Approved: February 19, 2007
Date

MINUTES OF THE HOUSE APPROPRIATIONS COMMITTEE

The meeting was called to order by Chair Sharon Schwartz at 9:00 A.M. on February 6, 2007, in Room 514-S of the Capitol.

All members were present except:
Representative Kay Wolf - excused

Committee staff present:
J. G. Scott, Legislative Research Department
Becky Krahl, Legislative Research Department
Julian Efird, Legislative Research Department
Aaron Klaassen, Legislative Research Department
Jim Wilson, Revisor of Statutes
Shirley Jepson, Committee Assistant

Conferees appearing before the committee:
Marilyn Jacobson, Interim Director, Division of Facilities Management
Peggy Hanna, State Treasurer's Office

Others attending:
See attached list.

- Attachment 1 Presentation on State Owned Buildings by Marilyn Jacobson
- Attachment 2 Fiscal Note on **HB 2246**
- Attachment 3 Testimony on **HB 2246** by Peggy Hanna

HB 2388 was referred is Social Services Budget Committee.

Representative Williams moved to introduce legislation to allow fire departments to close roads for safety reasons. The motion was seconded by Representative Lane. Motion carried.

Representative McLeland moved to introduce legislation pertaining to school finance and special education. The motion was seconded by Representative Powell. Motion carried.

Representative McLeland moved to introduce legislation concerning the school for the blind and the school for the deaf. The motion was seconded by Representative Powell. Motion carried.

Representative George moved to introduce legislation to reinstate a $250,000 death benefit for National Guardsmen killed during combat duty. The motion was seconded by Representative Henry. Motion carried.

Representative George moved to introduce legislation to equalize funding for community colleges that merged with technical schools. The motion was seconded by Representative Bethell. Motion carried.

Chair Schwartz recognized Marilyn Jacobson, Interim Director, Division of Facilities Management, who presented a briefing on state buildings managed by the Department of Administration (Attachment 1). Ms. Jacobson stated that the Department of Administration manages 64 buildings/land assets in Shawnee County. A building condition assessment process is used to establish rankings on the condition of these building systems. The use of this assessment process indicates that a majority of the existing State owned/managed office buildings in the Capitol Complex are in a critical condition of disrepair.

Options under consideration by the Department include:
- Reconstruction of Docking State Office Building (DSOB) in which the building would be taken down to its base structure and rebuilt. Occupants would be moved out of the building into leased space. This option would preserve the existing heat plant and the cooling towers. Estimated cost would be $77.5 million.

- Phased reconstruction of DSOB in which the building would be reconstructed in two phases with half of the occupants moved into leased space at a time. This option would also preserve the existing heat plant and cooling towers. Cost of this option would be an additional $9.3 million.

- Construction of new building on land south of the present DSOB location. Cost of this option would range from $53.5 million to $114 million depending on square footage and seat capacity.

- The demolition of the DSOB with retention of the heating plant and cooling towers would cost approximately $10.4 million.

- Construction of new parking garage at a cost between $9.6 million - $19.3 million depending on site and configuration. Possible site would be the DSOB site.

- Individual repairs to DSOB while occupied is estimated at $148 million.

- Reconstruction of Landon Building with occupants moved to leased space at an estimated cost of $71.3 million.

- Individual repairs to Landon while occupied at an estimated cost of $83 million.

- Renovation of Dillon House estimated at $3 million.

The Committee discussed the need to investigate the possibility of selling the state-owned buildings and leasing space from private entities to house the state agencies. Another possibility discussed was the feasibility of moving some agencies into leased buildings in surrounding areas of the State.

Hearing on HB 2246 - Amendments to unclaimed property act allowing interest to be paid to certain claimants.

Aaron Klaassen, Legislative Research Department, explained that **HB 2246** would amend the statute on distribution of unclaimed property by allowing interest to be paid to a claimant on any funds deposited with the State from a savings account, certificate of deposit or interest-bearing account.

A fiscal note on **HB 2246** was distributed to the Committee (Attachment 2). Mr. Klaassen noted that the State Treasurer estimates the effect to be less than $100,000 State General Fund (SGF) each year.

