealed bids for items costing less than \$50,000.**

4. **Make the usage of statewide purchasing/travel contracts discretionary for Universities.**

The Council testified that the Regents universities would save money if they were granted purchasing authority which includes the option to use or not use certain state contracts – for example, the paper, furniture, microcomputer, and travel contracts.

Information was also provided which detailed purchases of computers by local bid which were less expensive than computers on state contract, as well as examples of problems encountered with certain vendors.

At the Committee's November meeting, the Lieutenant Governor/Secretary of Administration and several division directors appeared to discuss centralized services and a number of initiatives which the Department is undertaking, including

the development of a business procurement card for small transactions. The Director of Printing discussed the State Printing Plant, its satellite locations, and the various printing shops maintained by state agencies. He also testified regarding the current process by which agencies seek permission to obtain printing services in the private sector.

## **CONCLUSIONS AND RECOMMENDATIONS**

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### **Regents Budgeting**

The Committee recommends that Regents budgeting be shifted in a direction which emphasizes greater flexibility at the institutional level and budget review focused on clear policy and performance objectives. The Committee believes allowing institutions to retain control of their own tuition revenues and changing the State General Fund appropriation to an operating grant for each institution will facilitate such a shift in thinking. The Committee recognizes that there are a number of issues to be addressed in making such a fundamental shift in budgeting policy but believes that this is an appropriate time to begin a serious discussion of modifications to the current process.

As a starting point for discussion, the Committee offers a model which was developed by the Chair of the House Appropriations Committee. This model to modify Regents budgeting is appended to this report.

In shifting to a new model, the Committee stresses its desire that the level of State General Fund support be tied less to formula-driven calculations and more to attainment of specified performance objectives. In shifting to this new model, a critical component will be the early and thorough development of both performance goals and objectives and a means to measure and report progress towards the articulated objectives. The Committee believes that it will be necessary to develop objectives both for the Regents system and for each institution based on the differentiated missions of the schools. In addition, the Committee believes that the Board of Regents should be an

active participant in both the development of the performance objectives and in measuring whether the objectives are being attained. In order to effectively tie the level of the State General Fund operating grant to performance, the Committee believes that consensus on appropriate performance objectives and measures must be achieved between the Regents institutions, the Board of Regents, the Governor and the Legislature. The Committee welcomes such a dialogue and encourages the institutions and the Board of Regents to begin work on the development of performance objectives and measures.

The Committee also recommends that the focus of a new model of Regents budgeting not be enrollment-driven. The Committee believes it would be a mistake to provide a funding incentive for the institutions to seek to grow or to seek to attract more nonresident students solely for the sake of additional operating revenue, regardless of the relationship to the institution's mission. The Committee believes that establishing performance criteria and linking funding to performance will allow funding to reward specific achievements rather than just enrollment growth.

The Committee would also note that the 1995 Legislature created the Kansas Council on Postsecondary Education to create a master plan for postsecondary education. The Committee believes that any redesign of Regents budgeting should recognize the broader activities of the Council, and in particular its Finance Subcommittee.

The Committee would note that at the current time there is no statutory basis for components utilized in Regents budgeting. Once a new model is designed and consensus is achieved, the Committee believes it may be appropriate to codify the provisions.

### **Flexibility and Management Issues**

The Committee commends the cooperation of the Secretary of Administration and the Director of Purchases and Director of Accounts and Reports in developing a business procurement card system for small purchases. The Committee learned that such a pilot project will be intro-

duced for the University of Kansas, Wichita State University, and the Department of Transportation. The procurement card purchasing process will replace the current voucher process for transactions up to \$500. The Committee believes that such a system has a number of advantages, including a significant reduction in the total number of vouchers and warrants processed and faster acquisition and improved convenience for state agencies.

The Committee recommends the introduction of      B.      which would authorize the Director of Purchases to delegate local purchasing authority in amounts up to \$25,000 to Regents institutions, an increase from \$10,000 in current law.

The Committee reviewed the Regents request that use of the statewide travel contract be made discretionary. The Committee would note that a study by the Privatization Council found cost-savings to the state from the travel contract. At the same time, the Committee has been told repeatedly of instances where individuals could have made travel arrangements or purchases at a lesser cost than under the state contract. The Committee recommends that the Senate Ways and Means Committee and the House Appropriations Committee review the report of the Kansas Council on Privatization, particularly as it relates to the Regents institutions.

### **Printing Services**

The Committee is concerned about the current organizational structure through which state printing is carried out, which includes a centralized State Printing Plant with two satellite locations and separate printing installations operated by 17 agencies. At the same time, the Committee continues to hear expressions of dissatisfaction from representatives of the Regents institutions as well as from other state agencies regarding current statutory requirements that restrict access to printing except through the state printer. The Committee believes that it is time to consider modifications to the current practice, including the potential for privatization or contracting out of state printing responsibilities. We acknowledge that the printing needs of the Legislature have in

the past served as one obstacle to consideration of such changes. However, the advent of new technologies will lessen the reliance of the Legislature on a central print shop as bills and other documents become available on-line.

The Committee recognizes the complexity of this issue and the need for additional information before making a decision in this area. For example, at the current time there is no reliable information available on how competitive the state printing plant is with the private sector, nor is there adequate information on the actual costs at the separate facilities maintained by 17 agencies. The Committee would note that the audit of the Legislature being conducted by the National Conference of State Legislatures will include a review of how other Legislatures manage their printing needs. The Committee was informed that at least one other state Legislature has been successful in migrating to a paperless environment. However, much of the data necessary for the Legislature to make a decision regarding state printing will be beyond the scope of the NCSL audit. This Committee therefore recommends that the Legislative Division of Post Audit conduct an audit in this area.

Among the issues to be considered in the audit would be the following:

1. What is the real cost and capacity for printing at the State Printer, and what services are provided?
2. What are the real costs and capacities of the printing managed by the other 17 state agencies with printing facilities and what services are provided through these plants?
3. Would there be a cost advantage to merger of any of the 17 shops operated through state agencies with the state printer?
4. Would there be a cost and service advantage to maintaining a core of services through the State Printing Plant, with other services contracted out to private sector businesses?

5. How competitive are prices through the State Printer to those available in the private sector? Would there be a cost and service advantage in completely privatizing state printing functions?
6. What is the current customer satisfaction level with the services and prices of the State Printer?
7. What would be the impact on the State Printer if the Legislature migrated to an on-line paperless environment?

The Committee also recommends that the Department of Administration seek an independent appraisal of the value of the State Printing Plant, including the building and equipment. If possible, information about the potential market for the building and equipment should be included.

## ADDENDUM TO PROPOSAL NO. 51

### **Proposed Model for Regents Budgeting**

*This model was developed by the Chair of the House Appropriations Committee. While not specifically endorsing each component, the Legislative Budget Committee offers this model as a starting point for further discussion of modifications to the current Regents budgeting practice.*

#### **Goals**

- ▶ Shift the focus of the Legislature's review of Regents budgets from the current emphasis on automatic and complicated formula-based calculations to policy-oriented and performance-driven decisions.
- ▶ Grant the CEOs of each Regents institution greater flexibility and management authority and hold them accountable for the results of their management.

#### **Treatment of Tuition Revenue**

- ▶ The current statutory authority of the Board of Regents to set tuition rates at the Regents institutions is unchanged.
- ▶ Each Regents institution will retain and control tuition revenue. These revenues will be treated as restricted use funds and the Legislature will not adjust expenditures from these funds. Tuition will no longer be budgeted interchangeably with the State General Fund. There will not be an automatic reduction in State General Fund dollars when tuition revenue increases; nor will there be an automatic increase in the State General Fund appropriation when tuition revenues decline.

- ▶ To maintain the base budget, the Board of Regents should take into account the portion of the general use base budget which has historically been funded from the State General Fund and the portion which has been funded from tuition revenues in making their budget requests to the Legislature.

#### **State General Fund Operating Grant**

- ▶ The State General Fund dollars for each Regents institution will be appropriated as an operating grant to each institution to be expended under the direction of the President or Chancellor.
- ▶ The amount of appropriation will be tied directly to identified performance objectives and progress towards attaining these objectives. The determination of the State General Fund appropriation will be made on an institution-specific basis; that is, the same percentage change may not be applied to each institution.
- ▶ To maintain the base budget, in determining the level of State General Fund appropriation, the Legislature will take into account the portion of the general use budget which has historically been funded from the State General Fund and the portion funded from tuition revenues.
- ▶ The level of operating grant appropriation will be adjusted by the Legislature on an annual basis. In determining the level of State General Fund support, the Legislature will consider any requests for individual institutional mission-related program enhancements and costs associated with new buildings. The block grant appropriation will also recognize pay plan adjustments approved by the Legislature.



## Changes from Current Budgeting Practices

- ▶ **Enrollment Adjustment.** The enrollment adjustment is eliminated because the institutions will retain all tuition associated with enrollment growth. The institutions will absorb reductions in revenue related to enrollment loss.
- ▶ **Servicing New Buildings.** The current formula for servicing new buildings will be eliminated. However, institutions may request funding as a part of the State General Fund block grant appropriation based upon building-specific cost estimates.
- ▶ **Utilities.** Utilities will no longer be appropriated as a separate line-item. Institutions will be expected to manage utility costs within the operating grant appropriation. A three-year phase-in period is established during which time the institutions may build up reserve funds as recommended by the 1995 Special Committee on Ways and Means/Appropriations.
- ▶ **Mission-Related Program Enhancements.** Program enhancements requested by the individual institutions will continue to be considered for State General Fund support on an institutional-specific basis. Review of funding requests will focus on the relationship of the item to the institution's mission and performance objectives.
- ▶ **State General Fund Carryforward Balances.** Institutions should benefit from State General Fund savings and efficiencies which they are able to achieve. Several alternatives exist for rewarding institutions. One alternative is to allow institutions to carryover all or a portion of unexpended funds for use for particular purposes such as major maintenance or the purchase of equipment. Another alternative would be to allow the institutions to carryover the

funds but require that specific legislative approval be sought for expenditure of the excess funds.

- ▶ **Supplemental Appropriations.** Requests for supplemental appropriations will continue to be considered on an institution-specific basis. However, institutions would no longer request supplemental appropriations for tuition shortfalls, including those associated with enrollment changes.

## Measuring Performance: Accountability

In order to enable a shift in the focus of Legislative review to policy-oriented and performance-driven decisions, and in order to hold the CEOs accountable for their management of the institutions, specific performance goals must be established for each institution. Each Regents institution CEO should identify for review by the 1996 Legislature the following:

- ▶ well-articulated institutional goals;
- ▶ timetables to meet the established goals;
- ▶ measures and a methodology to report progress towards these goals.

The level of operating grant should be directly tied to progress in attaining established performance objectives.

# Proposal No. 52

**STUDY TOPIC:** *Use of the enrollment adjustment corridor in the funding of Regents' institutions, especially the concept of multi-year rebasing to the enrollment adjustment mechanism and adjusting the positive enrollment corridors to more closely mirror negative enrollment adjustment corridors.*

## **BACKGROUND**

This topic was recommended for review by the Senate Ways and Means Committee. A subcommittee of that Committee spent considerable time discussing the enrollment adjustment formula during the 1995 Session.

The enrollment adjustment is the mechanism used to adjust institutional budgets, and thus expenditures, based on increases or decreases in enrollments and the effect such enrollment changes have on institutional costs. Adjusting of budgets based upon changes in enrollment has been a feature of Kansas institutional budgeting for a number of years. The enrollment adjustment is a permanent increase or decrease to institutional base budgets, designed to reflect the impact of changes in students. The concept of an enrollment adjustment is predicated on the assumption that an institution's costs are affected by the number of students in attendance, and that the base budget of the institution should reflect that fact. Although the manner in which the enrollment adjustment is calculated has been modified a number of times, the basic concept of adjustment for enrollment change has remained constant. For several years during the 1980s, the adjustment included a three-year cycle. The 1987 Legislature modified the formula to return to a single-year cycle.

**Corridor.** A key feature of the enrollment adjustment methodology is the application of a corridor which acts as a buffer to adjustments. The underlying concept of the corridor is that an institution should not be significantly impacted by relatively minor changes in enrollment, while larger changes should result in adjustments to the base

budget. The corridor is also designed to address the issue of marginal costs – the marginal cost for each new student is lower than the average cost per student while the marginal savings resulting from each lost student is also less than the average cost per student.

**FY 1995 Modifications.** The 1994 Legislature recommended modification of the enrollment adjustment procedure, adopting many components for change which had been recommended by the Board of Regents. Major changes adopted included:

- reduction of the time lag by measuring enrollment changes on a calendar year basis instead of a fiscal year basis;
- simplification of the methodology used to calculate the funding rate per credit hour by basing the calculation on cost by level of instruction (not discipline); and
- restructuring of the corridors to permit a greater decline in enrollment at a lesser rate of reduction in funds than had previously been the case.

The Board of Regents had also requested that the positive corridor be restructured to allow for a funding increase for a smaller growth in enrollment; this proposal was not adopted.

## **Calculation of the Enrollment Adjustment**

To calculate the enrollment adjustment, changes in **student credit hour** by division are multiplied by the instructional program funding rate for that level of discipline. Support program funding is then added based on a ratio of support costs to instructional costs. The sum is the gross enrollment adjustment. This amount is then compared on a percentage basis to the general use base budget for the Education and Physical Plant programs. The tables below illustrate the corridor percentages applicable since FY 1995:

*[Handwritten signature]*

Positive Enrollment Adjustment		Negative Enrollment Adjustment	
% General Use Base Budget	% of Funding Allowed	% General Use Base Budget	% of Funding Loss
0% to 0.5%	0%	0% to 2.0%	0%
0.5% to 1.0%	100%	2.0% to 2.5%	25%
1.0% to 2.0%	75%	2.5% to 3.5%	50%
2.0% to 3.0%	50%	Over 3.5%	75%
Over 3.0%	25%		

The major corridors applicable to FY 1997 institutional budgets are shown below. The gross enrollment adjustment calculation must exceed these amounts before any budgetary adjustments are made.

### Major Corridors Applicable to FY 1997

Institution	Major Increase Corridor (0.5%)	Major Decrease Corridor (2.0%)
KU	\$ 772,624	\$ (3,090,495)
KSU	594,702	(2,378,807)
WSU	351,511	(1,406,044)
ESU	157,644	(630,577)
PSU	168,301	(673,206)
FHSU	156,385	(625,539)

In most recent years, enrollment adjustments have resulted in positive adjustments to university budgets. However, for FY 1997, two institutions, the University of Kansas and Kansas State University, would qualify for negative enrollment adjustments under the formula. For FY 1997, the

University of Kansas budget would be reduced by \$388,482 and the Kansas State University budget would be reduced by \$207,186. Conversely, KSU-Salina qualifies for a positive enrollment adjustment totaling \$83,576.

A representative of the Board of Regents also expressed the Regents concern that some mechanism be available in future years during times of gradual enrollment growth to compensate institutions for costs associated with slight but steady growth since the growth in a given single year would likely fall within the corridor.

The Committee was also informed that under the tuition accountability proposal (see Proposal No. 51), the enrollment adjustment would be abolished. Participating institutions would retain tuition gained from enrollment growth as the marginal revenue for expenditures associated with additional students. During times of negative enrollment growth, institutions would lose the tuition revenue from the loss of students and would reduce their budgets accordingly.

### CONCLUSIONS AND RECOMMENDATIONS

The Committee makes no recommendations specific to the enrollment adjustment but recommends that this topic be considered in the context of broader discussions regarding Regents budgeting (see Proposal No. 51).

## Proposal No. 53

**STUDY TOPIC: Postsecondary Student Financial Aid – creation of a comprehensive grant program to assist Kansas students with demonstrated financial need.**

### **BACKGROUND**

Under Proposal No. 53, the Legislative Budget Committee was charged to review postsecondary student financial aid, specifically the creation of a comprehensive grant program to assist Kansas students with demonstrated financial need. Both the Senate Ways and Means Committee and the House Select Committee on Higher Education recommended interim study of this topic after introduction of H.B. 2551 during the 1995 Session.

#### **State-Supported Student Financial Assistance Programs**

The Board of Regents administers a number of student financial aid programs, most of which include a financial need component. The following summarizes the four programs most often discussed for merger into a comprehensive grant program.

**Tuition Grant Program.** This program was established in 1972 to assist financially needy students choosing to attend private independent colleges in Kansas. The program is intended to “halve the gap” between the cost to attend a public and private institution. A total of \$5.6 million was expended in FY 1995 to assist an estimated 3,777 participants.

**Regents Supplemental Grant Program.** This program was established in 1993 to assist financially needy students enrolled fulltime at a Regents institution. According to the Board of Regents, special consideration is not given to academically accomplished students because institutions target institutional funds to such students. In FY 1995, a total of \$2.8 million was expended to assist an estimated 3,600 students.

**State Scholarship Program.** This program was established in 1963 to encourage college attendance by high school achievers without adequate family financial support. State scholars are selected on the basis of academic merit measured by an index utilizing the ACT composite score and the student’s grade point average. In FY 1995, a total of \$1.0 million was expended to assist an estimated 1,042 students. Recipients may attend any accredited Kansas postsecondary institution, including Regents, private, vocational and proprietary institutions. (In recent years, approximately \$800,000 in federal State Student Incentive funding has been targeted for the program. This funding will likely be eliminated at the federal level.)

**Ethnic Minority Scholarship.** This program was established in 1989 to recognize the achievement and potential of minority students and to assist financially needy students to attend college. In FY 1995, approximately \$288,000 was expended on the program to assist an estimated 194 participants. Students may attend Regents institutions, Washburn, community colleges, or accredited private colleges and universities in Kansas.

#### **History of Comprehensive Grant Proposal**

As early as January, 1992, a Regents Task Force on Student Financial Assistance recommended to the Board of Regents that a number of existing scholarship programs be merged in academic years 1996-1997: Regents Supplemental Grant, State Scholarship Program, Tuition Grant Program, and Ethic Minority Scholarships. Among the reasons proposed for merger of the programs by this Regents Task Force and Board of Regents staff were:

- ▶ broader targeting of aid to financially needy, academically committed students,
- ▶ increased participation of “nontraditional” students in Kansas programs,

- ▶ simplification and timeliness of delivery of aid to students, and
- ▶ administrative streamlining.

The bill introduced to codify the Task Force recommendations was 1994 H.B. 3033. The bill was killed in the House on Final Action, apparently in response to an amendment which had been adopted to include community colleges in the bill. During the 1995 Session, the House Appropriations Subcommittee reviewing the Regents' budgets recommended introduction of a new bill modeled after 1994 H.B. 3033. The bill that was introduced was H.B. 2551, which was referred to the House Select Committee on Higher Education. After holding hearings, the Select Committee requested an interim study to allow additional time to consider the ramifications of the proposal. That Committee particularly noted its belief in the appropriateness of examining the current statutory framework and administrative structure at a time when federal assistance is declining.

### Overview of 1995 H.B. 2551

1995 H.B. 2551, as introduced, would replace the Regents' Supplemental Grant Program, the Tuition Grant Program, and the State Scholarship Program with a new Kansas Comprehensive Grant Program. This program would give grants to financially needy students attending a Regents institution, Washburn, or a private institution meeting certain criteria.

Grant recipients would be limited to full-time, in-state students, with recipients graduating from high school after 1995 required either to complete a college preparatory curriculum approved by the Board of Regents or two semesters of full-time higher education coursework. The bill would limit grants for students attending a Regents institution or Washburn to financial need, but not exceeding one-half of tuition and fees. For students attending private institutions, the grant would be limited to financial need but could not exceed the lesser of (1) total tuition and fees or (2) one-half the difference between tuition

and fees charged at private institutions and those charged at Regents institutions.

Administration of the program would be through the Board of Regents Office which would disburse the grants through a single warrant to each institution attended by award recipients. Upon discontinuance of attendance by a recipient, the Board would award a grant to another student at the same institution. Apportionment provisions are included if appropriations are not sufficient to pay all approved grants.

## COMMITTEE ACTIVITIES

Conferees before the Legislative Budget Committee representing the Board of Regents, Washburn University, and Kansas independent colleges expressed general support for the concept of a comprehensive grant program. The Executive Director of the Board of Regents did state, however, that at the current time, recipients in the State Scholarship program and Minority Scholarship program tend to be less needy than those in the grant programs because of the added academic criteria. He also noted that many states are offering substantial funding to students based on merit, without regard to financial need, to attract the most academically-talented students. He suggested that Kansas must recognize this environment and either reconfirm its commitment to need-based aid or consider a merit-only scholarship component to financial aid programs. He also suggested the possibility of targeting some portion of funds in a comprehensive grant program to minority students.

## CONCLUSIONS AND RECOMMENDATIONS

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The Special Committee makes the following recommendations with regard to Proposal No. 53:

1. The Committee recommends that no action be taken on the issue of creating a comprehensive grant program at this time. The primary reason behind this recommendation is the high level of uncertainty with regard to efforts at the federal level to reduce federal support for student financial aid programs. The Committee recommends that this issue be held until student aid discussions in the U.S. Congress have reached conclusion.
2. The Committee does, however, express its general support for the concept of merging some of the existing Kansas financial

aid programs into one comprehensive grant program. The Committee notes that 1995 H.B. 2551 remains in the House Appropriations Committee and could be used as a discussion vehicle during the 1996 Session.

3. The Committee notes that all of the Kansas financial aid programs contain a needs-based component; the Committee believes that it is appropriate to continue the needs-based component in the Kansas aid programs.

## Proposal No. 61

**STUDY TOPIC:** *Review of the Midwest Student Exchange Program (MSEP) of the Midwest Higher Education Commission with respect to reciprocity matters and the notion of excluding MSEP students from budgetary calculations for enrollment and fee purposes.*

### BACKGROUND

The impetus for this study came from the House Appropriations Subcommittee reviewing Regents institutions' budgets during the 1995 Session.

At its August meeting, the Committee heard a staff background memorandum and testimony from the Board of Regents regarding the Midwest Student Exchange Program.