The Chair recognized Peggy Hanna, State Treasurer's Office, who testified in support of **HB 2246** (Attachment 3). Ms. Hanna stated that this legislation would allow any interest earned on principal in a savings account, certificate of deposit or from an interest-bearing account to be paid, along with the principal, to a property owner or their heirs. Currently, the interest is retained by the State in the State General Fund (SGF).

Responding to a question from the Committee, Ms. Hanna stated that the State Treasurer's Office is funded through various fee funds and a "rake" of funds collected from unclaimed property. The Committee questioned the feasibility of paying interest to the claimant when banks actually charge fees on unused accounts held over five years.

The hearing on HB 2246 was closed.

The meeting was adjourned at 10:00 a.m. The next meeting will be at 9:00 a.m. on February 7, 2007.

Sharon Schwartz, Chair

House Appropriations Committee
February 6, 2007
9:00 A.M.

NAME	REPRESENTING
Vicki Hekel	Budget
Deb Aspin	Budget
Marilyn Jacobsen	DOA
Jeff Wagoner	~~DOA~~ Treasurer's Office
Peggy Hanna	State Treasurer's Office
Richard Ames	DOA
Dan Sokol	DOA
Ken Sieben	Ken Law Firm

Kansas Department of Administration
Duane A. Goossen, Secretary
Carol L. Foreman, Deputy Secretary
1000 S.W. Jackson, Suite 500
(785) 296-3011

House Appropriations Committee
Capitol Complex Buildings

Marilyn L. Jacobson, Interim Director
Division of Facilities Management
February 6, 2007

Thank you for the opportunity to brief you on the Department of Administration's managed buildings in the Capitol Complex. I would like to start out by providing background on the scope of buildings overseen by the Department of Administration (DOA).

DOA manages 64 buildings/land assets in Shawnee County including 3.2m gross square feet of space on 437.63 acres. The most significant building assets managed, their respective gross square footages and construction dates include:

Docking State Office Building	564,138 sq. ft.	1956
Landon State Office Building	362,627 sq. ft.	1912
Curtis State Office Building	320,721 sq. ft.	2001
Capitol Building	317,146 sq. ft.	1866-1903
Eisenhower State Office Building	300,809 sq. ft.	1965
Capitol Parking Garage	216,000 sq. ft.	2004
Curtis Parking Garage	200,000 sq. ft.	2001
Judicial Center	168,096 sq. ft.	1978
Memorial Hall	94,136 sq. ft.	1914
Forbes Building 740	72,399 sq. ft.	1955
Dillon House	12,362 sq. ft.	1914
Cedar Crest	9,359 sq. ft.	1928

Working to enhance the quality of services provided to the State, the Department of Administration has incorporated a more structured approach to our Capital Improvement Planning process. The overall objective has been to qualify Capital Improvement Project Requests that best balance an appreciation for limited funding, business continuity and life/work safety considerations, against the continued aging of buildings and key building systems, and long-term property ownership considerations.

Building Condition Assessments

The Building Condition Assessment process used by DOA provides a score to establish relative rankings of the condition of specific key building systems to guide and enable more informed decisions during the capital improvement prioritization process.

Building Systems

Exterior Components – Foundation/Structure, Walls, Roof, Windows/Doors

Interior Components – Floors, Partitions, Ceilings, Fixed Equipment, Doors, Interior Finish/Trim, Elevators

Engineered Systems – Electrical, Plumbing, Heating/Ventilation/AC, IT Voice/Data, Lighting, Fire Alarm Systems, Emergency Lighting

Each building's major system component is rated according to the following classification system:

Excellent – New or near new condition as a result of recent installation, repair and/or replacement; typically less than 5 years of depreciation

Good – No obvious deficiencies in condition or performance, serviceable with basic maintenance; typically less than 10 years of depreciation

Deficient – Need for minor repair and limited replacement of components based on age and/or performance

Poor – Failure of primary components and multiple systems evident; major repair or replacement required

Unsatisfactory – Components or systems unusable, code deficient and/or not suited for current use; complete replacement required

A sum total for the building is calculated yielding an overall building condition rating as follows:

Excellent	(90-100)
Good	(80-89)
Deficient	(60-79)
Poor	(30-59)
Unsatisfactory	(0-29)

The established standard goal for each facility is a score of 90.

Using the current Building Condition Index (BCI) scores, there is little doubt that the majority of the existing State owned/managed office space in the Capitol Complex is either in or near a very critical condition of disrepair. A BCI of less than 80 is considered to be deficient. Based on current BCI scores and FTE counts for buildings, approximately 71% of the State workforce in State owned/managed facilities in the Capitol Complex (excluding the Statehouse and Judicial Center) works in sub-optimal office space.

Building	BCI	FTE	Percentage of FTE
Curtis	89.3	944	25
Memorial Hall	80.7	147	4
Eisenhower	68.9	740	20
Landon	68.2	808	21
Docking	53	1128*	30

* Legislature will continue to occupy until December, 2011.

There is no one perfect solution to the issues facing the Capitol Complex buildings and in particular, Docking, Landon and the Dillon House. However, there are several options depending on ownership choices such as maximizing FTE, cost, or aesthetic value. In previous reviews of the Capitol Complex, an underlying theme has been to improve the overall integrity of the complex by leveraging opportunities that ensure newly constructed or reconstructed buildings do not significantly change the view of the Capitol and are with architectural designs and materials that easily blend in with the other monumental buildings.

The criteria behind a decision on whether to lease, lease-purchase, buy or build consists generally of the following two factors:

- Economic Factors: A financial evaluation of the various housing alternatives comparing the costs of the alternatives. As a general statement, the housing alternative which offers the lowest cost to the State will be the preferred alternative, provided that non-economic factors do not outweigh pure economic considerations.

- Non-Economic Factors: Subjective judgments made with regard to the comparative desirability of the alternative housing solutions from a non-economic perspective, and weighed against their comparative economic cost.

Taken together, both economic and non-economic factors form the basis by which a final decision on the preferred housing alternative is rendered. In some instances, the preferred housing solution may not always be the least cost alternative. Examples of such a situation might be the decision to purchase an office building in lieu of leasing the same or another building, even though the leasing alternatives might be cheaper, because the purchase opportunity would:

- fall within the boundaries of the Capital Campus around the Statehouse, providing more efficiently located space for tenant agencies.

- consolidate agencies to allow for better services to the public and more efficient space management.

- provide permanent housing for State agencies.

The Department looks forward to continued discussions to determine the relative weighting for non-economic factors and how they should stack up against pure economic criteria in evaluating possible housing alternatives.

CAPITOL COMPLEX OPTIONS

- Reconstruction of Docking (Attachment A)
  - Phased Reconstruction of Docking
- Build a new Building (Attachment B)
  - Demolish Docking
  - Parking Garage
- Repair Docking (Attachment C)
- Reconstruction of Landon (Attachment D)
- Repair Landon (Attachment E)
- Renovation of Dillon House (Attachment F)

Thank you for the opportunity to provide you with this information regarding Capitol Complex Building issues.

Reconstruction of Docking

Description

Occupants will be moved out of the Docking Building into lease space. The Docking Building will then be reconstructed by taking it down to its base structure and rebuilding it. The heat plant will be kept operational along with the Statehouse chilled water system. The existing heat plant located in DSOB scores very high on the BCI scale, has an estimated useful life of at least 20 years and has enough capacity to sustain the existing infrastructure, which includes most of the complex buildings. The new cooling towers will also stay and be used to support a new chilled water plant built in the Docking building basement which will be sized to serve both the Statehouse and a reconstructed Docking Building.

Capacity

Current seat capacity: 1,551
New seat capacity: 1,920

Square Footage

Current Usable: 356,651 Gross: 564,138
New Usable: 384,000 Gross: 575,040

Condition

Year Built: 1956
2006 Building Condition Value: 53 (poor)
Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Construction estimate to reconstruct Docking: **$77,426,276.**
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- Furnishing costs of $5,000 per seat for new system furniture or $1,600 per person using existing system furniture.
- Rent rates will increase 14% from current rate of $15.93 for remaining tenants in complex during construction.
- Moving costs of $200 per person.
- Central Monitoring to relocate ($439,200).
- Central Mail to relocate elsewhere ($1,915,705).
- Capitol Complex Data Centers to relocate elsewhere ($5,856,000).