Kansas was the first state to join the Midwest Higher Education Commission, which was established in 1991 by the Midwestern Regional Education Compact. Currently, in addition to Kansas, the states of Illinois, Indiana, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin are compacting states comprising the Commission. One of the initial program priorities established by the Commission was the development of a regional student exchange program – the Midwest Student Exchange Program (MSEP).

### Overview of MSEP

The main provisions of the MSEP are described below:

**Purpose.** The [MSEP] seeks to provide more affordable educational opportunities for students to attend out-of-state institutions. It also strives to facilitate enrollment efficiency in those institutions which have excess capacity in existing programs.

**Tuition.** At public institutions, tuition for MSEP students equals regular in-state tuition plus 50 percent. Participating private institutions discount at least 10 percent from their general tuition rates. Additional payments may be required in high-cost professional fields if approved by the Commission. Thus, at the University of Kansas, a resident undergraduate currently pays \$883 per semester. A nonresident undergraduate would pay \$3,742 per semester. An MSEP student would pay \$1,325 per semester (150 percent of the resident rate), resulting in savings to the student, or tuition waived, of \$2,417 per semester.

**Eligibility.** Participating institutions decide whether to participate in the program and which programs to make available to students from other participating states.

In fall, 1994, (the first semester of program operation) a total of 366 students from five states participated in the program, including 49 students from Kansas attending school in other states, and 147 students from other states attending school in Kansas. The number of MSEP students admitted to Kansas institutions ranged from one at Kansas State University to 56 at Pittsburg State University. Of Kansas residents leaving the state to study out of state and participating in the MSEP program, almost one-third (16) were pursuing a program of study in education. Only Regents institutions were participating in the program in its first year. No Kansas community colleges or private institutions elected to participate.

### Budgetary Treatment of MSEP Students

For purposes of preparing tuition estimates, institutions have been instructed to budget MSEP students and their tuition revenue as if they would have otherwise attended and paid full nonresident tuition rates. The original policy of the Board of Regents was that institutions electing to participate in the program and accepting students at reduced tuition rates should absorb the cost of the MSEP waivers, primarily because students are to be admitted on a space available basis. Thus,

approved budgets for the Regents institutions assume receipt of tuition at the full nonresident rate, and assume that the institution has the full tuition revenue available for expenditure. The budget thus includes unfunded expenditure authority; that is, the resources available from tuition revenue are less than the budgeted expenditures from tuition revenue by the amount of the waivers. As an example, if an institution waives \$100,000 in tuition under the MSEP program, it is assumed in the budgeting process that the institution has that \$100,000 in fees to finance its operating budget. Thus, the institution must actually reduce its expenditures below the budgeted level based on the unavailability of this revenue. Also, in most cases, the institution will receive no additional budget authority for the students unless the institution qualifies for enrollment adjustment funding due to an increasing student enrollment.

At its February, 1995 meeting, the Board of Regents endorsed a proposal from the Council of Presidents requesting removal of MSEP tuition and credit hours from the state funding base. Under this proposal, institutions could accept MSEP students, and would retain the reduced amount of tuition received from those students for expenditure. The tuition would not be included in the institution's fee estimates, and the students would not be counted to determine eligibility for an enrollment adjustment. Essentially, an institution accepting MSEP students would have available for expenditure on behalf of those students only the amount of tuition actually received from the students at the reduced MSEP rate.

The Board of Regents testified that at the current time, due to budget constraints, only Fort Hays State University and Pittsburg State University are participating in the program to any great degree. Other states participating in the MSEP program tend to grant greater tuition control to their institutions of higher education than is presently the case in Kansas, where tuition is budgeted interchangeably with the State General Fund to finance institutional operating budgets. The proposal from the Council of Presidents would parallel the manner in which the students are treated in other states.

Staff of the Board of Regents also presented several alternative scenarios for treatment of

MSEP students, and the impact each alternative would have on institutional budgets:

1. current method of treating MSEP students whereby the state does not replace the tuition waived;
2. a method whereby the state would replace the tuition waived; and
3. the Council of Presidents/Board of Regents proposal which would consider both revenues and expenditures from MSEP students outside the General Use base.

### **CONCLUSIONS AND RECOMMENDATIONS**

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The Committee believes that the Midwest Student Exchange Program of the Midwest Higher Education Commission was originally established not just to expand interstate educational opportunities for students, but also to enhance the optimal utilization of existing academic programs and facilities in member states. The goals announced by the Commission at the inception of the program were that state systems and institutions participating in the exchange program should receive identifiable benefits, including:

- relief from costly program duplication,
- expansion of enrollment diversity, and
- flexibility in balancing academic program offerings with optimal enrollment levels.

The Committee has seen no information to suggest that the program is operating to reduce program duplication from state to state, or to assist states in facilitating enrollment efficiency in programs with excess capacity. In many cases, the Committee believes that students are using the program to enroll in programs of study in other states which are already available in the student's home state. As an example, of the 49 Kansas residents participating in MSEP in the fall of 1994, one-third were enrolled in education, a field of



study where opportunities exist in Kansas. Of all students participating in the program in its first year, the largest number (64) were pursuing studies in education and the next largest number were undecided related to a major. The Committee's review would suggest that only a small number of students are enrolled in programs unavailable in their home states. In addition, the Committee observes that for the first year of the program, the flow of student exchanges was uneven; Kansas and Minnesota universities received far more students than were exchanged to Missouri and Nebraska. In addition, over 90 percent of the 236 MSEP students attending college in Kansas or Missouri were from a neighboring state.

Thus, although the program obviously provides cost savings to students, it does not appear to provide the benefits to institutions and state systems which were foreseen in the original design. The disparity in the number of Kansans participating in the program compared to the number of students from other states attending school in Kansas combined with the lack of evidence that the program is targeting the elimination of duplicative programs leads this Committee to conclude that the Midwest Higher Education Commission should review the initial program goals in light of actual program experience.

The Committee recommends that the Kansas members of the Midwest Higher Education Commission bring this Committee's concerns regarding MSEP to the Commission. Specifically, the Committee recommends that the Commission reevaluate the program in order to target:

- participation by students in programs which the students cannot benefit from in their home states;
- participation in programs not duplicated in the students' home state; and
- participation in programs in which there is excess capacity.

The Committee also recommends that the Commission seeks ways in which to equalize the flow of students between states, so that a disproportionate number of participants are not attending school in the same state, with few students seeking opportunities in the other member states. The Committee strongly believes that the focus of the program must be towards reducing program duplication and increasing program efficiency in a manner that benefits all member states.

The Committee is aware that the current methodology of budgeting tuition in Kansas has been a financial disincentive for Kansas Regents institutions choosing to enroll MSEP students. The Committee would note that it is receptive to allowing institutions to retain tuition received from MSEP students and is willing to look at changes to the current methodology after the Midwest Higher Education Commission has reviewed the program and made recommendations to refocus the program to meet its original objectives.

## Proposal No. 62

**STUDY TOPIC:** *Review of the current funding mechanism for the automatic addition of FTE based on receipt of sponsored research funds.*

### BACKGROUND

This topic was recommended for review by the Senate Ways and Means Committee. At its August meeting, the Committee received testimony from the Board of Regents regarding sponsored programs, sponsored research overhead, and the authorizing of sponsored research positions.

Both federal and private grants comprise sponsored programs at the Regents institutions and may be in either the instructional or research areas. For example, in FY 1994, federal research and instructional grants contributed approximately \$76.2 million in revenue to restricted use funds at Regents institutions. Private grants and contracts contributed approximately \$25.6 million. Most research dollars in the Regents system are at four institutions: the University of Kansas, the University of Kansas Medical Center, Kansas State University, and Wichita State University.

Although grants may specify the items to be included in direct expenditures, indirect costs are more difficult to estimate. It is not possible to determine specifically the exact share that a specific grant will consume of administrative staff time, building costs, or library or computer center services. As a part of sponsored research grants, some portion of funding is typically allowed for overhead and is intended to compensate the institution for these associated administrative costs. The actual indirect rate is negotiated with a single federal agency and represents a maximum rate. Many grantors will not recognize this rate and will provide lesser amounts for overhead costs. As an example, the Kansas indirect rates for sponsored research exceed 40 percent, but the actual overhead recovery has been approximately 15 percent.

At Kansas Regents institutions, the indirect cost funding received from grantors is deposited in a

sponsored research overhead fund at each campus. These funds are treated as restricted use funds, but the funds have typically been appropriated with a specific expenditure limitation. Campus practices as to uses of sponsored research overhead funds have varied from use for ongoing operations (particularly at the University of Kansas) to use of small portions of the overhead funding targeted back to the individual researcher or department generating the grant as incentive funding. The amount targeted back to the individual researcher or department is typically around 10 percent, but at Kansas State University, as much as 35-40 percent is targeted for the department attaining the grant. Several schools fund portions of their accounting, graduate studies, and grants administration functions with research overhead funds.

This year, the University of Kansas has experienced a shortfall in research overhead funding of approximately \$1.2 million. Although research has not declined at the University, the amount grantors are willing to pay for indirect costs is declining and fewer grantors are recognizing established overhead rates. Because the University of Kansas has targeted a significant amount of its sponsored research overhead funding to ongoing activities, the University has been required to make budget reductions in response to the shortfall.

The Board of Regents reviewed sponsored research overhead funding in 1992 and reaffirmed the Board policy in place at that time. The Board policy is as follows:

*"Sponsored research overhead funds received by Regents institutions shall be used to strengthen research programs and capabilities in those institutions . . . . Budget balances for such funds should be maintained at a level so as to permit meeting current obligations without deficit spending, to accumulate funds that may be needed to purchase a large piece of research equipment, to permit phase-out or reduction of programs funded by sponsored research overhead should income diminish, and to cover any federal audit exceptions without the need for emergency appropriations . . . ."*

Review through the appropriations process of staffing funded through sponsored research and sponsored research overhead funds is no different than that accorded to other positions at the institutions funded from restricted use funds. Since FY 1995, the Regents institutions have not been subject to position limitations for positions funded from either general use or restricted use sources. However, positions funded through all sources continue to be reflected in the institutional legislative budget requests and any changes are identified for the Legislature. Control has been focused, however, on the level of funding appropriated rather than on the number of FTE positions and control of research overhead funds has been through the expenditure limitations established for the funds. The Regents institutions do not have special project workers; all staffing consists of FTE positions. The institutions internally control the positions allocated for sponsored research; most institutions maintain sponsored projects "banks" to control FTE positions funded from sponsored instructional and research funds. Control is typically through the graduate office or the research office. When grants are received, a specified number of those FTE are allocated for the grant; when the grant expires, the positions are eliminated, and the FTE are returned to the "bank." Periodically, but not in recent years, institutions have requested new FTEs; in those cases, the new FTE would be reflected in the budget request presented to the Legislature.

## **CONCLUSIONS AND RECOMMENDATIONS**

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After its review of the topic and existing mechanisms in place, the Committee concludes that there is no need to impose limitations on positions funded from Sponsored Research or Sponsored Research Overhead Funds. The Committee believes that expenditures from such funds are appropriately a matter between the institution and the grantor. The Committee endorses the current policy of the Board of Regents regarding sponsored research overhead and encourages the Board to continue this policy. Under the Board policy, the Committee believes that institutions will maintain sufficient income to cover reductions in sponsored research funding without requesting emergency appropriations from the State General Fund.

## Proposal No. 63

**STUDY TOPIC:** *Review of current statutes regarding acquisition of property by Regents institutions, review of Regents' formula for servicing new buildings, general review of the current level of funding and staffing for all buildings on Regents institution campuses with a view toward increasing the level of legislative oversight, and developing a policy on the level of maintenance support to be provided from the State General Fund.*

### BACKGROUND

This topic was recommended for interim review by the Senate Ways and Means Committee in response to concerns raised by its subcommittees regarding operating support for new buildings and physical plant expenditures. One subcommittee recommended that the current servicing formula be changed to provide 1.0 FTE for each 15,000 gross square feet of new space, an increase from 10,500 gross square feet in the current formula, except for laboratory facilities which would continue under the existing formula. Other subcommittees raised concerns regarding the acquisition of new buildings by the universities, often through gifts, with little review by the Legislature, and the subsequent demand on the State General Fund for ongoing support.

#### **Regents' Acquisition of Property – A Statutory Review**

Generally, the authority to acquire real property through negotiation and purchase has been granted by specific act of the Legislature, often by the terms of provisions in appropriations acts. Capital improvements for Regents institutions, like other state agencies, virtually always require specific appropriations by act of the Legislature for expenditures from the state treasury. Several general statutes authorize the Regents to acquire interests in real property. K.S.A. 76-147 grants the power of condemnation through the exercise of eminent domain to the State Board of Regents. K.S.A. 76-722 authorizes the Regents, and any

institution authorized by the Regents, to receive and execute trusts which may include real property as all or part of the corpus of the trust.

Specific statutes also delineate certain relationships between Regents institutions and endowment associations. K.S.A. 76-756 and 76-757 authorize endowment associations to construct or repair buildings and facilities for Regents' institutions, with prior approval by the Board of Regents and the Secretary of Administration, and advise and consultation by the Joint Committee on State Building Construction.

#### **Servicing New Buildings**

For a number of years, the Board of Regents has requested, and the Governor and Legislature have approved, funding for operating costs associated with servicing new buildings. In general, such formulas have included estimates of staffing, other operating expenditures (OOE), and utility needs. This operating support for new buildings through the servicing formula has been one component of addition to base budgets, but typically makes up only a small portion of the requested budget increase at any given Regents institution. For example, over a recent five-year period, funding for servicing new buildings accounted for 2.8 percent of the total budget increase in the Regents system.

At the current time, based on modifications made most recently by the 1985 and 1990 legislatures, the servicing formula is as follows:

- ▶ 1.0 FTE position for each 10,500 gross square feet of new space;
- ▶ OOE at a systemwide average; and
- ▶ utilities based on the institution's average rate of consumption per square foot, with exceptions proposed based upon special facility needs.

Requests for new positions are based on a standard salary request amount which is based on a

weighted average entry level salary (including fringe benefits) for custodial and maintenance workers, based on a campus ratio of 2:1 between custodians and maintenance positions. For FY 1997, positions are requested at the rate of \$21,218 per position (including fringe benefits), and OOE is requested at \$0.50 per square foot. The FY 1997 budget requests for Regents institutions include \$1.5 million for servicing new buildings, including 56.6 FTE positions to service 716,620 new gross square feet.

**Physical Plant Funding and Staffing at the Regents Institutions**

Although the servicing new buildings formula purports to provide a basis of ongoing support, it does not provide for a systematic review of the total level of physical plant support across institutions. A compilation of the physical plant programs (activities related to maintaining buildings and grounds, providing utility services, and planning and designing facility expansion and modification) yields certain data regarding the growth in these programs. From FY 1992 to FY 1996, physical plant expenditures at the Regents institutions have increased by \$13.4 percent, and in FY 1996 total \$65.9 million in general use funding, or roughly 8.7 percent of all general use expenditures.

The most recent comparative report from the Association of Higher Education Facilities Officers summarizes staffing levels for colleges and universities for physical plant functions. This report yields the following ratios of physical plant staffing to gross square feet:

**Ratio of Physical Plant Staffing to Gross Square Feet**

National Mean	1:15,646
Central Region	1:16,067
Regents Universities (excludes KUMC)	1:15,010
Washburn University	1:12,650
Johnson County Community College	1:8,065

Ratios at the Regents institutions range from 1:5,618 at the University of Kansas Medical Center to 1:16,582 at Kansas State University. It should be noted that a comparable national study available when the servicing building was changed to its current levels in 1985 yielded a national mean of approximately 1 FTE:10,500 GSF.

Additional material presented to the Committee at its November meeting indicated that the staffing at medical schools similar to the University of Kansas Medical Center is at approximately the same level of intensity as that of the Medical Center. Calculations requested by the Committee indicate that the state would save approximately \$1.7 million annually if physical plant FTE ratios for existing buildings were at the central region average of 1.0 FTE for each 16,067 gross square feet of space.

**Staffing at Other State Buildings**

Staff contacted the Division of Facilities Management of the Department of Administration for information on the physical plant staffing ratios for state office buildings. The table below indicates the current staffing ratios for state facilities in the Capitol Complex:

**Capitol Complex Staffing Ratios to Gross Square Feet**

Statehouse	1:12,686
Judicial Center	1:13,341
Docking State Office Building	1:7,884
Landon State Office Building	1:10,327
Forbes	1:6,587
Memorial Hall (planned)	1:16,142
Total	1:9,721

## **CONCLUSIONS AND RECOMMENDATIONS**

The Committee recommends that the servicing new buildings formula be altered to reflect updated data regarding central region and national means. Specifically, the Committee recommends the following changes in the formula for staffing new buildings on the Regents campuses:

- ▶ 1.0 FTE position for each 16,000 gross square feet of new space (an increase from the current formula of 10,500 gross square feet).
- ▶ Continue funding under the servicing new buildings formula for the University of Kansas Medical Center and for laboratory space at all institutions at the current level of 1.0 FTE position for each 10,500 gross square feet of new space.

Further, the Committee recommends that the institutions adopt the ratio of 1.0 FTE for each 16,000 gross square feet of space as a target goal for existing space, and recommends that each institution make staffing and budgetary adjustments to attempt to reach this staffing goal for all space within a three-year period.

The Committee also recommends that the discrepancies between the current staffing ratios at the Regents institutions and those for state buildings in the Capitol Complex be communicated to the Secretary of Administration, along with a request for her response to the disparities.

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## Proposal No. 64

**STUDY TOPIC:** *Review of formula for funding utility expenditures at the Regents institutions, including consideration of an approach which incorporates incentives for utility expenditure savings.*

### **BACKGROUND**

This topic was recommended for review by the Senate Ways and Means Committee, based on subcommittee review of variations in Regents institutions' utility budgets and the Committee's dissatisfaction with current practice.

On September 19, staff presented a background memorandum on the topic of utility expenditures at the Regents institutions. Current legislative practice is to fund utility costs at the Regents institutions at actual cost, with any savings reverting to the State General Fund or available in the subsequent year to fund that year's utility costs. Utilities are budgeted as a separate line-item appropriation in the Regents' appropriations bills. During the session, the Legislature reviews projected expenditures and typically makes adjustments during the Omnibus Session to reflect the most recent estimates of expenditures.

The practice of providing a separate line-item appropriation for utilities began in 1976 during the energy crisis. At the time the practice was implemented, the policy as reflected in the Subcommittee report of the House Ways and Means Committee, read as follows:

- ▶ Appropriations for utilities should be separate line-items to permit close monitoring of appropriations and expenditures.
- ▶ Utility costs should be fully funded and the institutions should not be required to shift funds from other purposes to finance utilities.
- ▶ Legislative budget review should focus on consumption to assure that campuses are making efforts to limit consumption.

From FYs 1983-1987, the Legislature authorized the Regents institutions to carry forward varying portions of unexpended utility balances for use for certain types of energy conservation practices. Prior to FY 1983 and since FY 1987, unexpended funds either lapse or are reappropriated to fund utilities in the next year.

The 1989 Legislature passed legislation to authorize the financing of energy conservation improvements in state buildings through the Kansas Development Finance Authority (K DFA). K.S.A. 75-37,111 et seq., provides for the use of energy cost savings to repay the financing. State agencies wishing to participate enter into financing agreements with the K DFA to finance projects, subject to approval by the Secretary of Administration. The Regents institutions have been very active in the use of this energy revenue bonding authority, primarily for projects with significant costs. According to testimony, the Regents implement \$2.0 million to \$3.0 million in projects each year through the K DFA bonds, with most projects having a five-year payback period.

Utility expenditures at the Regents institutions have increased by just under 16 percent from FY 1992 to FY 1996. However, the portion that utility expenditures comprise of the total general use budget has remained relatively steady over the same period, at approximately 4.0 percent.

Based on current practice, the Regents institutions do not directly benefit budgetarily from energy conservation projects resulting in reduced utility costs, since any savings are lapsed or reappropriated to fund the next year's utility costs. Staff presented two options of methods to consider to fund utility expenditures:

- ▶ **Continue the current line-item appropriation for utilities, but authorize the institutions to retain utility savings in their budgets.**

This option would allow the institutions flexibility to use savings in any manner, including for the purchase of equipment. However, an issue with

this alternative surrounds the difficulties in estimating utility expenditures and variances in methodologies. This option would require a more detailed review by the Legislature since institutions would have a direct incentive to overestimate expenditures.

- ▶ **Discontinue the current practice of a separate line-item. Instead, fund utilities as a part of each institution's general operating budget, with an incremental percentage adjustment applied to the previous year's base, as is currently the methodology for funding OOE.**

Under this option, utilities could expend savings due to mild weather or institutional conservation efforts for any purpose. Conversely, costs in excess of the budgeted amounts would be borne by the institutions. Staff suggested that this option consider some type of a mechanism to allow institutions to transfer a portion of the savings to restricted fee accounts, so that the institution would have some funds in reserve in the event of a more severe weather year.

The Committee also heard testimony from the Board of Regents regarding current energy conservation practices at the Regents institutions.

At the November meeting, staff of the Board of Regents responded to a Committee request for a proposal on budgeting utilities funding to accomplish the following objectives:

1. include necessary incentives to save energy;
2. provide the institutions with greater flexibility in how their funding is expended; and
3. include assurances that supplemental funding would not be requested in severe weather years, perhaps through the use of a reserve fund.

The draft proposal presented by the Board of Regents included provisions for assistance in

establishing reserve funds at the campuses and adjustments to budgets based on rate changes.

## **CONCLUSIONS AND RECOMMENDATIONS**

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The Committee recommends that the current practice of funding utility expenditures at the Regents institutions through the use of a separate line-item be discontinued. Instead, the Committee recommends that utility costs be budgeted as a part of each institution's general operating budget. The Committee further recommends that the institutions be authorized to transfer utility savings to a restricted fee account to be used both as a reserve for utility costs in future years or for any other purposes as designated by the President or Chancellor of the particular institution.

Because the weather in recent years has been relatively mild, and the number of degree days as monitored by the National Weather Service (a degree day is the number of degrees by which the average temperature varies from 65 degrees – that is, if the average temperature for a 24-hour day is 40 degrees, that day is a 25 degree day) has been below average, the Committee makes certain specific recommendations for the first three years of this policy change:

- **Establish appropriations for the first year at a point mid-way between the number of degree days in FY 1995 and the average number of degree days over the last five reported years.**

Based only on data from the National Weather Service Topeka Office, the average number of degree days reported over the last five years exceeded FY 1995 degree days by 5.1 percent.

- The Committee recommends that the Regents compile degree.day data for the various locations in the state where Regents institutions are located, in order that geographic weather and degree day differentials can be taken into account in establishing the appropriation level.



**Further, for the first three years, the Committee:**

- Recommends that appropriations for utilities (except utilities associated with servicing new buildings) be held flat over the three-year period.
- Recommends that institutions build up reserves over a three-year period, with a target reserve amount of at least 15 percent of the institution's annual utilities budget. However, the actual expenditure of any savings transferred to a reserve fund would be determined at the institutional level.
- For the first three years only, it would be the intent of the Committee to assist institutions if the degree days in a given year exceed the budgeted level of degree days by more than 10 percent. Because of the conservation measures already undertaken at Emporia State University, the

Committee recommends that Emporia State receive additional assistance if the degree days in a given year during the first three years of this plan exceed the budgeted level of degree days by more than 5 percent.

After the three-year phase-in period, it is the Committee's intent that utilities be funded entirely as a part of the institutional operating budgets. Institutions will be expected to manage shortfalls and will be allowed to expend savings in any manner as determined by the institution.

The Committee further recommends that the utilities component of the servicing new buildings formula be modified to fund utilities at a level equal to **60 percent** of the institution's average rate of consumption per square foot, with exceptions proposed (as under the current formula) based upon special facility needs. The Committee believes that new buildings should be more energy-efficient than the average for existing campus space.

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## Proposal No. 65

**STUDY TOPIC: Options for dealing with shortfalls in the Medical Student Loan Repayment Fund.**

### **BACKGROUND**

This topic was recommended for study by the Senate Subcommittee which reviewed the budget of the University of Kansas Medical Center during the 1995 Session. The recommendation for review was based on shortfalls which occurred in the Medical Student Loan Repayment Fund in FY 1995 and projections for additional shortfalls in FY 1996. The Subcommittee recommended that the Medical Center prepare some options for program modification for presentation to the interim Committee based on estimates that substantial State General Fund support would be required in future years to sustain the medical student loan program.

The Committee heard a staff background memorandum and received testimony from the University of Kansas Medical Center and two physicians at its August meeting.

### **History of the Kansas Medical Scholarship Program**

The Kansas Medical Scholarship Program, which preceded the current loan program, was established by the 1978 Legislature to make scholarships available to medical students enrolled at the University of Kansas School of Medicine. Although originally intended to retain physicians in Kansas, to cause some of the physicians to practice in underserved areas, and to alleviate a tripling of tuition levels, the program was modified in 1986 to focus on placing primary-care physicians in rural areas of the state. The requirements for recipient eligibility and benefits, and the manners in which recipients could fulfill service requirements changed several times while the scholarship program was operational. In general, service requirements became more restrictive over the life of the program. During

the early years of the Scholarship Program, most members of each medical school class participated in the program, with more than 650 participants in FY 1982. Over time, to control costs, limits were placed on the number of new awards; in addition, student interest in the program declined as scholarship levels remained static and service obligation requirements were tightened.

### **Kansas Medical Loan Program**

The 1992 Legislature passed the Medical Student Loan Act (K.S.A. 1994 Supp. 76-380 through 76-386) establishing the Medical Student Loan Program and discontinuing the medical scholarship program. Currently, by statute, the loans provide for payment of all tuition and a stipend for living expenses in an amount of up to \$1,500 per month, with the actual amount of the stipend elected by the student. K.S.A. 76-382(3) provides that medical student loans shall be awarded on a basis prioritizing those students who are Kansas residents at the time of entry into the School of Medicine. Because the number of loans available has been less than the student demand, the Medical Center has established additional priorities to determine loan recipients. In priority order, these are:

1. entering first-year students;
2. Kansas residents;
3. applicants from counties other than the five metropolitan counties (Johnson, Sedgwick, Shawnee, Wyandotte, Douglas); and
4. student financial need.

In justifying its position to grant priority to students from nonurban counties, KUMC has stated its belief that growing up in a rural environment is a consistent predictor of practice in a rural area. A 1993 Attorney General's opinion (93-111) found that the University may legally differentiate between urban and rural applicants.

*EB*

in order to be forgiven of their loan obligations, students must complete the required course of instruction and receive the M.D. degree; enter into a residency training program in general pediatrics, general internal medicine, family practice, family medicine, or emergency medicine; and practice, upon completion of the residency program, in a Kansas county (except one of the five metropolitan counties) for 12 months for each year that a loan was received. The service obligation may also be met through service at a state medical care facility or institution, a Veterans' Administration medical center, through service as a faculty member at KUMC in selected teaching area, or through on-site provision of primary care at medical facilities for the indigent operated through local health departments or nonprofit organizations. Persons failing to comply must repay their loans, plus accumulated interest at an annual rate of 15 percent from the date the money was received.

In the first years following passage of the Medical Student Loan Act, the Medical Center was authorized to award 35 new loans. For FY 1996, the number of new loans was reduced to 25. The program has been relatively popular, with more than 100 students applying each year.

### **Financing Student Loans – Medical Loan Repayment Fund**

The Medical Student Loan Repayment Fund receives revenue from students who choose to repay their loans rather than comply with the service requirements. The Fund also receives revenue from those in noncompliance under the Scholarship Program which preceded the loan program. Pursuant to statute, all expenditures from the Repayment Fund shall be for scholarships and loans, and for expenses associated with the administration of the program. No costs associated with administration of the program have been charged to the Fund; the Medical Center has absorbed the costs within its budget. However, at times, when revenues to the Fund were in excess of that necessary to fund scholarships or loans, the Legislature has authorized, by appropriations bill proviso, expenditures from the Fund for general university operating expendi-

tures and thus reduced the demand on the State General Fund.

During the early years of the original scholarship program (1979-1986) all financing was from the State General Fund. Beginning in FY 1986, revenues to the Repayment Fund were sufficient to fund a portion of the program costs. From FY 1988 through FY 1994, the scholarship/loan programs were funded entirely from the Repayment Fund, and an additional \$12.7 million in revenues was used as noted above, to offset the need for State General Fund financing for general University operations.

Because the number of new scholarships had declined towards the end of the scholarship program, because only a limited number of new loans have been authorized, and because more students are complying with their service requirements, fewer persons are in repayment status and revenues to the Fund are declining. During the 1995 Session, a supplemental appropriation of \$1.0 million was authorized in FY 1995 due to shortfalls in the Repayment Fund, and a total of \$652,189 from the State General Fund was appropriated in FY 1996 to fund a portion of the program's cost. In addition, the University now estimates an additional shortfall of \$300,000 in FY 1996 to finance the existing program. For FY 1997, the University is requesting \$1.5 million from the State General Fund to finance the program, with the remaining program cost (\$1.2 million) from the Repayment Fund.

Testimony from representatives of the Medical Center would indicate that revenues to the Repayment Fund are expected to remain relatively constant at approximately \$1.2 million per year through the end of the decade.

Staff also provided the Committee with information on the Kansas Medical Residency Bridging Program, which provides an incentive to medical residents in primary care training programs to locate their practice in rural communities in Kansas.

The Committee also heard testimony from two physicians regarding the program. The physicians indicated their belief that the current program stipulations may have a detrimental effect on rural medicine in Kansas through restricting physicians

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such as general surgeons and OB/GYNs from qualifying even if there is a known need in a rural community from such a physician. One physician suggested that communities be involved in identifying the types of physicians needed in their rural area. The other physician suggested that an appointed Board be established to review individual cases as exceptions to the general categories included in the statute, if the Legislature does not wish to add other specialties to the list of allowable practice areas.

### **Future Needs and Program Effectiveness**

The University of Kansas Medical Center provided testimony that reported the extent to which recipients under the scholarship program who initially established practices in qualifying locales have remained in their initial qualifying location. Of 521 total students who initially established qualifying practices and have completed their service requirements, 364 continue to practice in their original location, 62 have moved to locations which would have been satisfying locations, and 95 have moved to locations which would not have been satisfying. The overall compliance rate of the program is approximately 50 percent, with 666 students currently in repayment and 636 in compliance.

The Medical Center also presented information relating to the shortage of primary care physicians in many areas of Kansas. This included information detailing that 25 percent of primary care physicians in rural counties will be 65 years of age or older by the year 2000. Information was also presented on the need to retain primary care physicians in Kansas, particularly in rural areas. According to available data, KU primary care residencies graduate an average of 78 physicians per year. Only 59 (76 percent) practice primary care, with 20 in a rural location. An average of 35 (45 percent) remain in Kansas, with ten (13 percent) in rural practice.

The Director of Local and Rural Health of the Department of Health and Environment testified that numerous methodologies exist to determine whether areas are underserved, but that each methodology continues to demonstrate shortages of primary care physicians in Kansas. The Direc-

tor testified that there are many recruitment and retention strategies to address these shortages, including recruitment of medical students from rural areas; strong faculty support of primary care specialties once a student is in medical school, plus rural rotations; and the importance of practice support once physicians are in an underserved area. According to the Director, these activities are already being implemented by the Medical School through the Primary Care Physician Education Program funded through the Kansas Health Foundation. The Director suggested that even with these activities, a "financial hook" can provide a further incentive to retaining physicians in underserved areas. He further suggested that relieving medical underservice is a complex task requiring a multifaceted approach, but suggested that it may be time to reassess the loan program's effect in the underserved areas of the state, including an assessment of the potential for some variation in the amount of forgiveness related to the degree of underservice in order to increase placements in the most underserved areas.

### **CONCLUSIONS AND RECOMMENDATIONS**

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Although the Committee heard testimony that the current medical loan program appears to be working, the Committee has not been presented with alternatives to reduce or eliminate the demand on the State General Fund which will be required to maintain the current program over the next several years. The Committee recommends that the Medical Center prepare a list of alternatives to reduce or eliminate this State General Fund demand and make these alternatives available for review by the appropriate committees at the beginning of the 1996 Session. These alternatives should include but not be limited to the following:

- ▶ structural modifications to the loan program, including reductions of the stipend;
- ▶ alternative financing mechanisms to fund the shortfall, including:

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- the potential for dedicating increases in license fees to the loan program; and
- the establishment of an endowment or revolving fund financed through private sources such as foundations with a mission to further rural health care or statewide organizations with an interest in rural access to health care (e.g., Kansas Farm Bureau).

The Committee stresses that this topic must be considered in the context of the broader issue of rural health care. The Committee believes that

the medical loan program is just one strategy in what must be a multifaceted approach to this continuing problem. Any review by the Legislature of financing for the medical loan program must be considered in the context of a broader policy discussion of the best uses of state resources to facilitate expansion of rural health care services. The appropriate committees of the Legislature, in reviewing alternatives presented by the Medical Center to address the shortfalls in the repayment fund, should consider other options to improve the recruitment and retention of physicians in rural Kansas, as well as other strategies to address rural health care needs, including the potential to expand the use of nonphysician health care professionals.

DRAFT (revised)

## OF AGING CAMPUSES & CRUMBLING CLASSROOMS

December 18, 1995

### A POSSIBLE SOLUTION -

The "Crumbling Classrooms" brochure outlined the highest priority needs for the Regents institutions. These needs included a wide array of rehabilitation and repair projects that include the normal and routine projects, but also included the important categories involving the Americans with Disabilities Act (ADA), the State Fire Marshal's requirements for projects to comply with the fire and life safety codes and improving our antiquated classrooms to provide for modern teaching techniques. The brochure also outlined the highest priority needs for each campus for either a major remodeling project to an existing building or in a few select cases, a new structure. These needs are summarized in Tables 1 and 2 on pages 5 and 7 of the "Crumbling Classrooms" booklet.

The Kansas Board of Regents has been searching for a long-range plan that will solve the serious problem of funding for these important and necessary projects. The Board and its staff have consulted with Governor Graves, Legislators on the Joint Committee for Building construction, Legislative Chairs of the House and Senate Tax Committees and especially with the State Budget Director and her staff. The Board has been very concerned that it did not wish to recommend an increase in state taxes to fund its needs but it, the Board, has really struggled with a solution that everyone could support and that would provide the funding for a lengthy list of R & R projects and for the necessary building remodelings and new construction.

The most appropriate solution could be funded by revenue bonds issued by the Kansas Development Finance Authority (K DFA) with the amortization of the bonds by a substantial portion of the annual collection of the Educational Building Fund (EBF). The K DFA believes that we could finance approximately \$163 million in projects by dedicating about \$15 million per year of EBF revenue for a fifteen year period. This figure includes all interest costs and all other costs associated with the issuance of the bonds.

The approach is now reasonable because bond interest rates are currently very low. We also know that construction costs are expected to increase faster than the bond interest rate. In the past it was the other way around in that bond interest rates were higher and construction inflation was generally lower. Under the current conditions we can actually save money in the long run by issuing bonds now and paying the interest rather than doing projects each year for the next fifteen years.

By using the available EBF revenue stream the Board is not creating a new tax problem for the state and its citizens but is using the funding source that has been in existence since the mid 40s and was established by the Kansas Legislature for this purpose - taking care of the building and repair needs of the Regents institutions.

The \$163,000,000 could be spent as follows in accordance with the data from the "Crumbling Classrooms" booklet.

*House Appropriations*

*Attachment 2*

*Jan 9, 1996*

Rehabilitation and Repairs, ADA, Fire & Life Safety and Classroom Improve.	= \$90 million
Major Remodeling of Existing Buildings	= 46
New Construction	= <u>27</u>
	\$163

In addition to having enough revenue to retire the revenue bonds, the Board, Governor and Legislature will have approximately an excess of \$83 million in the EBF that is not needed for the amortization of the bond issue. This \$83 million could be used for additional R&R or for unforeseen projects that emerge or for a combination of both.

By combining the R&R, ADA, Fire Safety and Classroom Improvements all into one category of funding, the Board will have the responsibility of deciding which projects are the highest priority and which will be delayed. We have a federal mandate to complete the ADA projects as soon as we can. If we were to earmark the entire \$83 million for R&R, we would then have available \$173 million (including the revenue bond amount of \$90 million).

But in addition to the potential \$173 million for R&R the bond issue would provide for the projects in Table 2 on page 7 of the "Crumbing Classrooms" booklet. Table 2 shows.

<b>TABLE 2 MAJOR REMODELING AND NEW CONSTRUCTION (\$ IN MILLIONS)</b>					
	<b>MAJOR REMODELING</b>		<b>NEW CONSTRUCTION</b>		<b>Total</b>
	State Funds	Federal, Gifts & Student Fees	State Funds	Federal, Gifts & Student Fees	
<i>University of Kansas</i>					
Murphy Hall addition	0	0	9.0	1.9	10.9
J.R. Pearson Hall renovation & addition for School of Education	12.0	2.1	0	0	14.1
<i>University of Kansas Medical Center</i>					
Nursing Educational Building	0	0	10.0	1.5	11.5
<i>Kansas State University</i>					
King Hall fume hoods	1.5	0	0	0	1.5
Science & Engineering Complex	0	0	12.5	16.0	28.5
<i>Wichita State University</i>					
Chemistry Building	12.0	3.0	0	0	15.0
<i>Emporia State University</i>					
Beach Music Remodeling and addition	5.0	1.0	0	0	6.0
Electrical Distribution	3.4	0	0	0	3.4
<i>Pittsburg State University</i>					
Russ Hall Remodeling	7.3	0	0	0	7.3
<i>Fort Hays State University</i>					
McCarty/Albertson/Martin Allen renovation	8.6	1.0	0	0	9.6
<b>Total</b>	<b>49.8</b>	<b>7.1</b>	<b>31.5</b>	<b>19.4</b>	<b>107.8</b>

The bond issue would provide for \$46 million for the major remodeling projects in Table 2 instead of the \$49.8 shown in the table. The difference of \$3.8 million would have to be shifted to the other fund column and be derived from federal, gifts or other sources. In the same manner, the funds for new construction from the bond issue would be \$27 million whereas the Table 2 indicates a need for \$31.5 million, a difference of \$4.5 million. We would have to find some additional funds from other sources or scale back our program accordingly. But it is possible to do. The bond issue would enable the Regents institutions to plan and construct the top ten major projects shown on Table 2.

All of the projects over \$500,000 would have complete architectural programs to guide them. The State Building Advisory Committee would solicit proposals from the architectural and engineering firms in Kansas and firms would be selected to do the major projects. There are three new construction projects and seven major remodeling projects that fit this category.

In addition to this planning effort, we have about twenty "on call" architectural and engineering firms under contract to do the smaller projects. They are assisted by the staff of the State Architect and the staff architects, engineers and technicians on each campus. The work effort required to produce the jobs from the \$163 million bond issue can be handled quickly and efficiently by the existing work force available in Kansas.

One of the benefits of work of this magnitude is that several different types of functions can be combined in the same building project. For example, we can do ADA projects, fire code and life safety work and classroom improvements all at the same time in the same contract for a particular building instead of a number of smaller separate projects, thus saving dollars by combining small projects.

#### **SUMMARY**

The Board of Regents feels that this bond issue approach is the best way to solve the enormous problems facing the Regents institutions concerning R&R and capital improvements without increasing the tax burden on the state's citizens. We would like to propose this approval to the Joint Committee for Building Construction and to Governor Graves for serious consideration for action in the 1996 Legislative Session.



# Educational Building Fund

## 15 / 15 Plan

Fifteen Year Debt Service Using \$15.0 Million of EBF Revenues

Bond Proceeds:	\$151,080,000
Project Fund Investment Earnings:	12,539,644
<b>Total Project Costs:</b>	<b>\$163,619,644</b>

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Total Principal Payments / Total Bond Issue	\$156,475,000
Total Interest Payments	71,936,560
<b>Total Debt Service:</b>	<b>\$228,411,560</b>

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Projects to be Funded (BOR Estimate) :

ADA & Fire Code Compliance, Classroom Improvements and Rehabilitation & Repair	90,000,000
Major Remodeling Projects	46,000,000
New Construction Projects	27,000,000
<b>Total Funded Projects</b>	<b>\$163,000,000</b>

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Crumbling Classrooms Report

ADA Accessibility Guidelines	21,700,000
State Fire Marshal Code Requirements	9,100,000
Rehabilitation & Repair Projects	161,000,000
Improve Classrooms	15,200,000
Subtotal	\$207,000,000
Major Remodeling of Existing Buildings	49,800,000
New Construction	31,500,000
<b>Total</b>	<b>\$288,300,000</b>

12/10/95

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## EDUCATIONAL BUILDING FUND ("EBF")

Table A represents projected revenues to the year 2017. Property tax revenue estimates use the Division of the Budget ("DOB") projections to the year 2001 and then a constant 3.15% growth rate to the year 2017. Motor vehicle tax receipts also use DOB projections to the year 2001 and then a constant 4% growth rate to the year 2017. The State Replacement Funds are also projected by DOB through the year 2000 and then held constant with a zero growth factor through 2017. The EBF has an average annual compound growth rate of approximately 3.1%. This clearly does not keep in step with construction cost forecasts of 6%.