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Phased Reconstruction of Docking

Description

The building would be reconstructed in two phases. Approximately half of the occupants will be moved out of the building into lease space while the other half remain in the building during reconstruction. Once the vacant space is renovated, then the occupants remaining in the building will move into the newly reconstructed space and the space that they vacate will be reconstructed. The heat plant will be kept operational along with the Statehouse chilled water system. The new cooling towers will also stay and be used to support a new chilled water plant built in the Docking building basement which will be sized to serve both the Statehouse and a reconstructed Docking Building.

Capacity

Current seat capacity: 1,551
New seat capacity: 1,920

Square Footage

Current Usable:	356,651	Gross: 564,138
New Usable:	384,000	Gross: 575,040

Condition

Year Built: 1956
2006 Building Condition Value: 53 (poor)
Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Additional premium to reconstruct Docking in phases: **$9,241,153**
- Two wings and approximately 50% of the building would be reconstructed in each phase. A report by GLPM/Turner in 2004 recommended wing by wing phasing due to difficulties installing the curtain wall on a floor by floor basis. Other issues included the difficulties of sound isolation for occupants working above and below the floors under construction; solvents being used to remove hazardous materials could potentially leak into floors below; and the wing by wing will allow for a new chilled/hot water and electrical infrastructure to be installed while the existing infrastructure is being used on the occupied wing.
- Phasing requires restaging of trades, additional protection of occupants, and the cost to keep existing electrical, mechanical, life safety, and plumbing systems operational while installing new ones.
- Phasing will affect the agency adversely by splitting it up and having portions of the agency working in lease space and portions working in the Docking building.
- Phased construction will increase the construction schedule an additional 12-18 months.

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

New Building

Description

A new building will be built south of the Docking Building location. This building will be provided steam for heating by the existing heat plant. No costs associated with Docking are included in this estimate.

Capacity

Current seat capacity in Curtis: 1,135
Current seat capacity in Docking: 1,551
Current seat capacity in Landon: 865
Current seat capacity of both Docking and Landon: 2,416

Square Footage

Current square footage for Curtis	Usable: 261,161	Gross: 320,721
Current square footage for Docking	Usable: 356,651	Gross: 564,138
Current square footage for Landon	Usable: 216,195	Gross: 362,627
Current square footage for Docking and Landon	Usable: 572,846	Gross: 926,765

New square footage for Curtis	Usable: 227,000	Gross: 283,750
New square footage for Docking	Usable: 310,200	Gross: 387,750
New square footage for Docking and Landon:	Usable: 483,200	Gross: 604,000

Assumptions and Considerations*

- Construction estimate for a new building:
  - **$53,587,891** for a new building with the seat capacity of Curtis.
  - **$73,228,915** for a new building with the seat capacity of Docking.
  - **$114,069,024** for a new building with the seat capacity of Docking and Landon.
- The construction costs do not include demolishing Docking or Landon.
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- A new utility tunnel from the heat plant to the new building will have to be built ($1,000,000).
- Furnishing costs of $5,000 per seat for new system furniture.
- Rent rate and surcharge is not impacted during construction.
- Parking in lot 2 and 4 will be displaced for a new building (unknown expense).
- Moving costs of $200 per person.

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Demolish Docking with Heat Plant to Remain

Description

Occupants will be moved out of the Docking Building into lease space or a new office building. The Docking Building will then be demolished with the heat plant being kept operational. The new cooling towers will also stay and be used to support a new chilled water plant for the Statehouse that will set east of the cooling towers.