State of Kansas  
Educational Building Fund  
Fiscal Year 1995 to 2017

Fiscal Year	Second Payment of Property Tax Levy		First Payment of Property Tax Levy		Motor Vehicle Taxes		State Replacement Funds		Total	
	Amount	Incr. (Decr.) from Prior Year	Amount	Incr. (Decr.) from Prior Year	Amount	Incr. (Decr.) from Prior Year	Amount	Incr. (Decr.) from Prior Year	Amount	Incr. (Decr.) from Prior Year
1995	\$5,318,740		\$9,877,661		\$2,347,560				\$17,543,961	
1996	5,290,087	-0.54%	9,112,631	-7.75%	2,443,498	4.09%			16,846,216	-3.98%
1997	6,598,802	24.74%	9,408,792	3.25%	2,447,890	0.18%	\$138,736		18,594,220	10.38%
1998	6,813,262	3.25%	9,667,534	2.75%	2,379,856	-2.78%	297,482	114.42%	19,158,134	3.03%
1999	7,000,628	2.75%	9,933,390	2.75%	2,299,816	-3.36%	470,902	58.30%	19,704,736	2.85%
2000	7,193,144	2.75%	10,206,558	2.75%	2,193,763	-4.61%	673,670	43.06%	20,267,135	2.85%
2001	7,390,956	2.75%	10,487,240	2.75%	2,102,384	-4.17%	865,766	28.51%	20,846,346	2.86%
2002	7,623,771	3.15%	10,817,588	3.15%	2,186,479	4.00%	865,766		21,493,604	3.10%
2003	7,863,920	3.15%	11,158,342	3.15%	2,273,938	4.00%	865,766		22,161,966	3.11%
2004	8,111,633	3.15%	11,509,830	3.15%	2,364,896	4.00%	865,766		22,852,125	3.11%
2005	8,367,149	3.15%	11,872,390	3.15%	2,459,492	4.00%	865,766		23,564,797	3.12%
2006	8,630,714	3.15%	12,246,370	3.15%	2,557,872	4.00%	865,766		24,300,722	3.12%
2007	8,902,581	3.15%	12,632,131	3.15%	2,660,187	4.00%	865,766		25,060,665	3.13%
2008	9,183,012	3.15%	13,030,043	3.15%	2,766,594	4.00%	865,766		25,845,415	3.13%
2009	9,472,277	3.15%	13,440,489	3.15%	2,877,258	4.00%	865,766		26,655,790	3.14%
2010	9,770,654	3.15%	13,863,864	3.15%	2,992,348	4.00%	865,766		27,492,632	3.14%
2011	10,078,430	3.15%	14,300,576	3.15%	3,112,042	4.00%	865,766		28,356,814	3.14%
2012	10,395,901	3.15%	14,751,044	3.15%	3,236,524	4.00%	865,766		29,249,235	3.15%
2013	10,723,372	3.15%	15,215,702	3.15%	3,365,985	4.00%	865,766		30,170,825	3.15%
2014	11,061,158	3.15%	15,694,997	3.15%	3,500,624	4.00%	865,766		31,122,545	3.15%
2015	11,409,584	3.15%	16,189,389	3.15%	3,640,649	4.00%	865,766		32,105,388	3.16%
2016	11,768,986	3.15%	16,699,355	3.15%	3,786,275	4.00%	865,766		33,120,382	3.16%
2017	12,139,709	3.15%	17,225,385	3.15%	3,937,726	4.00%	865,766		34,168,586	3.16%
Totals	<u>\$201,108,470</u>		<u>\$289,341,301</u>		<u>\$63,933,656</u>		<u>\$16,298,812</u>		<u>\$570,682,239</u>	

FY 2002 to 2017

Change Factor      3.15%

3.15%

4.0%

\$219,410,230

FY 1998 to 2007 only

\$357,010,116

FY 1998 to 2012 only

\$517,697,842

FY 1998 to 2017 only

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-2-

## CONSTRUCTION COSTS

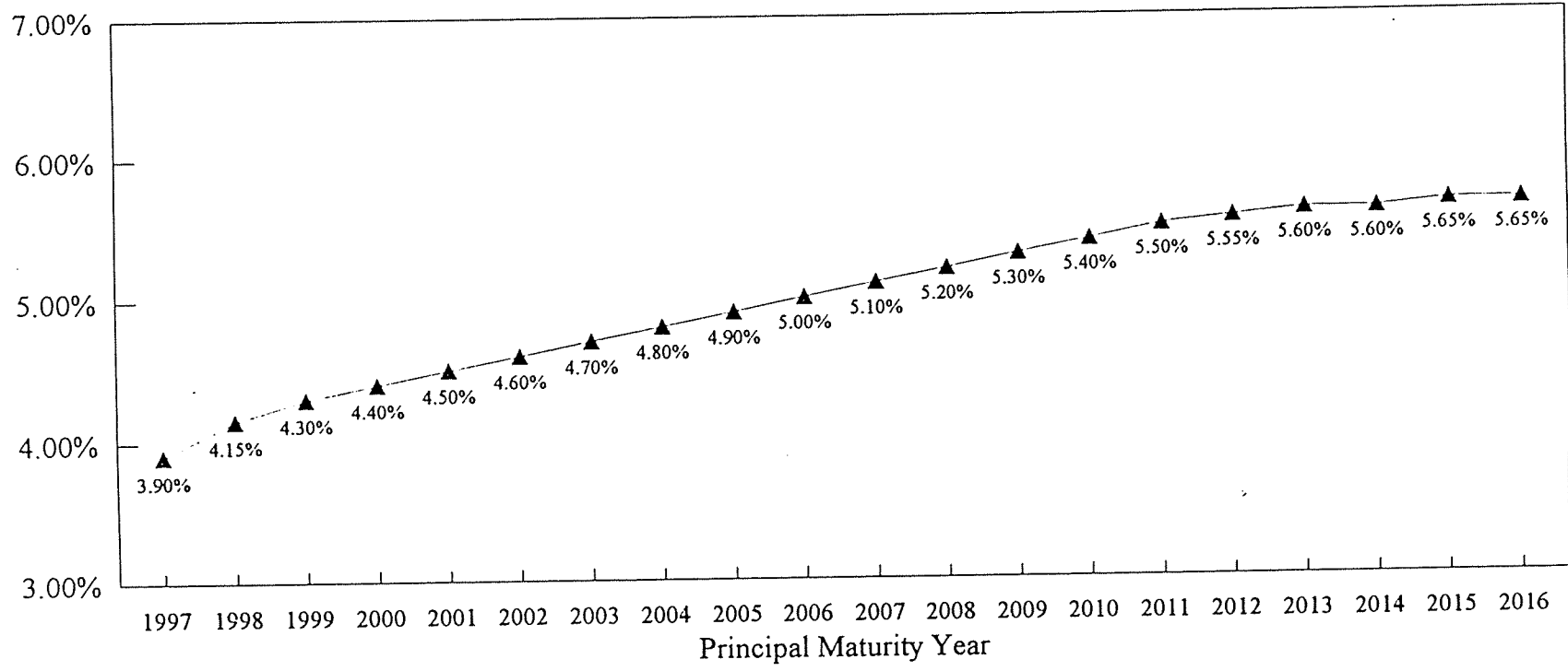
Construction costs, which are used in this analysis to help predict repair, maintenance and replacement costs are projected to grow at a compound rate of 6%. This is a critical assumption for this analysis as the present value calculations compare this to the cost of tax exempt money at today's market rates. As an example, a \$1,000 repair today will cost \$1,790 in ten years, \$2,400 in fifteen years and \$3,210 in twenty years. The 6% inflation factor for construction costs has been determined to be very conservative by professionals in both the public and private sector.

## INTEREST COSTS

Graph 1 represents the current yield curve for tax exempt bond issues, plus 20 basis points for conservatism. This yield curve changes virtually daily, but dramatic changes usually happen over an extended period of time. We are currently in a very flat yield curve with very low interest rates. The cost of financing long term capital expenditures is very favorable and substantial changes are not foreseen for calendar year 1996. A bond issue could be completed approximately 60 to 120 days after Legislative approval.

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### Current Tax-Exempt Interest Rates "A" Rated Obligations as of December 1, 1995 plus 20 Basis Points



Source: The Bond Buyer, Dec. 1, 1995

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Graph 1

Kansas Development Finance Authority  
 Revenue Bonds  
 State of Kansas  
 Kansas Board of Regents - Educational Building Fund Projects  
 Fifteen Year Debt Service Using \$15 Million of EBF Revenues

Source and Use of Funds

Source of funds:

Bonds issued	\$156,475,000.00	
Project Fund investment earnings	12,539,644.00	
Accrued interest to date of settlement	382,083.00	
Total		<u>\$169,396,727.00</u>

Use of funds:

Project costs:		
Provided by bond proceeds	\$151,080,000.00	
Provided by Project Fund investment earnings	12,539,644.00	
Total Project Costs		\$163,619,644.00
Costs of issuance		1,425,306.40
Capitalized interest credited to debt service account		3,969,693.60
Accrued interest credited to debt service account		382,083.00
Total		<u>\$169,396,727.00</u>

Note: These schedules should be used for estimation purposes only. Interest rates used in this analysis are estimates based on market conditions existing at the time of this analysis. Project Fund investment earnings are estimated based on equal monthly construction draws over a three year period. Any revenue sources noted in this analysis have been provided by outside sources and have not been verified by KDFA.

Kansas Development Finance Authority  
Revenue Bonds  
State of Kansas  
Kansas Board of Regents - Educational Building Fund Projects  
Fifteen Year Debt Service Using \$15 Million of EBF Revenues

Projected Debt Service

Period	Date	Fiscal Year	Principal Payment	Principal Balance	Interest Rate	Interest Payment	Gross Debt Service	Fiscal Year Gross Debt Service	Total EBF Projected Revenues	Total Remaining EBF Revenues after Debt Service	EBF Revenues for Debt Service as a Percent of Total EBF Revenues	Remaining EBF Revenues as a Percent of Total EBF Revenues
Dated	09/01/96	1997		\$156,475,000								
1	04/01/97	1997				\$4,457,635	\$4,457,635	\$4,457,635	No effect on EBF Revenues, paid from capitalized interest			
2	10/01/97	1998	\$6,480,000	149,995,000	3.900%	3,820,830	10,300,830	13,995,300	\$19,158,134	\$5,162,834	73.05%	26.95%
3	04/01/98	1998				3,694,470	3,694,470					
4	10/01/98	1999	7,770,000	142,225,000	4.150%	3,694,470	11,464,470	14,997,713	19,704,736	4,707,023	76.11%	23.89%
5	04/01/99	1999				3,533,243	3,533,243					
6	10/01/99	2000	8,105,000	134,120,000	4.300%	3,533,243	11,638,243	14,997,228	20,267,135	5,269,907	74.00%	26.00%
7	04/01/2000	2000				3,358,985	3,358,985					
8	10/01/2000	2001	8,465,000	125,655,000	4.400%	3,358,985	11,823,985	14,996,740	20,846,346	5,849,606	71.94%	28.06%
9	04/01/2001	2001				3,172,755	3,172,755					
10	10/01/2001	2002	8,850,000	116,805,000	4.500%	3,172,755	12,022,755	14,996,385	21,493,604	6,497,219	69.77%	30.23%
11	04/01/2002	2002				2,973,630	2,973,630					
12	10/01/2002	2003	9,265,000	107,540,000	4.600%	2,973,630	12,238,630	14,999,165	22,161,966	7,162,801	67.68%	32.32%
13	04/01/2003	2003				2,760,535	2,760,535					
14	10/01/2003	2004	9,705,000	97,835,000	4.700%	2,760,535	12,465,535	14,998,003	22,852,125	7,854,122	65.63%	34.37%
15	04/01/2004	2004				2,532,468	2,532,468					
16	10/01/2004	2005	10,175,000	87,660,000	4.800%	2,532,468	12,707,468	14,995,735	23,564,797	8,569,062	63.64%	36.36%
17	04/01/2005	2005				2,288,268	2,288,268					
18	10/01/2005	2006	10,685,000	76,975,000	4.900%	2,288,268	12,973,268	14,999,753	24,300,722	9,300,969	61.73%	38.27%
19	04/01/2006	2006				2,026,485	2,026,485					
20	10/01/2006	2007	11,225,000	65,750,000	5.000%	2,026,485	13,251,485	14,997,345	25,060,665	10,063,320	59.84%	40.16%
21	04/01/2007	2007				1,745,860	1,745,860					
22	10/01/2007	2008	11,805,000	53,945,000	5.100%	1,745,860	13,550,860	14,995,693	25,845,415	10,849,722	58.02%	41.98%
23	04/01/2008	2008				1,444,833	1,444,833					
24	10/01/2008	2009	12,430,000	41,515,000	5.200%	1,444,833	13,874,833	14,996,485	26,655,790	11,659,305	56.26%	43.74%
25	04/01/2009	2009				1,121,653	1,121,653					
26	10/01/2009	2010	13,100,000	28,415,000	5.300%	1,121,653	14,221,653	14,996,155	27,492,632	12,496,477	54.55%	45.45%
27	04/01/2010	2010				774,503	774,503					

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Kansas Development Finance Authority  
 Revenue Bonds  
 State of Kansas  
 Kansas Board of Regents - Educational Building Fund Projects  
 Fifteen Year Debt Service Using \$15 Million of EBF Revenues

Projected Debt Service

Period	Date	Fiscal Year	Principal Payment	Principal Balance	Interest Rate	Interest Payment	Gross Debt Service	Fiscal Year Gross Debt Service	Total EBF Projected Revenues	Total Remaining EBF Revenues after Debt Service	EBF Revenues for Debt Service as a Percent of Total EBF Revenues	Remaining EBF Revenues as a Percent of Total EBF Revenues		
28	10/01/2010	2011	13,820,000	14,595,000	5.400%	774,503	14,594,503							
29	04/01/2011	2011				401,363	401,363	14,995,865	28,356,814	13,360,949	52.88%	47.12%		
30	10/01/2011	2012	14,595,000		5.500%	401,363	14,996,363	14,996,363	29,249,235	14,252,872	51.27%	48.73%		
Totals			<u>\$156,475,000</u>					<u>\$71,936,560</u>	<u>\$228,411,560</u>	<u>\$228,411,560</u>	<u>\$357,010,116</u>	<u>\$133,056,188</u>	62.73%	37.27%

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Kansas Development Finance Authority  
 Revenue Bonds  
 State of Kansas  
 Kansas Board of Regents - Educational Building Fund Projects  
 Fifteen Year Debt Service Using \$15 Million of EBF Revenues

Bond Issuance Statistics:

Dated date	09/01/96
Settlement / Closing date	09/19/96
First payment date	04/01/97
Day basis per year	360
Periods per year	2
Days per period	180
Principal payments per year	1
Interest payments per year	2

Weighted average coupon rate	5.09269306%	Bond year calculation from Dated date
Net interest cost (includes Underwriter's discount)	5.16469698%	Bond year calculation from Dated date
Effective interest rate (excludes issuance costs)	5.06418740%	Present value calculation from Settlement date
True interest cost (includes Underwriter's discount)	5.15898652%	Present value calculation from Settlement date
Arbitrage yield (includes bond insurance costs)	5.06418740%	Present value calculation from Settlement date
All-in bond yield (includes all issuance costs)	5.19728688%	Present value calculation from Settlement date
Weighted average life of issue (from dated date)	9.027286	Years
Total life of issue (from dated date)	15.083333	Years
Bond years	1,412,544.583	
Average annual payment, net of all credits	14,930,261.67	
Accrued interest at settlement date	382,083.00	

Bond reserve fund earnings rate	
Project fund earnings rate	5.050000%
Capitalized interest earnings rate	5.000000%

Bond Issue Summary:

	Amount	As a % of Total Issue -
Net financed costs	\$151,080,000.00	96.55%
Issuance costs	1,425,306.40	0.91%
Capitalized interest	3,969,693.60	2.54%
Bond reserve		
Total issue	<u>\$156,475,000.00</u>	<u>100.00%</u>

Notes:

1. First period Bond Reserve and Accrued Interest Cash Flow is comprised of the following:

Reserve income for the period	382,083.00
Accrued interest to date of settlement	<u>382,083.00</u>

2. Final period Bond Reserve and Accrued Interest Cash Flow is comprised of the following:

Reserve income for the period	
Bond reserve balance	<u>                    </u>

Filename:

c:\123data\project\reg\_ebf\ebf15flt.wk4

## ADDITIONAL POINTS OF CONSIDERATION

- Approving a bond issue morally commits the Legislature to appropriate sufficient funds to meet the covenants of the bond indenture. Note that the Board of Regents is pledging the EBF, not the sources of revenues presently flowing to the EBF. If the Legislature were to alter the revenue sources funding the EBF, *e.g.*, discontinue the property tax levy or state vehicle tax, it would be morally obligated to substitute revenues in sufficient amounts to continue compliance with bond covenants. Revenue source changes, although usually not considered, should not be ruled out if major tax changes are necessary.
- Consideration of a bond issue of this size will require additional financial analysis to insure optimum market acceptance. Numerous structuring considerations will need to be analyzed. KDFFA would engage the necessary finance professionals, as it does with all bond issues, to participate in structuring the issue. Any considerations that might contemplate legislative changes will need to be analyzed in the next thirty to forty-five days. This short time frame would not allow KDFFA to utilize its competitive selection process; using the Department of Administration's Financial Advisor for this analysis is a possible solution to meet the short time frame for this consideration.
- Debt issuance for ongoing maintenance is not sound fiscal management. However, leveraging a revenue stream to alleviate deferred maintenance coupled with a plan to keep current with ongoing maintenance is prudent and cost effective. Neither of the scenarios completely address the deferred maintenance dilemma facing the Board of Regents, but they do provide positive impact and display a commitment to resolving as much of this problem as current resources permit.

## CONCLUSIONS

With the establishment of debt service requirements for several different bond issue projections, a comparison can now be made by calculating the present cash value of the cost of future repairs equivalent to the annual debt service requirements. Table B shows EBF projected annual revenues through the year 2017 and the remainder of EBF projected annual revenues that are not dedicated to debt service. Table C and Table D represent a comparison of the available construction funds derived in Scenario 1 and 2 to present values of the costs of repairs made in the future assuming inflation of those costs at 6% annually. Graph 2 and Graph 3 visually display these comparisons. Present value comparison, as used in this analysis, is an accurate tool utilized in many financial analyses when considering future expenditures.

- Because the current cost of money is less than projected construction cost inflation, it is more cost effective to perform the repairs now and leverage the EBF rather than incurring higher annual repair costs in the future (borrowing money costs less than borrowing time)
- Additional costs associated with deferred maintenance should be considered in making the final decision to issue bonds or continue to defer maintenance
- The term of any contemplated bond issue should not exceed the average life expectancy of the repairs

State of Kansas  
 Educational Building Fund  
 Fiscal Year 1998 to 2017  
 Remaining EBF Revenues Not Dedicated to Debt Service

Fiscal Year	Total Projected EBF Revenues	Remaining EBF Revenues Available After Using Fifty Percent for Debt Service (Scenario 1)	Remaining EBF Revenues Available After Using \$15 Million for Debt Service (Scenario 2) (Note 1)
1998	\$19,158,000	\$9,579,000	\$5,158,000
1999	19,705,000	9,853,000	4,705,000
2000	20,267,000	10,134,000	5,267,000
2001	20,846,000	10,423,000	5,846,000
2002	21,494,000	10,747,000	6,494,000
2003	22,162,000	11,081,000	7,162,000
2004	22,852,000	11,426,000	7,852,000
2005	23,565,000	11,783,000	8,565,000
2006	24,301,000	12,151,000	9,301,000
2007	25,061,000	12,531,000	10,061,000
Cumulative Total	<u>219,411,000</u>	<u>109,708,000</u>	<u>70,411,000</u>
2008	25,845,000	12,923,000	10,845,000
2009	26,656,000	13,328,000	11,656,000
2010	27,493,000	13,747,000	12,493,000
2011	28,357,000	14,179,000	13,357,000
2012	29,249,000	14,625,000	14,249,000
Cumulative Total	<u>429,938,000</u>	<u>214,975,000</u>	<u>160,938,000</u> <i>133,011,000</i>
2013	30,171,000	15,086,000	15,171,000
2014	31,123,000	15,562,000	16,123,000
2015	32,105,000	16,053,000	17,105,000
2016	33,120,000	16,560,000	18,120,000
2017	34,169,000	17,085,000	19,169,000
Cumulative Total	<u>\$590,626,000</u>	<u>\$295,321,000</u>	<u>\$246,626,000</u> <i>218,699,000</i>

Note 1: Annual debt service rounded to \$14 Million in 1998 and \$15 Million thereafter.  
 Actual debt service slightly less.

Prepared by KDFA

Table B

12/06/95

State of Kansas  
 Kansas Board of Regents - Educational Building Fund  
 Comparison of Available Construction Funds  
 Bond Financing vs. Annual Payment

~~For Scenario 1 - Using Fifty Percent of EBF Revenues~~

<del>Term</del>	<del>Available Construction Funds with Bond Financing</del>	<del>Available Construction Funds without Bond Financing</del>	<del>Savings from using Bond Financing</del>
<del>10 Year</del>	<del>\$83,355,000</del>	<del>\$79,575,360</del>	<del>\$3,779,640</del>
<del>15 Year</del>	<del>\$116,685,000</del>	<del>\$111,815,351</del>	<del>\$4,869,649</del>
<del>20 Year</del>	<del>\$144,110,000</del>	<del>\$139,950,406</del>	<del>\$4,159,594</del>

~~Table C~~

For Scenario 2 - Using \$15 Million of EBF Revenues

Term	Available Construction Funds with Bond Financing	Available Construction Funds without Bond Financing	Savings from using Bond Financing
10 Year	\$114,590,000	\$109,436,766	\$5,153,234
15 Year	\$151,080,000	\$144,710,869	\$6,369,131
20 Year	\$176,830,000	\$171,073,374	\$5,756,626

Table D

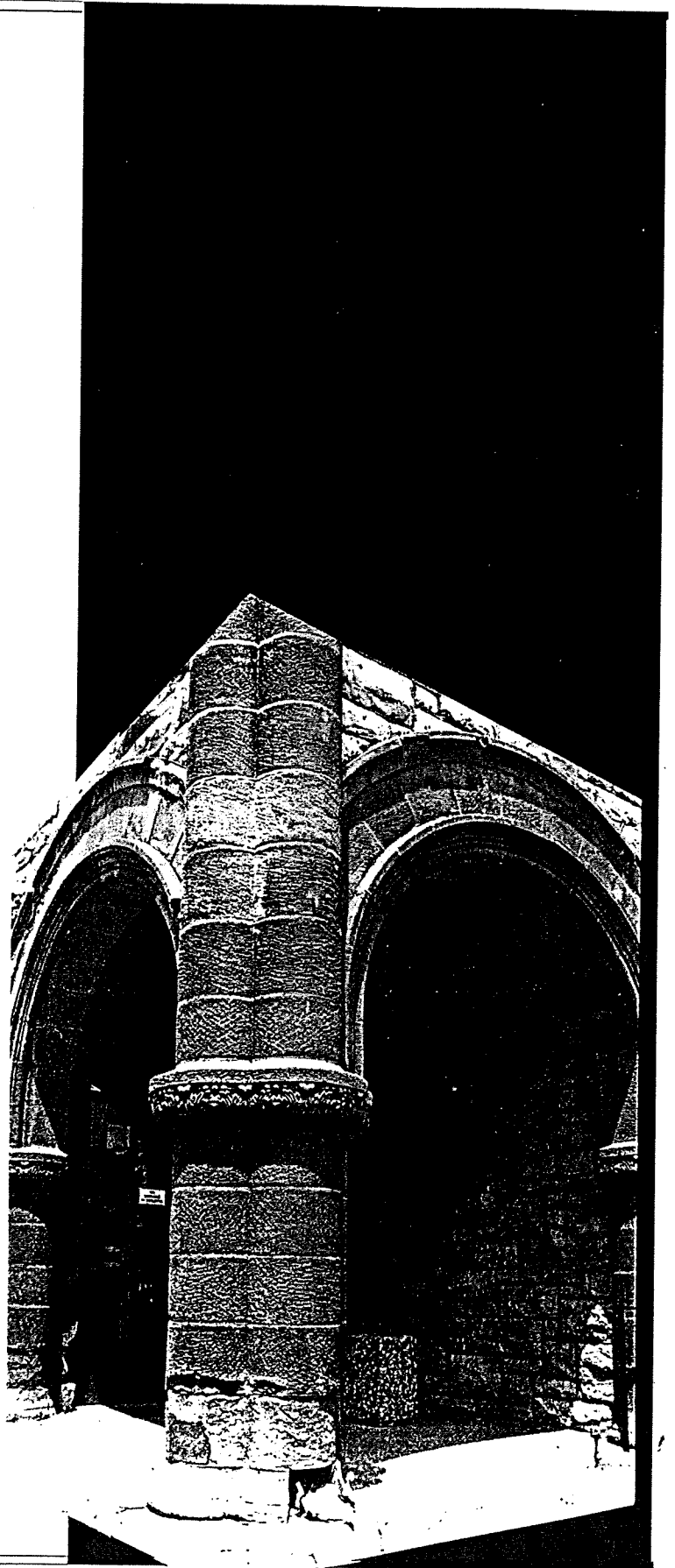
Note: Both Table C and D assume 6% annual construction cost inflation

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OF  
AGING  
CAMPUSES  
&  
CRUMBLING  
CLASSROOMS

CAPITAL NEEDS  
FOR KANSAS PUBLIC  
HIGHER EDUCATION

KANSAS BOARD OF REGENTS  
OCTOBER, 1994



OF  
AGING  
CAMPUSES  
&  
CRUMBLING  
CLASSROOMS

CAPITAL NEEDS  
FOR KANSAS PUBLIC  
HIGHER EDUCATION

KANSAS BOARD OF REGENTS  
OCTOBER, 1994

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4	Summary of Needs	26	Kansas State University King Hall Fume Hoods
8	Rehabilitation, Repairs and Construction Needs	28	Kansas State University Science/Engineering Complex
12	Americans with Disabilities Act	30	Wichita State University Remodel McKinley Hall for Chemistry
14	Fire and Life Safety Codes	32	Emporia State University Beach Music Hall Remodeling and Addition
16	Classroom Improvements	34	Emporia State University Electrical Distribution
18	Rehabilitation and Repairs	36	Pittsburg State University Russ Hall Remodeling
20	University of Kansas Murphy Hall Addition	38	Fort Hays State University McCartney/Albertson/Martin Allen Renovation
22	University of Kansas - School of Education J.R. Pearson Hall Renovation and Addition		
24	University of Kansas Medical Center Nursing Education Building		

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# CONTENTS

Coping with the aging of facilities and complying with current life safety building codes are two of the most pressing issues facing the Regents institutions. Other issues mandated by law include access for accommodating the disabled, the removal or encapsulation of asbestos, disposal of hazardous waste, limitation of air pollution, providing a safe domestic water supply among other issues regarding the maintenance of a safe environment.

- Faculty and staff at Wichita State University report discomfort and headaches because of the migration of fumes and chemical odors from the university's chemistry department.
- Fume hoods at Kansas State University have failed safety inspections for smoke and air velocity.
- The absence of an elevator in Russ Hall on the Pittsburg State University campus does not comply with the Americans with Disabilities Act.

Similar scenarios can be found at each of the six Regents universities.

The Regents are responsible for 24 million square feet of space in more than 600 buildings statewide with a replacement value of \$2.7 billion. Almost one-half of the space was built before 1960. Twenty-five percent was

constructed before 1940.

Rehabilitation and repair needs are tremendous. A recent systemwide study indicated a need for \$177 million to bring all facilities to a satisfactory condition. *That study did not include funds to enhance accessibility or for environmental concerns such as asbestos removal or storage of hazardous materials.*

## ACCESSIBILITY

One of the primary concerns involves providing access for people with a variety of disabilities, now mandated by state and federal laws. Studies have been completed for each campus indicating the required improvements and the related costs for each. Table 1 summarizes the need for funds to comply with the accessibility laws.

## FIRE & LIFE SAFETY CODES

Reports from the State Fire Marshal detail concerns regarding fire and life safety primarily in older facilities. As buildings age and codes become more strict, it becomes more difficult to comply with fire and life safety requirements without extensive revisions to existing structures. Safety considerations such as automatic smoke and fire alarms, electro-magnetic door releases, and modern sprinkler systems have vastly improved the life safety of some of our facilities, but these systems

are expensive.

The Allen Field House at The University of Kansas is a prime example. Built in the 1950s, it met all of the applicable codes for seating 17,000 people. Forty years later, it did not meet the new, tougher codes to seat 15,500 occupants. It will cost approximately \$1.9 million to revise the structure to comply with the current codes. Table 1 summarizes the cost of complying with the fire and life safety codes on each campus.

## REHABILITATION & REPAIRS

Funds provided by the Educational Building Fund (EBF) levy are insufficient to properly care for and protect the existing physical inventory owned by the six institutions within the Regents system or provide for necessary construction.

The allocation of \$10 million per year from the EBF for Rehabilitation and Repair projects has been a life saver, but \$10 million dollars per year is not enough to fund the backlog of projects and the new needs that arise. The 50-year depreciation table for our facilities inventory indicates a need for more than \$40 million per year. The Regents action for the last 20 years has been to select only the highest priorities for each campus for funding, leaving a large list of unfunded projects.

Each year the total list of projects exceeds \$60 million, leaving over \$50

**TABLE 1  
CAPITAL IMPROVEMENT NEEDS (\$ IN MILLIONS)**

	KU	KUMC	KSU	WSU	ESU	PSU	FHSU	TOTAL
Americans with Disabilities Act	\$4.1	\$2.4	\$3.7	\$2.8	\$1.9	\$3.8	\$3.0	\$21.7
State Fire Marshal Fire Code Requirements	4.2	.3	3.0	.4	.9	.1	.2	9.1
Rehabilitation and Repair Projects	43.0	27.0	43.0	18.0	10.0	10.0	10.0	161.0
Improve Classrooms	4.9	.7	1.2	1.1	2.3	2.7	2.3	15.2
Major Remodeling of Existing Buildings	12.0	0	1.5	12.0	8.4	7.3	8.6	49.8
New Construction	9.0	10.0	12.5	0	0	0	0	31.5
<b>Total</b>	<b>\$77.2</b>	<b>\$40.4</b>	<b>\$64.9</b>	<b>\$34.3</b>	<b>\$23.5</b>	<b>\$23.9</b>	<b>\$24.1</b>	<b>\$288.3</b>

4-5

## CLASSROOM IMPROVEMENTS

Although a portion of the 700 classrooms in the Regents institutions provide a good environment for learning, many shortcomings exist. Good classroom space should allow students to see visual presentations, to hear audio presentations free from noise and distortion, and to be physically comfortable with regard to airflow, temperature and seating. Classrooms also should provide modern teaching aids such as audio-visual provisions, darkening shades, computer wiring and accommodations to allow the use of VCRs, videotapes and TV monitors.

In 1993, the Regents institutions conducted a survey of classrooms to determine the amount of funds needed to modernize them. The shortcoming most frequently noted by the survey was a lack of proper heating, ventilation, and air conditioning.

Millions of dollars are needed to improve the total inventory of classrooms. The Board of Regents and its institutions are working to set priorities for a renovation program first for key classrooms and then the remaining classrooms. Classrooms in poor locations or otherwise infeasible for renovation will be converted to other uses with a goal of providing only good quality, modern spaces in which to teach.

For decades, the typical classroom included four walls, a podium, and a chalkboard. As long as lecture was the predominant mode of teaching, rows of armchairs served well. Now, as

instruction becomes more student-centered, and as those students begin to take advantage of mediated programs for individualized and paced learning, the traditional classroom is no longer adequate. As teaching styles make a gradual but steady transition, so, too, must the teaching spaces.

A contemporary campus requires a variety of instructional spaces, with an emphasis on individualized work areas--multimedia desktop environments--for students. The ideal classroom offers the flexibility of a large group presentation or individualized learning, and gives the professor the ability to display the computer screen of any class member for critique and discussion. Such a design requires attention to room lighting, acoustics, and sightliness. Sufficient conduit and power must be available to interconnect all workstations with each other, with the instructor's teaching station, and with the campus network. Access to the campus local area network allows faculty to take advantage of library catalogs, information systems, data and software archives, and Internet resources. Telecommunications infrastructure must be planned for each building and classroom in order to maximize the institution's investment in information technology.

The teaching station must accommodate VHS tapes, laser discs, CD-ROMs, and the ability to project a large image and a variety of scan rates. The cost of one multimedia teaching station, with appropriate audio and video display is \$30,000. Desktop

workstations currently are averaging \$2,500 per unit. Remodeling costs to provide lighting control and improved sightliness are expensive. Obviously, not every classroom can be modified immediately. A phased schedule is recommended with a constant eye to flexibility.

## MAJOR REMODELING & NEW CONSTRUCTION

The Regents institutions also need major remodeling of existing facilities and additional space for some disciplines and programs. Some programs have outgrown facilities, while others have had to move into space not originally intended for instruction, laboratories, or offices.

The quality of facilities and its effect on the learning environment has an impact on the quality of instruction for Kansas students, whether in a classroom, laboratory, library or rehearsal room.

Inadequate space harms the quality of instruction by not allowing our universities to keep pace with program growth and modern technological developments that keep our instruction and our students competitive. Many programs have grown, but the buildings have not.

Our students are the state's most valuable natural resource, and our educational system is one of the state's major assets. The condition of our facilities has become a critical problem - one that demands our immediate attention.

The top priorities for each campus will be explained on succeeding pages.

**TABLE 2**  
**MAJOR REMODELING AND NEW CONSTRUCTION (\$ IN MILLIONS)**

	MAJOR REMODELING		NEW CONSTRUCTION		Total
	State Funds	Federal, Gifts & Student Fees	State Funds	Federal, Gifts & Student Fees	
<i>University of Kansas</i>					
Murphy Hall addition	0	0	9.0	1.9	10.9
J.R. Pearson Hall renovation & addition for School of Education	12.0	2.1	0	0	14.1
<i>University of Kansas Medical Center</i>					
Nursing Educational Building	0	0	10.0	1.5	11.5
<i>Kansas State University</i>					
King Hall fume hoods	1.5	0	0	0	1.5
Science & Engineering Complex	0	0	12.5	16.0	28.5
<i>Wichita State University</i>					
Chemistry Building	12.0	3.0	0	0	15.0
<i>Emporia State University</i>					
Beach Music Remodeling and addition	5.0	1.0	0	0	6.0
Electrical Distribution	3.4	0	0	0	3.4
<i>Pittsburg State University</i>					
Russ Hall Remodeling	7.3	0	0	0	7.3
<i>Fort Hays State University</i>					
McCartney/Albertson/Martin Allen renovation	8.6	1.0	0	0	9.6
<b>Total</b>	<b>49.8</b>	<b>7.1</b>	<b>31.5</b>	<b>19.4</b>	<b>107.8</b>

---

The EBF simply has not kept pace with the climb in construction costs.

For more than 40 years, Kansas state institutions of higher education have benefitted from the Educational Building Fund levy (EBF). The fund was established in 1946 to provide for the building programs of the Kansas Board of Regents. The levy served Kansas well for nearly 20 years when the annual inflation of building construction equaled the 2.5 percent annual inflation of the funds from the mill levy.

In the early years of the EBF, construction costs were low, and the mill levy was adequate to serve the needs of the relatively small Kansas campuses. During the late 1930s and early 1940s, residential construction cost \$3-\$4 per square foot. In the 1950s, Emporia State University built its "new" Cram Hall chemistry and physics building with a planetarium for \$16 per square foot. Gymnasiums and classroom-office facilities could be built for \$10-\$12 per square foot. Residential construction at that time was about \$10 per square foot.

This parallel inflation came to an abrupt halt in the mid 1960s with the onset of a dramatic increase in the costs of labor and materials.

Table 3 illustrates the sharp rise in building costs in the Kansas City area from 1960-1971. The previous 2.5 percent annual rate of increase for building construction costs climbed to more than 12 percent per year.

In the past 20 years, the inventory of space for the Regents institutions has increased from 15 to 23 million gross square feet. The replacement cost has increased from \$500 million

to \$2.5 billion. Although the space increased 53 percent in 20 years, the replacement cost increased 400 percent because of the rise in construction costs.

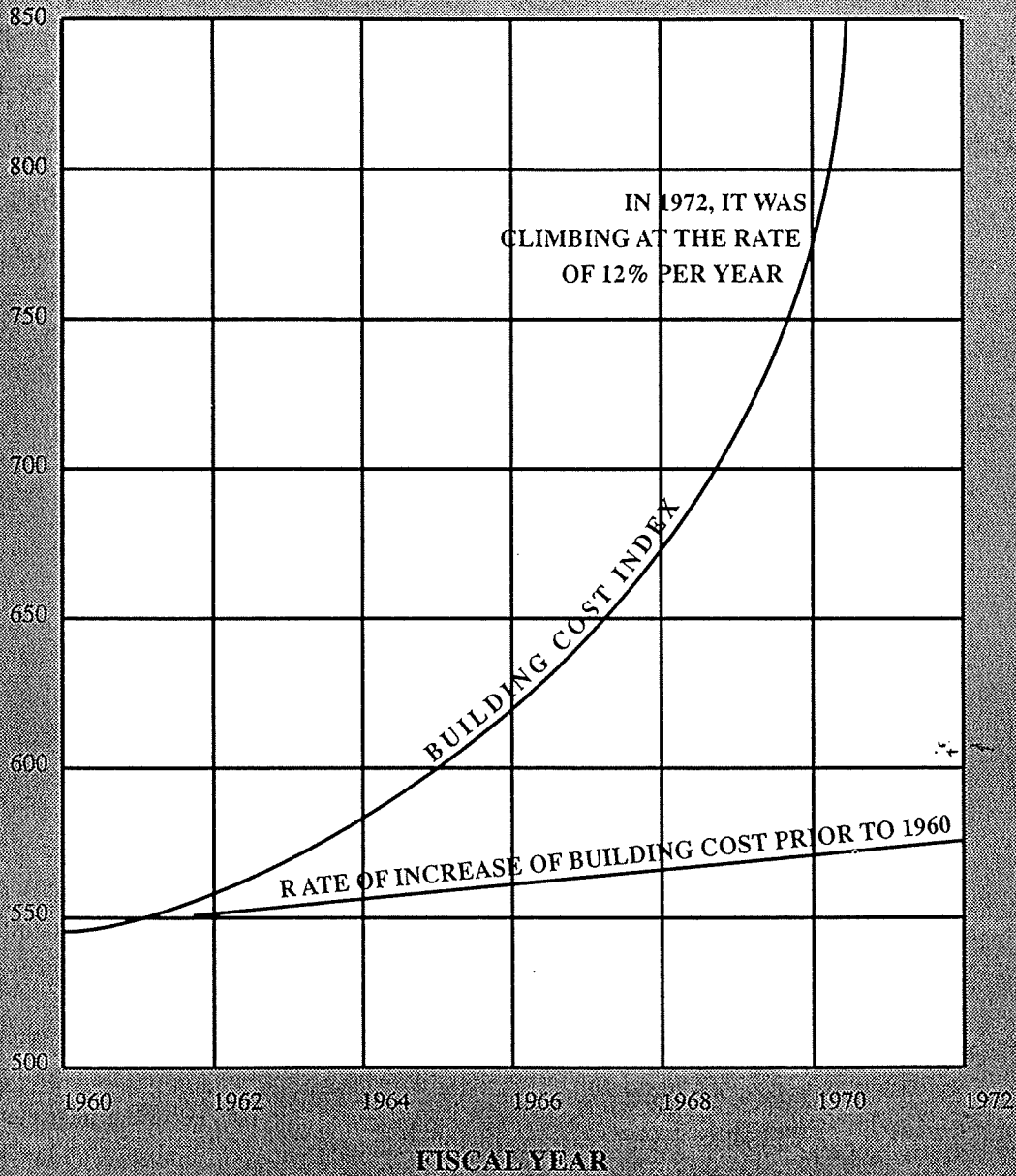
In 1973, the State of Kansas was paying \$30 per square foot (total project cost) for a new classroom-office building. That figure included about \$24 per square foot for construction and fixed equipment alone. In 1993, the total project cost for a similar facility was at least \$100 per square foot (construction cost plus fixed equipment at \$80), or a 330 percent rise in cost in 20 years.

The EBF simply has not kept pace with the climb in construction costs. The cost of construction, maintenance and repairs has increased at a rate more than twice the income from the EBF. The EBF generated \$6.9 million in 1973 and \$16.8 million in 1993, a 143 percent increase in 20 years compared to the 400 percent increase in replacement costs of our physical inventory.

To further complicate the issue, campus buildings are aging and are in need of continuous repairs and renovation. The rehabilitation and repair needs (R&R) have gradually taken a larger bite out of the EBF during the last 10 years. Twenty years ago, most of the R&R needs were funded from the State General Fund and not from the EBF. Currently, the institutions are drawing \$10 million a year from the EBF, or about 60 percent of the EBF each year for R&R, leaving only 40 State Fire Marshal requirements for fire and life safety, asbestos removal, and other environmental concerns. In addition to all of these concerns a few number one priorities for new construction and major remodeling must be funded.

# BUILDING CONSTRUCTION COSTS ENGINEERING NEWS RECORD INDEX - KANSAS CITY

TABLE 3



To properly maintain our existing facilities, we need \$40 million per year.

Table 4 shows the disparity between need and income over the last two decades. The growth in the EBF has been steady and predictable while increases in enrollment and construction costs have left us in a precarious position.

Our existing building inventory has a replacement value of \$2.5 billion not including furnishings, library holdings or movable equipment. The replacement cost of our facilities has increased from \$500 million in 1973 to \$2.7 billion in 1993, an increase of 400 percent. This \$2.5 billion does not include the \$200 million value placed on exterior work such as streets, drives, landscaping, retaining walls, street lights, sewers, water and gas lines, steam lines and tunnels, parking lots and sidewalks. *This exterior work alone has a need for \$40 million in repairs systemwide.*

Our total replacement value of buildings and exterior site improvements is at least \$2.7 billion, (and our need for rehabilitation and repairs is more than \$175 million.) This does not include replacement of outmoded or broken research and/or instructional equipment.

To compute a reasonable annual need for maintenance and repair dollars, the graph below shows the inventory value on a straight-line depreciation formula for buildings only.

50-year depreciation:

$\frac{\$2.7 \text{ billion}}{50 \text{ years}} = \$50 \text{ million per year}$

50 years

Campus residence halls are self supporting and comprise about 20 percent of inventory value, so deducting 20 percent from the annual need figures results in the the following:

50-year depreciation = \$40 million per year

The above figures indicate a need for rehabilitation and repair dollars to properly maintain existing buildings. This does not include funds for new construction, additions, major remodeling, or the upgrading and maintenance of the exterior improvements and sitework.

The Regents enrollment poses an additional challenge. When the EBF was initiated more than 45 years ago, less than 16,000 students attended the five universities then in the state system. In the fall of 1992, enrollment topped 83,000 students, an increase of more than 400 percent. (See Table 5).

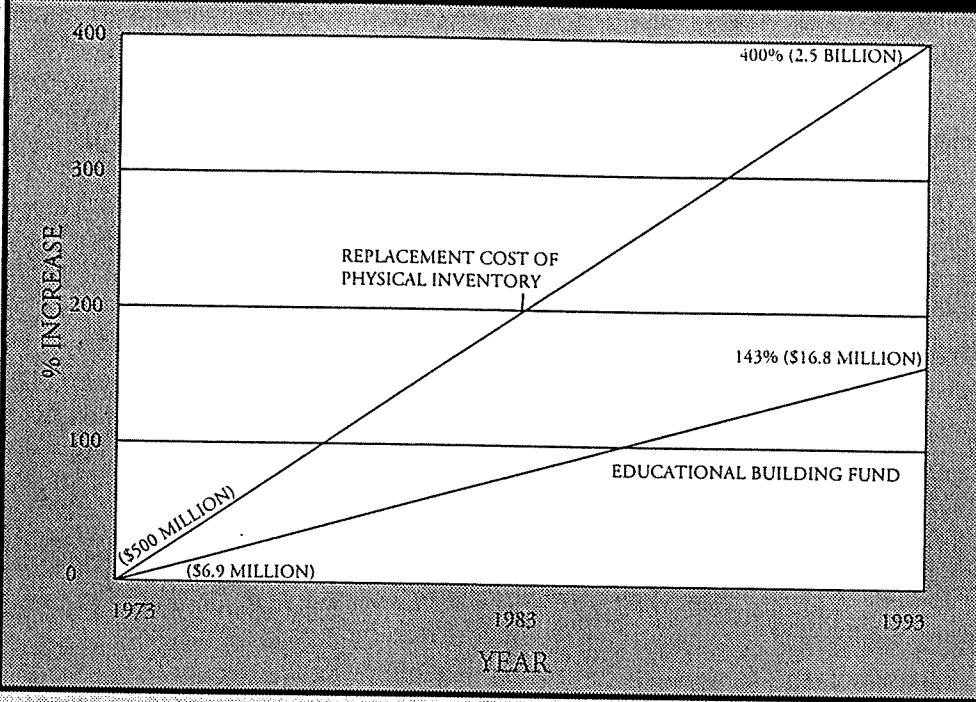
With enrollment projected to grow 19 percent during the next 15 years, we must be prepared to accommodate such an increase. The Regents Fall 1992 enrollment was 83,630. A 19 percent increase would be 15,900. This increase alone is equal to the entire enrollment of the Regents system in 1953.

This enrollment increase will strain our existing facilities.



## KANSAS BOARD OF REGENTS BUILDING PROGRAM COMPARISON OF NEEDS VS. INCOME FROM EDUCATIONAL BUILDING FUND

**TABLE 4**



## 40 YEARS OF ENROLLMENT CHANGE KANSAS REGENTS SYSTEM

**TABLE 5**

INSTITUTION	Fall 1953	Fall 1992
University of Kansas	6,410	26,465
Kansas State University	5,013	20,451
Wichita State University	•	15,120
Emporia State University	959	6,006
Pittsburg State University	1,606	6,516
Fort Hays State University	1,246	5,603
University of Kansas Medical Center	674	2,696
KSU-Salina College of Technology	•	773
Total Enrollment	15,908	83,630
		Percent Increase 425.7%

• Not a part of Regents System in 1953.

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Much work needs to be done before July 26, 1995 to comply with federal law.

The Americans with Disabilities Act (ADA) of 1990 seeks to eliminate discrimination against individuals with disabilities. The Act establishes enforceable standards addressing discrimination with a goal of full inclusion and integration for the 43 million Americans with disabilities. The ADA requires that structural changes be completed by July 26, 1995.

Title II of the ADA covers state and local governments, both as employers and providers of services to the public. It prohibits public universities from discriminating against qualified individuals with a disability by excluding them from participation or denying them the benefits of the services, programs, or activities at the university. Reasonable modifications and accommodations must be made for removal of architectural, communication, and transportation barriers as well as the addition of auxiliary aids and services.

Much already has been accomplished on each campus to improve accessibility and to comply with regulations and standards established in Section 504 of the Federal Rehabilitation Act of 1973 and furthered by the provisions of the ADA, but much remains to be done.

Why do so many deficiencies still exist? Several factors influence this current dilemma:

1. Scope of Work: The current Americans with Disabilities Act Accessibility Guidelines (ADAAG) manual is a voluminous text expanded in detail and scope to cover newly defined disabilities.
2. Handicapped Defined: Earlier accessibility issues were confined to non-sighted, non-hearing, and non-

ambulatory individuals. The ADA has expanded the definition of disability to include susceptibility to fainting and seizures, incoordination, limitations of stamina, chronic conditions lasting more than six months, etc. These new definitions have a major impact on facilities.

3. Changing Technology: Only in recent years have certain technologies been available. Telecommunications devices for the deaf (TDDs), infrared listening systems, and voice-activated equipment are but three examples.
4. Existing Facilities: Most campuses have made changes such as, curb cuts, parking stall designations, restroom modifications, etc. New buildings are being designed to comply with ADA. It is much more difficult to address buildings with split-level entries; changes in terrain requiring building access at multiple entrances; costly elevators, sites with steep slopes requiring switchback ramps and retaining walls, and other changes of this magnitude. In addition, few existing buildings fully meet all current requirements for signage, hardware, detectable warnings, audible and visual alarms, etc.
5. Lack of Resources: Rehabilitation and Repair allocations have been the primary source for funding improvements to existing buildings within the Regents' system. Many other necessary projects compete for those limited resources. Roof repairs, asbestos removal, and fire safety modifications are but a few examples of projects common to all universities. Only within the past few years have funds increased to allow serious accomplishments in terms of accessibility to take place. See Table 1 on page five for current needs for ADA.

top ADA violation: No elevator exists in Russ Hall, the four-story classroom and administration building at Pittsburg State University.

bottom left. Fort Hays students are referred to another building for service because of inaccessibility.

bottom right. Disabled students at the University of Kansas have no access to upper or lower floors in Spooner Hall.



## Fire and life safety code violations must be rectified immediately.

Each year the State Fire Marshal's office and local fire protection authorities perform building inspections on each of the Regents' campuses and provide reports documenting possible violations to the applicable fire and life safety codes. Even though buildings complied with codes when they were constructed, fire and safety codes have become more strict and that which may have been satisfactory years ago does not meet the current standards.

The general objective of the fire and life safety codes is to provide a reasonable level of safety by reducing the probability of injury and loss of life from the effects of fire and other emergencies. The level of safety is defined by the combination of prevention, protection, egress and other features.

Dyche Museum at the University of Kansas is an example of a building complying with the code when the last addition was completed in 1963. In recent years, it was cited by fire authorities for storing a large number of specimens in ethyl alcohol, a highly flammable liquid. The Fire Chief of the City of Lawrence stated that if a fire should occur in the Museum, it would be unsafe for firefighters to enter the building. The 1993 Legislature authorized more than \$1.5 million to design and construct an addition that would properly store these specimens to comply with the current fire codes.

Russ Hall, the central administration and general classroom building at Pittsburg State University, is a multi-story building without enclosed fire stairs. Smoke from a fire

on a lower floor could easily rise to the upper floors and asphyxiate the occupants.

Each campus has a long list of items that demand attention. Concerns cited by the fire inspectors include the lack of:

- properly located exits
- fire protected stairways
- smoke and fire protected area separations
- emergency lighting
- sprinkler systems
- visual/audio fire/smoke alarms
- panic hardware
- exit lighting
- fire-rated corridors
- areas of rescue assistance
- fire extinguishers
- stand pipes
- non-combustible ceiling tiles
- lightning protection systems
- proper wiring

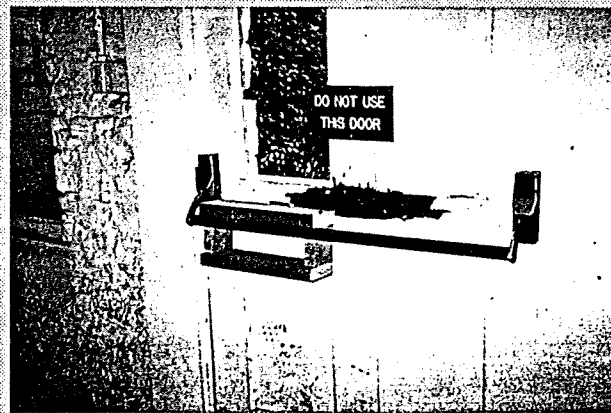
Potential violations of the fire and life safety code have been identified and cost estimates prepared to rectify each of the projects. These code violations must be remedied for the safety of our students and the citizens of Kansas. See Table 1 on page five for funding needs.



left Water has damaged the ceiling and fire exit signs because the emergency drive leaks into the hospital space below at KU Med Center.

top right. Students must exit through a tiny window in case of fire at Wichita State University's Fiske Hall.

bottom right. A building at Kansas State University sports broken doors and man-made panic devices.



4-15

## Classrooms must be responsive to humans and the human environment.

Many Kansas high school graduates entering Board of Regents institutions are greeted with classrooms that are inferior to those in their high schools. Many classrooms remain unchanged from the time they were originally constructed, and some lack the basic requirements for quality teaching space:

- acoustics
- mechanical environment
- lighting
- colors and texture
- seating
- good sight lines

Classrooms must be responsive to humans and the human environment. A student has a positive learning experience in the classroom when he or she is satisfied physically, emotionally and intellectually. Aesthetic comfort cannot be separated from physical comfort. The classroom must be designed for the health and safety of the students.

The architectural systems of the classroom consisting of floor, ceiling, walls, seating and lighting create the classroom space. Modern heating, ventilating and air conditioning systems maintain thermal comfort and good air quality.

These systems also contribute to the success of the new technology used in the teaching process--sound systems, audio-visual equipment and computers. Acoustics in the modern classroom are critical.

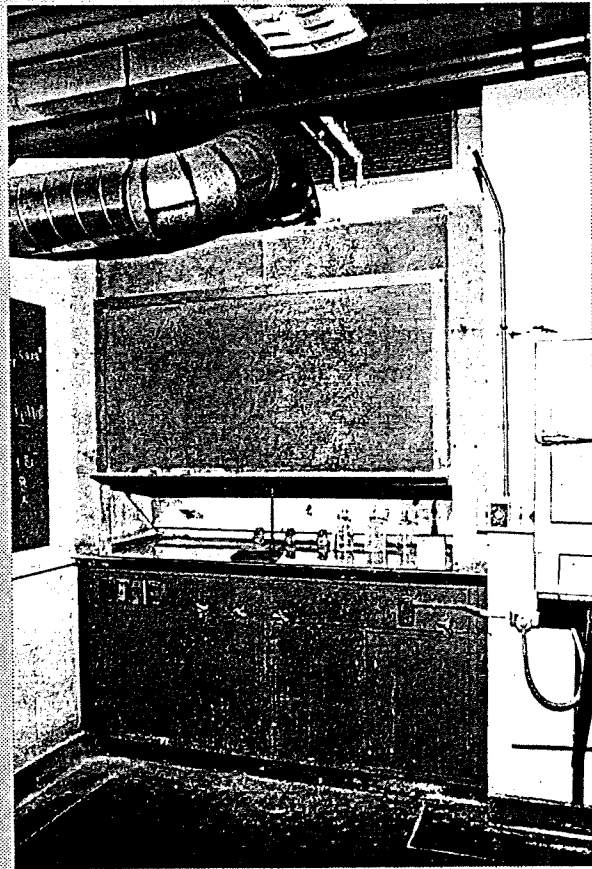
Chalkboards, lecterns and textbooks are being supplemented by computers, desktop video, distance learning and multimedia. Numerous solutions must be provided to respond to various programs and the needs of different students. Only a few years ago, students attended computer laboratories where the technology was taught as a subject separate from the curriculum. The computer has now moved into the curriculum, and technology now is part of the average classroom activity. Such technology must not be the focus of teaching but become integrated as a teaching tool.

During 1993 all Regents institutions conducted a survey of their 700 classrooms. Deficiencies were identified and the cost for corrective measures were estimated (Table 1).

Kansans want their students to improve their academic performance and to excel. Good teaching and learning cannot be accomplished without quality classrooms and equipment. Many of our current classroom facilities are obsolete.

left Wall deterioration, inferior air conditioning, and outdated video equipment greet students at ESU's Beach Music Hall.

right This makeshift lab hood/chalkboard in Malott Hall at KU presents a negative learning environment.



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## We must not let our existing facilities deteriorate.

The Kansas Legislature and the Kansas Board of Regents are responsible for a large physical inventory of existing buildings and site improvements. This inventory consists of more than 600 public buildings, a gross area of over 24 million square feet and a replacement value of \$2.7 billion. In addition to the buildings, the responsibility includes hundreds of millions of dollars for the value of furnishings, library books and movable equipment. It also includes the sitework and exterior infrastructure of roads, sidewalks, utility tunnels and a maze of underground piping for water, gas, electric and sewer system worth another several hundred million dollars.

This total value of approximately \$3 billion must constantly be maintained and repaired. Much of the routine maintenance such as painting and minor repairs is accomplished by physical plant personnel. Most of the major repairs and rehabilitation projects require special funding and public bidding because they are beyond the capabilities of the campus staffs.

Several years ago the Kansas Legislature and the Board of Regents realized that the major rehabilitation and repair needs

were tremendous and that the one or two million dollars per year that traditionally had been appropriated for this purpose was insufficient. A five-year appropriation was approved by the Legislature starting with FY 93 for \$10 million per year in an attempt to reduce the large amount of deferred maintenance.

But as buildings grow older, maintenance and repair needs increase. Our facilities age through sun, wind, hail, rain, freezing and thawing, ground movement and extreme usage by the occupants. Funding for rehabilitation and repairs is absolutely necessary to sustain the basic operations of each institution and to protect the State's capital investment.

Ongoing projects include reroofing, repairing boilers, chillers and cooling towers, reworking heating, ventilating and cooling systems and controls, replacing windows, doors and hardware, repairing steam tunnels and piping, upgrading teaching and research laboratories, modernizing elevators and lighting distribution systems, repaving streets and replacing curbs, gutters and sidewalks.





left Steps to Spencer Library at KU are dangerous and unsightly.

below A settled concrete slab creates a hazard at the front entrance of a KSU building.



The Department of Music and Dance at the University of Kansas has long been recognized for its excellence. However, the educational process has become seriously compromised due to the lack of adequate facilities. The teaching and research capabilities and opportunities for both faculty and students are severely limited by inadequate, inappropriate, or nonexistent facilities.

During the past 30 years the Departments of Music and Dance, Theatre, and Communications have outgrown Murphy Hall. The instrumental rehearsal room, designed to accommodate 80 musicians, has problems with acoustics, availability, accessibility, and size. The marching band can no longer practice in Hoch Auditorium, and when outdoor practice is not feasible, the 250-member band crowds into an 80-person room. The sound levels are deafening and travel to the chorus rooms above. With the loss of Hoch Auditorium, the Military Science Building firing range has been used as a temporary practice facility. Because Hoch Auditorium was used for marching band rehearsals, it has become critical that a new rehearsal facility be built within the next few years.

No rehearsal rooms exist for smaller instrumental and choral ensembles or sectional rehearsals, nor for the rehearsal of opera and musical performances, chamber, or mainstage productions. At night, chairs are pushed to the

walls in classrooms to create rehearsal space. This situation provides no opportunity for staging, movement, lighting, or blocking, and the acoustics are poor. There is no recording or playback equipment in either of the rehearsal areas.

Storage is inadequate. Because of the tremendous growth in programs, the space intended for instrument storage has been converted to the percussion studio, and an area designed for building maintenance equipment storage has been converted to instrument storage. Tens of thousands of dollars worth of instruments are rapidly deteriorating because of the lack of temperature and humidity control.

Additional library space is needed for music holdings. Many resources are not available to faculty and students due to the lack of adequate space to shelve holdings in the existing music library.

Although improvements to offices, support spaces and accessibility throughout Murphy Hall must be addressed in the future, the additional rehearsal hall, new teaching and support spaces and expanded storage areas, along with limited renovation in the existing facility, will solve many of the music department's needs.

An addition to Murphy Hall will provide 60,000 square feet of rehearsal and support space.

below Inadequate lighting and shallow book shelving contribute to students' difficulties in the music library in Murphy Hall.

top right The University of Kansas Symphony Orchestra rehearses in a room in Murphy Hall. This facility is overcrowded and has grossly improper acoustics.

bottom right James Smith, music library assistant at KU, works in cramped quarters within the music library in Murphy Hall.



4-21

The preparation of teachers has a long and illustrious history at the University of Kansas. Since 1876, KU has prepared thousands of Kansans to lead future generations to a brighter, better-educated future.

With more than 12,000 graduates, KU's School of Education has developed innovative teaching techniques, generated headline-grabbing research, and led the call for educational reforms. Since 1956, the School of Education has called Bailey Hall (1901) its home.

Technology is central to education. In fact, Goals 2000, national legislation passed by Congress and endorsed by the President and National Governors Association, directs the development of long-range plans to use technology to improve teaching and learning. Teachers of today - and tomorrow - must be prepared to use tools such as computers and video as comfortably as a chalkboard. But daily use of such tools in a building constructed before the advent of the light bulb presents a daunting challenge.

In 1991, KU chose Joseph R. Pearson Hall, a residence hall, as a new home for the School of Education. Plans call for Pearson's conversion to a classroom building to provide space required for the School of Education, the Clinical Child Psychology Program, the Division of Continuing Education's Office of Academic Support and Instructional Services, and the Academic Systems for the Training and Use of Technology in Education programs. In addition, two research centers affiliated with the School are to be housed in the new facility: the Center for Educational Testing and Evaluation and the Center for Economic Education.

For the first time, portions of the School of Education now housed in seven buildings throughout the Lawrence campus will be under one roof. Other programs related to the School of Education also will be housed at Pearson. Besides conserving space through common and interdisciplinary activities, shared space will permit the consolidation of activities now dispersed across campus. Basic administrative functions common to all departmental units will be centrally grouped, allowing more efficient management.

A new facility is needed to support the changing mission of the school. An innovative undergraduate teacher-education program, an increased emphasis on graduate training and research, and the use of modern technology in training and research are important activities that will be strengthened by a modern facility.

A new location for the School of Education also will allow for growth. Demand for teachers will exceed the personnel needs of other human service fields. Kansas will be hard-hit by teacher retirements as early as the late 1990s.

KU must meet the demand while monitoring growth, maintaining a balance among graduate and undergraduate programs, and recognizing that many students are commuting professionals.

The School of Education expects to use telecommunications to support its teaching, research and service missions. The new building will accommodate advances in telecommunications, including high-speed networking and video delivery to all offices, classrooms and conference rooms. A specially designed telecommunication classroom will be available for broadcasting instruction to distant sites in the state.

Pearson Hall is a six-story building with a basement and a subbasement. Renovation will refinish the entire interior. A new roof is needed, and thermally efficient windows will replace single-pane windows. A new mechanical system will be required, electrical systems will be upgraded, and voice and data systems will be provided. Accessibility requirements mandate that the existing elevators, circulation spaces, restrooms and other facilities be improved. Asbestos contained within must be removed.

A 25,000 gross square foot, four-story addition will be built on the east side of Pearson to provide larger spaces for classrooms and studios as required in the description of space requirements.

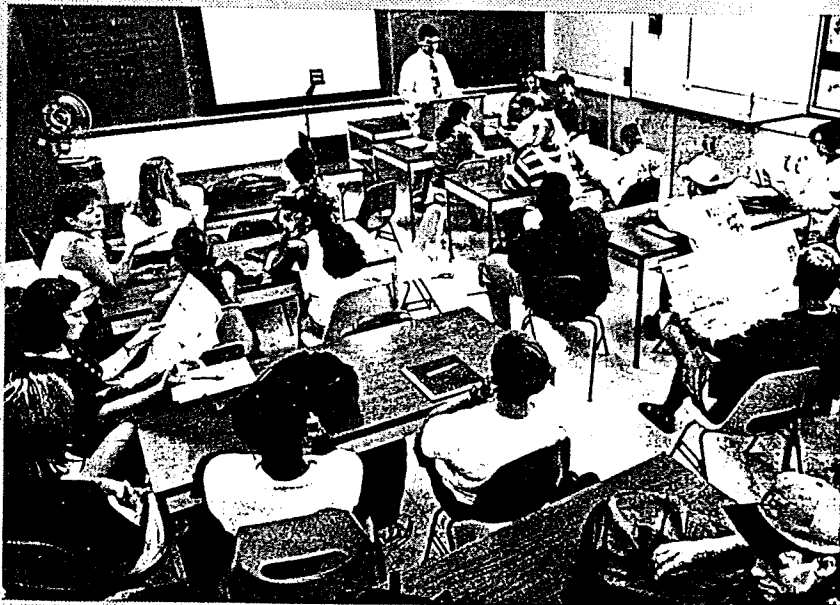
Total gross square footage available when the renovation and addition are completed is 128,000.

below School of Education students convene in an overcrowded classroom in Bailey Hall.

right Cramped faculty offices in Bailey Hall include some as little as four feet wide, with a total area of less than 100 square feet.

middle right An addition to the Joseph R. Pearson Hall will provide a new home for the School of Education.

bottom right A "unique" T-shaped learning environment in Bailey Hall classroom.



Instruction for nursing began on the University of Kansas Medical Center campus in 1906 when the School of Nursing was founded as a department within the School of Medicine. In 1974, the School of Nursing was organized as a separate school, and, since that time, has consolidated all its administrative, faculty, and teaching labs in the Taylor building.

This facility was constructed in 1953 for student housing. As student housing on campus was phased out, these spaces were occupied by the School of Nursing with minor renovations. The basic configuration of a "dormitory" structure is inefficient for the use of faculty offices and clerical space due to room dimensions and the long, double-loaded corridor arrangement. The classrooms and teaching laboratories are not appropriate for today's learning strategies, such as small group exercises and experimental learning, or for current teaching technologies, such as computer-assisted instruction, interactive video, and distance learning. Moreover, mechanical functions are outdated for current needs. Electrical and telecommunication capabilities limit the School's ability to meet classroom and programmatic goals.

The School currently has approximately 300 undergraduate students, 260 master's students, and 30 doctoral students. Applications to the undergraduate program are at an all-time high and have increased by 125 percent over the past five years. Enrollment in the graduate program has increased by more than 100 percent since 1989.

The Taylor facility only has one classroom for teaching purposes, requiring the School to schedule other classrooms as available throughout the Medical Center.

The demand for nurses has increased as a result of improvements in health care, shortened hospital stays, increased longevity, and the growth in health care technology. Nursing skills required in today's highly technical health care environment demand specialized equipment and intensive teaching strategies. In addition to

teaching high technical skills for the hospital environment, the expansion of nursing care into community settings requires model clinic settings to teach high level assessment and intervention skills. The current facility does not allow for flexibility to cover the demands of this environment and will not provide for space for new programs as the needs develop in the next decade. Additional faculty will be needed to meet the demands of the increased enrollment in graduate and doctoral programs.

The doctoral students and the growing research programs in the School of Nursing also require unique dedicated space. Specialized nursing research requires space for clinically oriented activities such as individual patient assessments, private interviews of research subjects, and in-group and individual nursing practice intervention studies. The School of Nursing has expanded its educational offerings throughout the State, currently offering a primary care nurse practitioner program in collaboration with WSU and FHSU and expanding into other sites in the near future. In addition the Kansas health care community looks to the KU School of Nursing for continuing education to provide programming to meet the mandatory continuing education credits required for ongoing licensure. Such continuing education for nurses in the community and outlying areas will multiply in the years to come. These programs also require state-of-the-art classrooms and clinical laboratory facilities to keep practicing nurses current. This will require additional computer labs, TV equipment for teleconferencing to facilities around the state, and technical equipment for teaching purposes that will be new to the medical field.

The present facility contains 41,000 gross square feet with 25,357 net square feet of assignable space. Projected needs require a facility of 67,500 gross square feet, which has a projected construction cost of \$8.85 million. Consultant fees, construction costs, and the equipment costs put the project total at \$11.5 million.



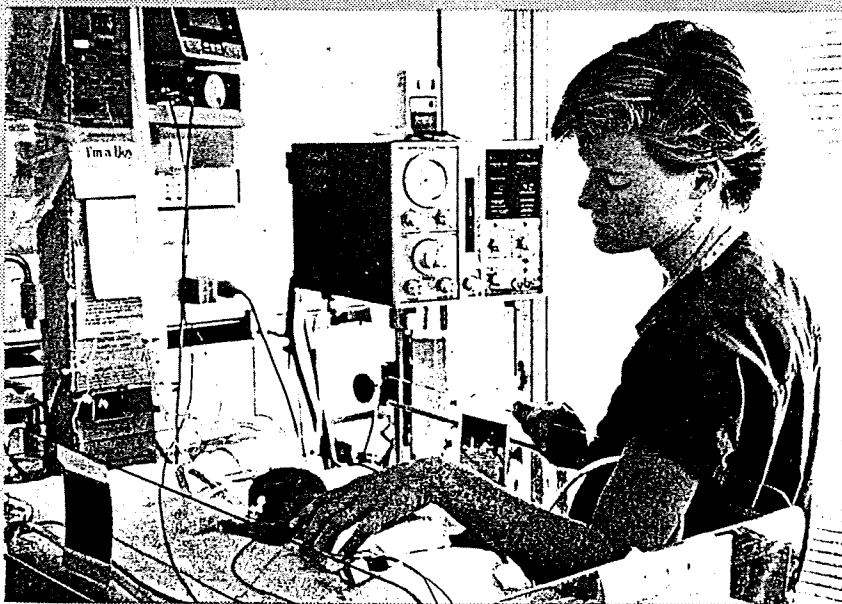


top top Surgical training for nurses occurs in a hospital setting.

top right Students learn skills in lab situations first.

bottom left Student nurse cares for young patient in neo-natal unit.

bottom right Precise skills are needed to treat patients in the burn unit.



King Hall was built in 1966 to provide modern instructional and research facilities for the Department of Chemistry.

King Hall houses all instructional laboratories for introductory-level chemistry courses, the Laboratory for Chemical Separations, and the research laboratories for several analytical faculty members. The 10 instructional laboratories accommodate approximately 1,370 introductory-level students each semester.

In recent years operational and safety problems in King Hall have seriously limited its use. In order to address these concerns, Kansas State University contracted with a consulting engineer to evaluate the existing fume hood exhaust system, note its condition, and provide alternatives for repair or replacement that would comply with current applicable university and industry standards and codes.

The consultants surveyed each hood system by reviewing original drawings and specifications and the latest available inspection reports from the K-State Department of Public Safety. Although detailed analysis of other building air systems was outside the scope of this work, relationships between other systems and the fume hoods were considered.

Two basic problems exist. First, the original design does not meet current standards for operator safety and air quality. The fume hoods were designed for a face velocity of 70 feet per minute (fpm) with the sash fully open. The present university-recommended face velocity for general laboratory use is 100 fpm, which is consistent with other applicable standards. No provisions were made for ventilated chemical storage cabinets.

Second, the equipment and duct work has deteriorated considerably. A current university safety officer's test report indicates that most of the fume hoods in King Hall do not meet the 100 fpm face velocity requirement, and most also fail a smoke test. The consultant's report notes various degrees of corrosion, including holes in the duct work.

These and other problems have limited the scope of teaching and research and created potentially hazardous conditions for students, faculty, and staff.

In addition, the small office/labs, originally intended to be private faculty research areas, are underutilized because newer laboratory equipment and complex experiments cannot be accommodated in this space.

The consultants recommend vented storage cabinets and replacement of the fume hoods with energy efficient, fast response, variable air volume systems. The new hoods will provide the necessary 100 fpm at the fume hood sash and control migration of chemical vapors. Exhaust duct work and fans also will be replaced. An exhaust system manifold and redundant, high plume exhaust fans will provide protection for King Hall occupants and those in the surrounding area.

Remodeling the office/labs into offices, reclaiming office space as teaching labs, and updating older teaching space to better research facilities all yield a significant improvement in space and could reduce the number of hoods replaced.

These improvements in King Hall place the Department of Chemistry in a better position to meet its immediate instructional and research needs. However, to meet the longer term campuswide student demand, additional teaching space must be added.

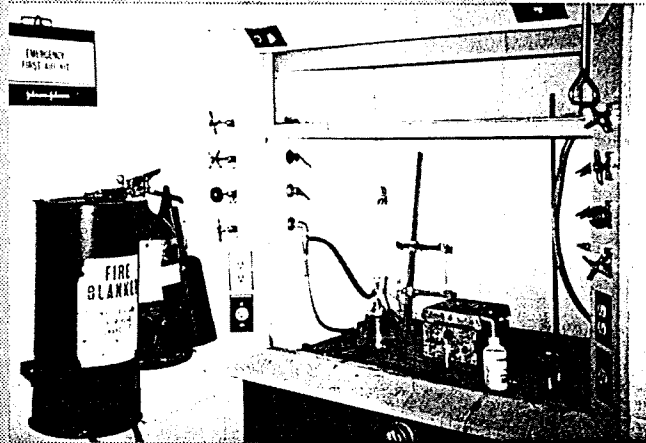
With completion of the first phase of Science and Engineering, remaining research laboratories in King Hall could be converted into five instructional laboratories and the research functions moved to areas vacated by the Department of Biochemistry in the Chemistry/Biochemistry Building (C/BI). Other research laboratories and offices in Willard Hall also could be moved to C/BI at this time. The interconnected facilities of the upgraded King Hall and C/BI, completed in 1988, will provide the Department of Chemistry with adequate, appropriate teaching and research facilities to serve the state of Kansas through the early part of the next century.



bottom Besides not meeting current standards for air quality, ductwork in King Hall shows signs of corrosion and deterioration throughout the system.

top right Deficient hood design for air exchange, lighting, power receptacles, and chemical storage poses potential hazards for users.

bottom right Safety tests indicate that most of the fume hoods fail smoke tests and do not meet face velocity requirements.



FUME HOOD INSPECTION	
Date: _____	Inspected by: _____
Smoke Test	Measured Face Velocity
Pass Fail	

Recommended Face Velocity:  
50 FPM - Low toxicity level materials including noxious odors, nuisance dusts, and fumes.  
100 FPM - General laboratory use, including moderate toxicity level material and trace quantities of radioisotopes.  
125-150 FPM - High toxicity level materials including radioisotopes, perchloric acid, and carcinogens.  
Department of Public Safety, 532-5856

Engineering and the basic sciences are integral components of Kansas State University, representing a large portion of its identity and strength. The sciences provide the core of many academic programs and disciplines throughout the university, including agriculture and engineering, and generate significant research funding. Both areas are integral to Kansas State University and must remain strong and viable if the university is to carry out its mission to serve the citizens of Kansas.

The nine College of Engineering departments enroll close to 3,000 undergraduate majors, representing about 15 percent of the total university, and approximately 500 engineering graduate students.

Research funding has grown steadily in science and engineering and continues to rise. In FY92 the College of Engineering generated more than \$6 million in extramural funding. Subsequent years indicate that this amount almost doubled. Chemistry, biochemistry, and biology generated approximately \$7 million in FY92 and also have shown growth in succeeding years.

Based on current staffing, enrollment levels, and research efforts, engineering and the sciences have serious space needs, both for quantity and quality. These estimates do not include needs for projected enrollment increases (expected to be 15-20 percent in the next decade), expanded research efforts (already rising), or possible new program development. These future needs could double this estimate within the next 10 years.

The science portion of this program will provide 34,500 nsf (net assignable square feet) of modern teaching and research space for the Department of Biochemistry and 3,000 nsf of general classroom space as an addition to Ackert Hall. It then will allow the consolidation of all of the currently assigned space in Burt, Willard, and C/BI into one building, and put it closer to units with which it collaborates, such as biology and plant sciences. The Department of Chemistry can

then move the balance of its offices and research units from Willard to C/BI, providing additional and improved space. Vacated space in Willard can be assigned to the Department of Art. Burt Hall space could be reassigned to alleviate other space needs.

The engineering portion of this program will provide 38,923 nsf of adequate and appropriate space in the new addition to Durland Hall for the Department of Civil Engineering, currently housed in Seaton Hall, and added research and instruction space that will benefit the college as a whole. This will further consolidate the departments within the College of Engineering. Seaton Hall space can be upgraded for reassignment to the Department of Biological and Agricultural Engineering, the Department of Architectural Engineering/Construction Science, the College of Architecture and Design, or other purposes.

This request is the initial step in the completion of a comprehensive plan to simultaneously address some of the needs of both the sciences and engineering.

A disruption to either program may have serious repercussions. For engineering, it could cripple the teaching and research efforts of one of the strongest, most respected colleges of the university; for the sciences, it could reduce the capacity to meet academic needs and continue relevant research. For students, it could mean reduced program offerings and the inability to enroll in required courses on schedule, thus increasing time to graduation.

This portion of the program is for two smaller, separate building projects, representing approximately one half of the current needs, as additions to existing buildings. The construction of the balance of the program should be an uninterrupted continuation of this project. Building designs should reflect the possibility of adding floors or other appropriate means to accommodate future needs.

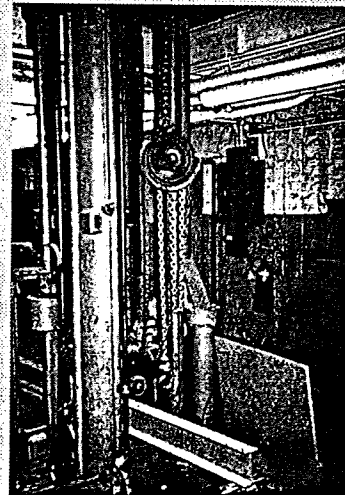
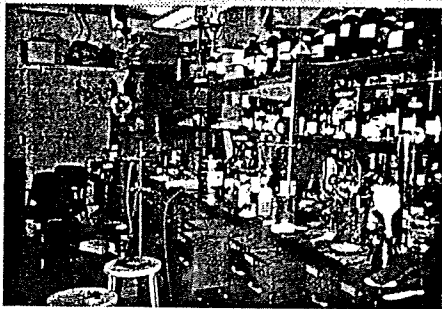


top left Burt Hall, one of three buildings where biochemistry researchers are housed, lacks adequate space for chemical storage, experimentation, and air handling systems.

bottom left Testing facilities for engineering lack adequate and appropriate utility services, equipment, and space.

middle & bottom center Space in the older buildings is inadequate and inappropriate for current scientific techniques and technologies. Poor teaching and research conditions exist.

right Engineering areas originally designed for blacksmithing and farm machinery classes show evidence of continued modifications and deterioration.



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The Department of Chemistry currently is housed in McKinley Hall at Wichita State University along with the departments of anthropology, geology, and cooperative education. McKinley Hall was built in 1928 with north and south wings added during the 1960s.

The normal aging process, combined with numerous modifications to the building and its engineering systems, have resulted in conditions that are insufficient to provide adequate ventilation and proper air conditioning for modern research in chemicals with high levels of toxicity. The quality and amount of usable space, storage of chemicals, and the venting and exhausting of fumes are persistent problems.

Students and faculty using McKinley Hall have frequently complained of discomfort and headaches due in part to the migration of fumes and chemical odors within the building. After engineering and air quality consultants investigated these problems, several recommendations for modifications to the building's air supply and exhaust systems were implemented as stop gap measures.

A major remodeling of McKinley Hall for chemistry is an economical alternative to constructing a new building.

Gutting the building - saving the classic structure, roof, and exterior walls -- is necessary. Relocating cooperative education, anthropology, and geology to other facilities on campus will require additional remodeling to other accommodations. A significant savings will be realized in this approach.

McKinley Hall now contains 92,594 gross square feet (GSF). The remodeling of the former attic space on fourth floor will result in a reduction to approximately 90,000 square feet due to headroom at the exterior walls or approximately 60,000 net assignable square feet based on an efficiency factor of 0.66. Construction and fixed equipment at McKinley is estimated to run approximately \$90/GSF. With necessary allowances for remodeling for other academic programs, fees, movable equipment, miscellaneous costs, and contingency, the total project cost is estimated at \$15 million.

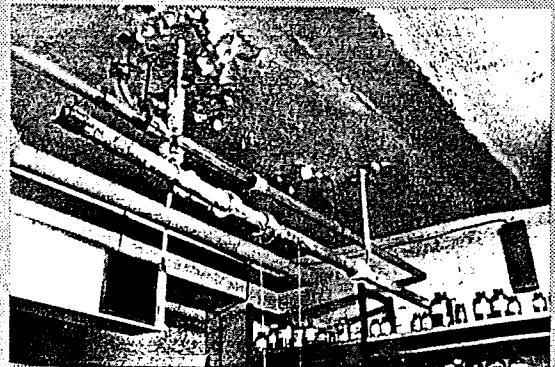
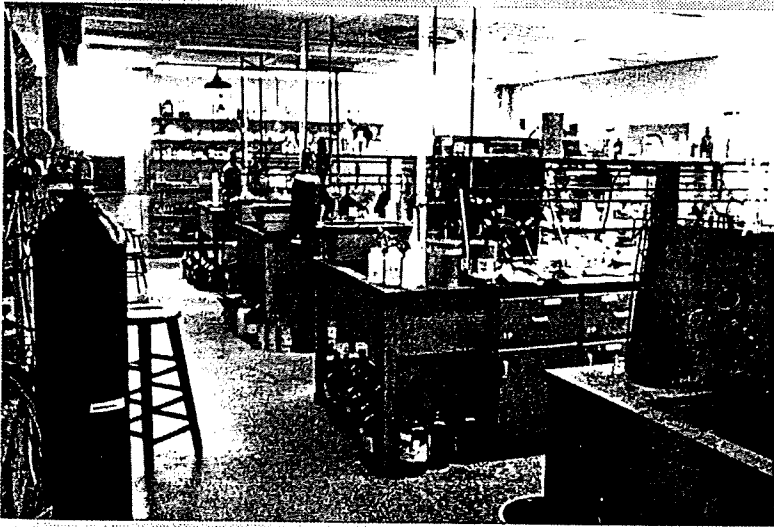
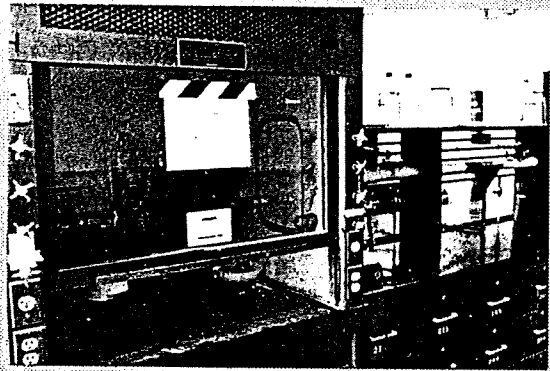
The University currently is under contract with a team of consultants for architectural programming services for a new building. These services are being redirected at a program statement for the remodeling of McKinley Hall.

top left Crowded chemical storage and distribution facilities at WSU.

bottom left Antiquated and crowded lab facilities.

top right Inoperable fume hood due to insufficient exhaust and ventilation systems.

bottom right Ceiling damage from plumbing leaks and the effects of hazardous fumes.



In August 1990, a 4,160-volt distribution cable ignited a fire in the communications cable located in the steam tunnel north of the Liberal Arts and Sciences building on the ESU campus. Much of the campus was without electricity for several days and buildings had to be evacuated at a critical time in the academic year. Smaller outages have plagued this electrical system because of its age and condition.

ESU is served electrically by a single Kansas Power & Light (KP&L) substation located south of the Maintenance Building, which serves six distribution circuits. Distribution of power from the KP&L substation to the building transformers is supplied radially, which means the substation supplies each series of buildings through a single cable with no alternate source of power to the cable or buildings.

The power supplied by a radial system is unreliable compared to the "loop" system employed at many university campuses. Most of the nearly 8,000 lineal feet of conductor cable on the ESU campus is over 30 years old and is approaching the end of its useful life.

The university has grave concerns about placing communication cable for the University's phone and computer systems in the same raceways as the distribution

cables. We recommend replacing the existing radial system with a loop system and removing all other cabling in the main electrical distribution raceways.

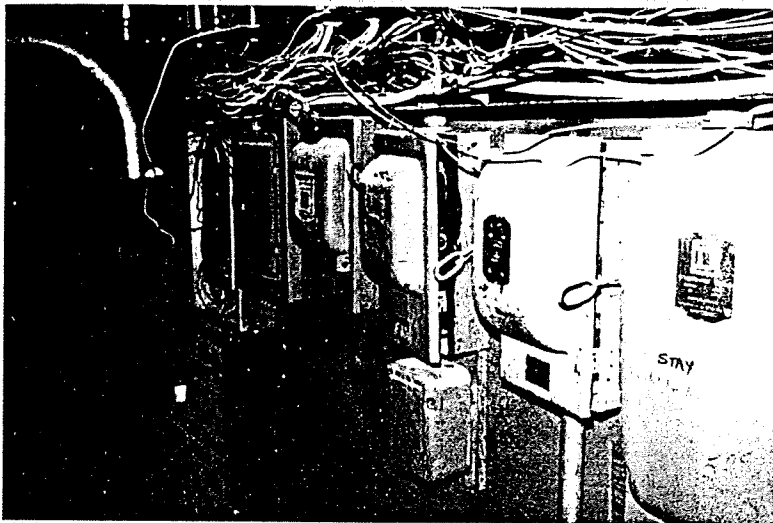
New switchgear will permit three loops to provide electrical service to the campus, with each source on the loop being supplied from multiple sources. The first loop of the new electrical distribution system will include the Memorial Union, King Hall, Plumb Hall, Beach Music Hall, Liberal Arts and Sciences, and William Allen White Library. Loop switches will be located at each building to allow each to be shut-off independently of the other buildings.

The second loop of the new system will include the Power House, Twin Towers, Singular, Trusler, Welch Stadium, Welch Stadium West, Police and Safety, Morse Northeast and the Physical Education Building. The final loop on the electrical distribution will provide electrical power to Stormont Maintenance, Visser Hall, Butcher Children's School, Morse Central, Morse North, Cremer Hall, Breukelman Science Hall, Morse Southeast, Morse South, Cram Science Hall and Brighton Lecture Hall.

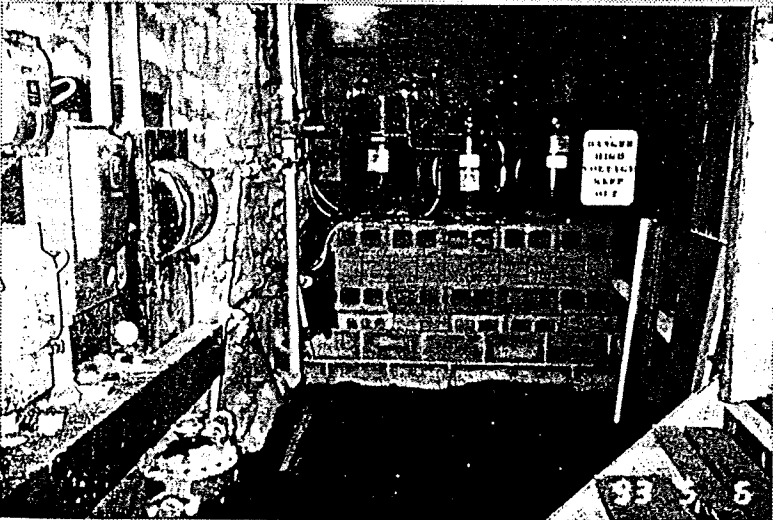
The \$3.4 million estimated budget includes construction, professional fees, 10 percent project contingency, and miscellaneous costs and asbestos removal.

## ELECTRICAL DISTRIBUTION PROJECT - \$3.4 MILLION

*Emporia State University*



top left Unsafe conditions at a disconnect switch station in the tunnel system.



bottom left Concrete blocks must be utilized to keep transformers above the water level.

bottom right Antiquated and unreliable high voltage electrical distribution system on the ESU campus.



Beach Music Hall has served the Division of Music at Emporia State University since 1926. Its architectural, structural, mechanical and electrical elements and systems have remained unchanged since the opening day of this facility. The growth and development of the Music Program over the past 68 years have required the division to expand into the Liberal Arts & Sciences Building adjacent to Beach Music Hall and "make do" with the restrictions and conditions of each building. A major renovation of Beach Music Hall is necessary to move this facility into the next century.

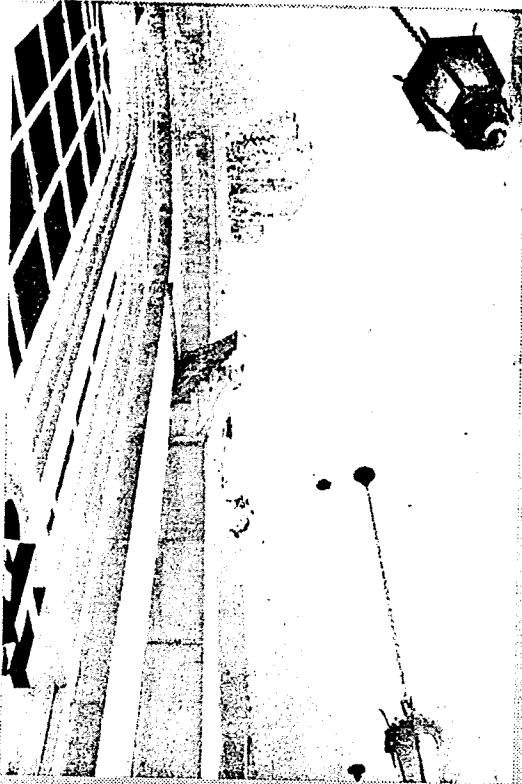
The mechanical and electrical systems require immediate attention to satisfactorily meet the current building codes, life-safety and fire-code regulations. According to inspections by the Division of Architectural Services, the building appears to be structurally sound. However, a thorough structural analysis and testing would be required to verify the capability of this structure. Architectural elements within this facility (doors, windows, finishes, detailing, etc.) are at or near deterioration due to weather, termite damage, abuse, deferred maintenance, and age. Piecemeal patching and repair have produced a negative environment in which to provide instruction.

The planning layout of Beach Music Hall is the same as it was originally designed. However, the requirements and demands placed on a music instruction facility have expanded since 1926 and the technological and physical requirements of this building need immediate updating to meet the current and future expectations of the division of music. Proper planning of existing space is vital to the success of the project and program. The building plan indicates a close scrutiny of current and future requirements is necessary to adequately accommodate the spatial demands of the division of music. Space planning points to a building addition.

The University, on many occasions, has given tours of Beach Music Hall to representatives and members from the Board of Regents, Legislature, and the Governor's Office. The reactions and comments from these visitors have reinforced the belief that the need for major renovation on this facility is critical, not only for the physical elements of the building, but also for the continued success of the division of music at Emporia State University.

The \$6 million estimated budget includes construction, professional fees, movable equipment, 10 percent project contingency, miscellaneous costs, and asbestos removal.

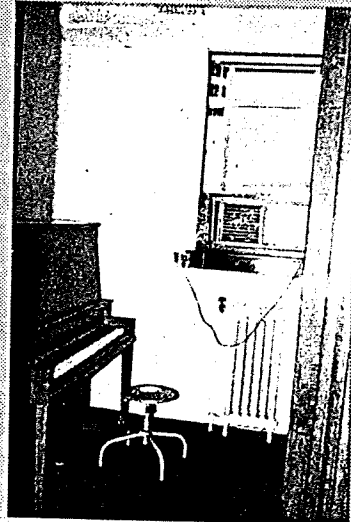
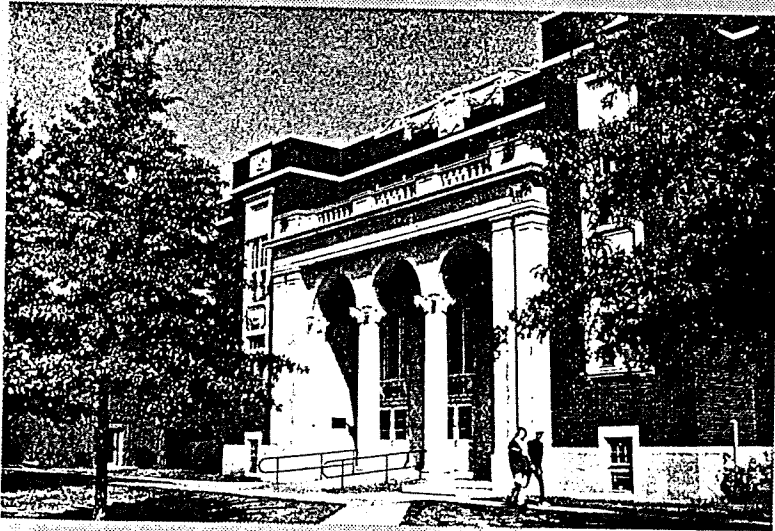




left Exterior damage to Beach Music Hall poses a hazard to pedestrians.

bottom left The architectural, structural, mechanical, and electrical elements of Beach Music Hall have remained unchanged since it opened in 1926.

bottom right An outdated music practice cubicle typical of those in Beach Music Hall.



Historically, Russ Hall has been an important symbol for Pittsburg State University. In addition, it serves as a major building on campus, housing academic departments, numerous classrooms and central administration offices.

Russ Hall was the first building constructed on the PSU campus, opening in 1908. Disaster hit in 1914 when the building was struck by lightning and was quickly engulfed in flames. By dawn, the smoldering ruins were sobering. The building had suffered devastating damage. The embers of Russ Hall had barely cooled when rumors began circulating in this Southeast Kansas community that the state might realize significant savings if it took this opportunity to close the school. Within 36 hours of the fire, the citizens of Pittsburg had pledged \$136,000 for the reconstruction and renovation of Russ Hall. Following this outpouring of support, the 1915 Legislature appropriated \$188,565 to repay the local citizens and to complete the restoration of Russ Hall.

Throughout its history, Russ Hall and its impressive columns have symbolized the strong academic traditions of the University. Russ Hall also has housed many essential programs and services for the institution. The imposing structure sits on the main artery of the Pittsburg community and serves as the initial point of welcome for most campus visitors.

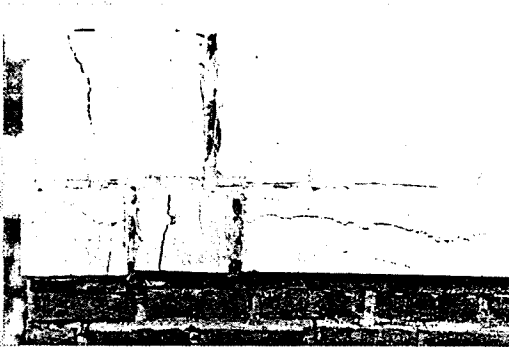
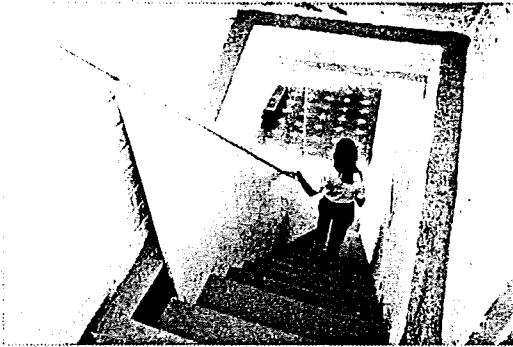
The original building was four stories and contained 71,000 square feet. In the 1950s, an addition was built

providing another 19,000 square feet for classrooms and offices. Modifications and repairs throughout the years have kept the building functional. However, because of its age and changes in safety codes and accessibility requirements, Russ Hall needs complete renovation.

A major flaw in the building is its lack of accessibility for the disabled since no elevator exists in the four-story building. Renovation will include the installation of an elevator and other modifications making Russ Hall accessible as well as meeting requirements of the Americans With Disabilities Act.

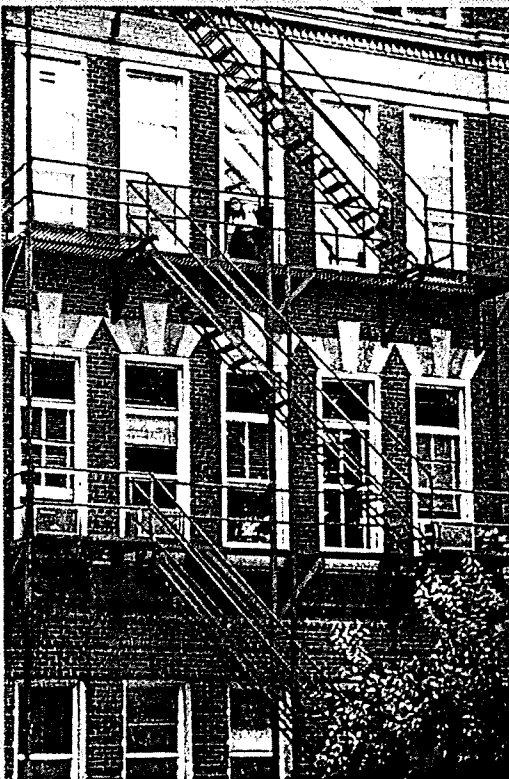
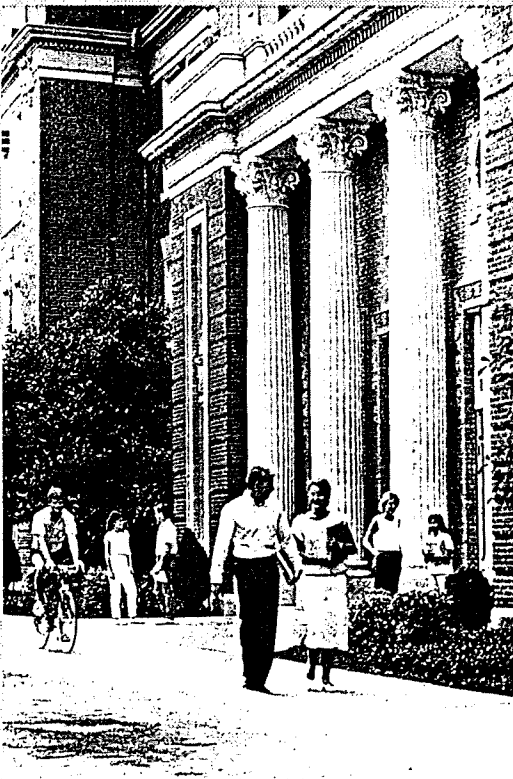
The open interior stairwells and exterior fire escapes are totally inadequate based on today's life and safety standards. The early 1900s design poses code problems that need to be addressed through renovation.

Classrooms also will be upgraded to provide the type of learning environment needed in this electronic media age of the 1990s. Administrative services housed in the building will be made more efficient with more functional use of space. The deterioration of exterior surfaces and details also will be addressed. Significant energy savings will be realized in the long run with the installation of more efficient heating and cooling systems as well as replacement of the double-hung, oversized windows. Electrical service to the building will be enhanced. In all aspects, the building will be renovated to serve educational and safety requirements well into the next century.



top left A stairway to an observatory on top of Russ Hall does not comply with fire or life safety codes.

bottom left Throughout its history, Russ Hall and its impressive columns have been considered a symbol of the University's strong academic tradition.



top, right Renovation plans call for replacement of the coping stone, part of the original walls of Russ Hall, built in 1908.

bottom right Russ Hall fire exits, on the exterior of the building, do not meet 1994 life safety codes which require enclosed and protected interior stairwells

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The completion of the Physical Sciences Building and the Sternberg Museum projects at Fort Hays State University will free a substantial amount of space in McCartney, Albertson, and Martin Allen halls for other programs. This remodeling project upgrades portions of McCartney Hall, Albertson Hall, and Martin Allen Hall.

Space vacated by the Museum on the first floor of McCartney Hall will provide an expansion for the College of Business. Currently, the College of Business occupies the second and third floors of McCartney Hall, with the first floor housing the Sternberg Museum collections. New classrooms, labs and offices will be in the remodeling plans. In addition, existing classrooms will be upgraded to enhance instruction; the first floor will be retrofitted with a central HVAC system, and ADA and Fire Safety deficiencies will be corrected.

Space available in Albertson Hall after Chemistry, Physics, and Geosciences have moved to the new building will be used to move the Department of Speech-Language Pathology, thus relieving severe overcrowding in Malloy Hall, and more importantly, allowing Speech-Language

Pathology to better serve its clients. Additional renovations are required to satisfy the needs of Agriculture, Biological Sciences, and Allied Health. The labs in the 1928 wing are obsolete by today's standards. Classrooms will be upgraded to enhance teaching, a central HVAC system will be incorporated into the original 1928 wing, and ADA and Fire Safety corrective measures will be included in the remodeling.

Martin Allen Hall, one of the smaller buildings on campus, is a prime location for the Kelly Center, after the Academic Computing Center has moved to the Physical Sciences Building. The Kelly Center is housed in Picken Hall and offers students, faculty and staff psychological services, counseling, services for the disabled, and substance abuse counseling. The Center also provides students with practicum experience.

Because all buildings are located on the main campus quadrangle, their continued effective use is vital to the University. The combined projects will cost approximately \$9.6 million.

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## MCCARTNEY/ALBERTSON/MARTIN ALLEN HALLS RENOVATIONS - \$9.6 MILLION *Fort Hays State University*

top left A fourth floor science lab in Albertson Hall has inadequate ceiling height, lighting, and storage.

bottom left A small office in Albertson Hall is shared by two faculty members.

top right A faculty member and secretary share 120 square feet of office space in McCartney Hall.



bottom right Biology specimens are stored in a faculty office in Albertson Hall because of lack of storage space in the building.







# KANSAS BOARD OF REGENTS

700 SW HARRISON • SUITE 1410 • TOPEKA, KS 66603-3760

GENERAL ADMINISTRATION - 913 296-3421 • STUDENT ASSISTANCE - 913 296-3517 • FAX 913 296-0983

January 1996

## BOND INTEREST RATE VERSUS INCREASE IN COST OF CONSTRUCTION

During the past twenty five years, the office of the Kansas Board of Regents has kept data on construction costs and inflation. In 1970 it cost the State of Kansas \$28 per square foot to build a new classroom office facility. This was total project cost including furniture, landscaping, fees, etc. Twenty five years later, due to construction inflation, the cost for a classroom office building is budgeted for \$103 per square foot, total project cost. This increase of \$75 per square foot is a 268% increase in twenty five years or an average annual increase of 11%.

Construction inflation is increasing in the Midwest. Our major projects have been bid much higher than expected and we have been forced to convert equipment dollars into construction funds or, in some cases, not award a contract. Several examples are Hoch Auditorium Replacement at the University of Kansas, Farrell Library Addition and Remodeling at Kansas State University and the Cancer Center at the University of Kansas Medical Center.

National, regional and statewide experts involved in the design and construction business are predicting increasing inflation rates for construction. This includes repairs and rehabilitation work and all types of remodeling. Our office has been monitoring construction cost factors and predictions, and has contacted the office of the Associated General Contractors of Kansas, the office of the State Architect which is responsible for all state owned construction in Kansas, and various large architectural offices in Kansas which are responsible for setting budgets and cost estimates for large projects years in advance of construction.

These various offices agree that construction inflation is increasing and will continue to increase. The best estimate of construction inflation settles on at least 6% per year for the next seven or eight years. Some are using 8 or 10% to be on the safe side but none of the advisors are using less than 6%.

An example of what happens to our spending power at 6% inflation is revealed as follows: Assume that we are going to take \$15 million cash per year and spend it each year for the next 15 years. If we reduce the construction buying power by 6% each year, the \$15 million will only be worth \$6.26 million during the fifteenth year. Instead of construction buying power of fifteen years times \$15 million per year for \$225 million the total value of the fifteen year buying power is diminished to \$146 million.

Historically, construction inflation has grown faster than salaries and wages. Even in Kansas, where the economy is considered more modest and does not experience large ups and downs, construction costs have increased more than other costs. We see nothing to change this.

House Appropriations

Attachment 5

Jan. 9, 1996

Another way of looking at this is to assume that we are going to spend \$15 million per year for remodeling and repair projects for fifteen years. This is a total expenditure of \$225 million in fifteen years. If we pay cash each year we will get \$146 million worth of work for the \$225 million invested. This is a loss to inflation of \$79 million over the fifteen years. If, on the other hand, we issue bonds at current interest rates and have \$163 million up front in cash to do construction, we will pay interest costs of \$62 million (  $\$225 - \$163 = \$62$  ). We have spent the same amount of money in fifteen years, \$225 million, but will have received a value in construction projects of \$163 instead of \$146 million. Also, as an added benefit we will have received the use and the value of the repairs and remodeling many years sooner. This will also increase the life of our buildings as there will be less years of deferred maintenance to further deteriorate the buildings. The net savings to the State of Kansas is more than \$17 million.

Bond interest rate projections for tax-exempt issues are prepared by the Kansas Development Finance Authority based on interest rate schedules published by *The Bond Buyer*, a nationally recognized publication reporting municipal finance news on a daily basis. The interest rates published in this paper are very similar to interest rate scales published by other nationally recognized sources.

*The Bond Buyer* publishes daily "Municipal Market Data General Obligation Yields" which provide estimated interest rates for four different credit qualities. For financing projections the KDFA uses the most conservative rating for the particular issue, generally the "A" or "AA" rating. Although the interest ratings published in *The Bond Buyer* are for general obligation bonds, sales of KDFA revenue bonds for agencies of the State of Kansas have consistently proved that the use of the published interest rate scales for general obligation issues is conservative.

The interest rates used by the KDFA in preparing the analysis for the Board of Regents in December 1995 were from *The Bond Buyer* interest rate scale "A", the most conservative rate scale. The KDFA also added twenty basis points as an additional element of conservatism. Interest rates in early January 1996 are approximately the same as for December 1995. A copy of the interest rate schedule published January 3, 1996 by *The Bond Buyer* is enclosed as Attachment A. Also enclosed as Attachment B is a comparison of actual interest rates on a recent issue for Kansas State University to nationally recognized market rate scales. The bond issue was neither rated or insured but sold near the "AA" nationally published rates.

All indications are that bond interest rates might be lower slightly in the next few months. The rate used in our comparisons is 5.1% for bond interest rates and 6% for construction inflation. This difference provides sufficient data to encourage us to issue revenue bonds as quickly as possible and could save the State of Kansas more than \$15 million over the next fifteen years. A million dollars per year!



# MARKET STATISTICS for Friday, December 29, 1996

## Treasury SLG Rates

	Friday	Prev. Week	Prev. Month
Overnight*	3.38	3.56	3.68
Three Months	4.86	4.93	5.36
Six Months	4.98	5.18	5.34
Nine Months	5.03	5.17	5.27
One Year	5.05	5.17	5.24
Two Years	5.07	5.21	5.23
Three Years	5.15	5.29	5.28
Four Years	5.22	5.35	5.34
Five Years	5.30	5.41	5.41
10 Years	5.50	5.64	5.63
15 Years	5.75	5.90	5.89
20 Years	5.92	6.07	6.08
25 Years	5.88	6.02	6.04
30 Years	5.86	5.99	6.01

\*Annualized effective rate.  
n.a. — no data available because of holiday.

## Municipals

Continued from front page

said a constructive tone was fueled by demand for a light new-issue calendar and manageable dealer supply.

Reflecting the better bid for bonds last week, Standard & Poor's Corp.'s Blue List of dealer inventories fell \$35 million today to \$1.27 billion, down from over \$2 billion less than two weeks ago.

The Bond Buyer's 30-day visible supply of new issues expected to come to market within the next month, meanwhile, stood unchanged from Friday at \$2.57 billion, including \$1.18 billion of competitive issues, and \$1.29 billion set for negotiated sales.

For the moment, however, traders stressed that the market had little direction and said the tone was nondescript.

"I think you're supposed to see the market a little weaker, but nobody is overanalyzing it," a trader said late this morning. "I don't think there are any leaders this morning."

Market participants said they expected the market to stretch a bit today as the primary market awakens from a winter's nap, when lead manager A.G. Edwards & Sons Inc. plans to price \$155 million in Sikeston, Mo., insured electric

## U.S. Securities Prices

Prices as of 4 p.m. EST

Source: GovPX Inc.'s Prophecy Treasury Pricing

### Treasury Bills

(In percent of discount)	Closing Price	Prev. Close	Day's High	Day's Low	Closing Yield	Total Volume
3M — 3/28/96	4.930	4.835	4.965	4.840	4.976	637
6M — 6/27/96	4.945	4.890	4.975	4.890	5.153	379
1Y — 12/12/96	4.878	4.900	4.950	4.870	5.140	1,451

### Treasury Notes and Bonds

(In points and 32ds)	Closing Price	Prev. Close	Day's High	Day's Low	Closing Yield	Total Volume
2Y — 5¼ due 12/97	100-052	100-032	100-05+	100-016	5.162	1,523
3Y — 5½ due 11/98	100-23+	100-200	100-240	100-180	5.218	810
5Y — 5½ due 12/00	100-160	100-110	100-170	100-07+	5.384	2,787
10Y — 5½ due 11/05	102-05+	101-280	102-07+	101-260	5.585	1,063
30Y — 6½ due 8/25	112-250	112-100	112-250	112-040	5.951	628

TOTAL VOLUME ..... \$25.511 down 45%

Plus signs indicate an additional one-64th. Total volume represents the portion of dealer trades executed through GovPX Broker Contributors, in millions of dollars.

### Lehman Brothers Long Treasury Bond Index

	Price Index			Yield Index			Total Return
	Yesterday	Prev. Day	Change	Yesterday	Prev. Day	Change	
Close	1634.16	1628.30	+5.86	6.00	6.03	-0.03	6706.15
High	1634.16	—	—	—	—	—	6706.15
Low	1624.20	—	—	—	—	—	6661.89

The Lehman Brothers Long Treasury Bond Index represents the weighted average of all publicly held issues with maturities between 10 and 30 years (Dec. 31, 1980 = 1000).

## Outlook

Continued from front page

cause of higher rates they would be expected to pay to private owners.

The provision to sell SEPA caused a storm of controversy because it called for the transfer — by auction — to private ownership substantial assets in the Southeast that are owned by the U.S. Army Corps of Engineers, including generating plants, locks, dams, reservoirs, and other properties important to electric power, navigational, recreational, drinking water, and other interests. SEPA, among other things,

## Municipal Market Data General Obligation Yields

Figures are for 2:30 p.m. EST, Dec. 29, 1995. These data are provided by Municipal Market Data, (617) 345-2900, and are considered proprietary. Although they have been obtained from sources considered reliable, there is no guarantee of completeness or accuracy.

Year	AAA	AAA (Ins)	AA	A
1996	3.45	3.55	3.55	3.70
1997	3.70	3.85	3.80	3.95
1998	3.85	4.00	3.95	4.10
1999	4.00	4.15	4.10	4.25
2000	4.10	4.25	4.20	4.35
2001	4.20	4.35	4.30	4.45
2002	4.30	4.45	4.40	4.55
2003	4.40	4.55	4.50	4.65
2004	4.50	4.65	4.60	4.75
2005	4.60	4.75	4.70	4.85
2006	4.70	4.85	4.80	4.95
2007	4.80	4.95	4.90	5.05
2008	4.90	5.05	5.00	5.15
2009	4.95	5.10	5.05	5.20
2010	5.00	5.15	5.10	5.25
2011	5.05	5.20	5.15	5.30
2012	5.05	5.25	5.20	5.35
2013	5.10	5.25	5.20	5.35
2014	5.10	5.25	5.20	5.35
2015	5.15	5.30	5.25	5.40
2016	5.15	5.30	5.25	5.40
2017	5.15	5.30	5.25	5.40
2018	5.15	5.30	5.25	5.40
2019	5.15	5.30	5.25	5.40
2020	5.15	5.30	5.25	5.40
2021	5.15	5.30	5.25	5.40
2022	5.20	5.35	5.30	5.45
2023	5.20	5.35	5.30	5.45
2024	5.20	5.35	5.30	5.45
2025	5.20	5.35	5.30	5.45

lations.

"If there's going to be a sale, that's

Kansas Development Finance Authority  
 Refunding Revenue Bonds Series G, 1995  
 Kansas Board of Regents - Kansas State University Parking System Refunding Project  
 Comparison of Accepted Bid to Market Rates

Sale Date: November 16, 1995  
 Average Weighted Life: 5.575 Years  
 Ratings: Not rated or insured

Year	Maturity Year	Bond Buyer GO Yields			Bloomberg Generic OAS GO Yields			Bid Received	Variance from Bond Buyer AA/A Composite	Variance from Bloomberg AA/A Composite
		AA	AA/A Composite	A	AA	AA/A Composite	A			
1	1996	3.750%	3.825%	3.900%	3.740%	3.835%	3.930%	3.800%	0.025%	0.035%
2	1997	4.000%	4.075%	4.150%	3.940%	4.035%	4.130%	4.000%	0.075%	0.035%
3	1998	4.150%	4.225%	4.300%	4.090%	4.185%	4.280%	4.100%	0.125%	0.085%
4	1999	4.250%	4.325%	4.400%	4.210%	4.305%	4.400%	4.200%	0.125%	0.105%
5	2000	4.350%	4.425%	4.500%	4.310%	4.405%	4.500%	4.350%	0.075%	0.055%
6	2001	4.450%	4.525%	4.600%	4.410%	4.505%	4.600%	4.450%	0.075%	0.055%
7	2002	4.550%	4.625%	4.700%	4.510%	4.605%	4.700%	4.550%	0.075%	0.055%
8	2003	4.650%	4.725%	4.800%	4.610%	4.705%	4.800%	4.650%	0.075%	0.055%
9	2004	4.750%	4.825%	4.900%	4.710%	4.805%	4.900%	4.750%	0.075%	0.055%



## Notes:

1. Bloomberg 6 and 8 year maturities are interpolated.
2. Bond Buyer and Bloomberg yields are as of market close on 11-16-95.

5-4