Capacity

Current FTE seat capacity: 1,551
Current FTE occupancy: 1,128

Square Footage

Current Usable: 356,651 Gross: 564,138

Condition

Year Built: 1956
2006 Building Condition Value: 53 (poor)
Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Demolition estimate to raze building and protect heat plant and cooling tower: **$10,309,539.**
- A new Chilled Water Plant is currently needed for the Statehouse given the age of the existing chillers and their lack of capacity to serve the new cooling loads in the Statehouse (estimated Statehouse cooling need after the Restoration Project is done is 820 tons the existing plant has a capacity of 720 tons). The cost of modifying the Docking Chilled Water Plant to add new chillers with the capacity for the Statehouse is ($3,534,381). If Docking is demolished a new chilled water plant will need to be built east of the new cooling tower that will be setup to supply chilled water to the Statehouse (the new cooling tower will be connected to the plant). The cost of building this new chilled water plant after demolishing Docking will be ($6,130,000).
- Occupants, currently 1,128, will have to relocate elsewhere.
- Furnishing costs of $1,600 per person using existing system furniture ($1,804,800).
- Moving costs of $200 per person ($225,600).
- Central Monitoring to relocate ($439,200).
- Central Mail to relocate elsewhere ($1,915,705).
- Data Centers to relocate elsewhere ($5,856,000).

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

New Parking Garage

Description

New parking garage to be built in a yet to be determined site.

Capacity

Current capacity in lot 2: 501
Current capacity in lot 4: 501
Current capacity in lot 2 and 4: 1,002

Assumptions and Considerations*

- Construction estimate for a new garage:
  $9,631,224 for a new garage with 501 stalls.
  $19,262,448 for a new garage with 1,002 stalls.

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Docking Repair

Description

The Docking Building will be kept occupied while individual repairs are done to the building.

Capacity

Current seat capacity: 1,551

Square Footage

Current Usable: 356,651 Gross: 564,138

Condition

Year Built: 1956
2006 Building Condition Value: 53 (poor)
Life Cycle Information: A majority of the building is heated and air conditioned by a perimeter fan coil system that was installed in 1955. This equipment should have been replaced in 1975 given the typical service life of fan coils is 20 years. All the electrical distribution, transformer and panel boards were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years. A majority of the light fixtures were installed in 1955 and also should have been replaced in 1985.

Assumptions and Considerations*

- Construction estimate for individual repairs to Docking: **$147,750,785.**
  - Replace Air Handler Units
  - HVAC Piping
  - Ductwork Replace
  - VAV Boxes and Controls
  - Replace Statehouse Chillers
  - Fire Protections
  - Electrical and Lighting
  - Ceiling
  - Carpeting
  - News Walls and Finish
  - Hazardous Material Abatement
  - Roofing and Waterproofing
  - Exterior Wall
  - Elevators
  - Foundation Repairs

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Landon Building Reconstruction

Description

Occupants will be moved out of the Landon Building into lease space. The Landon Building will then be reconstructed.

Capacity

Current seat capacity: 865
New seat capacity: 1,080

Square Footage

Current Usable: 216,195	Gross: 362,627
New Usable: 248,604	Gross: 362,627

Condition

Year Built: 1910
2006 Building Condition Value: 68.2 (deficient)
Life Cycle Information: The building is heated by a perimeter fin tube system that was likely to have been installed in 1955. This equipment should have been replaced in 1975 given the typical service life of steam heating coils is 20 years. The building office area is air conditioned by large multizone air handling units that were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of the air equipment and ductwork is 30 years. The building fire pump was installed in 1910 and should have been replaced in 1930 given a typical service life of 20 years. Most of the power panels and switch gear in the building were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of this electrical equipment is 30 years.

Assumptions and Considerations*

- Construction estimate to reconstruct Landon: **$71,264,223.**
- Utility costs should be added to the cost of construction during time of construction (unknown expense).
- Furnishing costs of $5,000 per seat for new system furniture or $1,600 per person using existing systems furniture.
- Moving costs of $200 per person.
- Disc data centers and demark to relocate elsewhere ($5,856,000)
- Rent rates will increase 6% from current rate of $15.93 for remaining tenants in complex until tenants are moved back into the building.

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Landon Building Repair

Description

The Landon Building will be kept occupied while individual repair are done to the building.

Capacity

Current seat capacity: 865

Square Footage

Current Usable: 216,195 Gross: 362,627

Condition

Year Built: 1910
2006 Building Condition Value: 68.2 (deficient)
Life Cycle Information: The building is heated by a perimeter fin tube system that was likely to have been installed in 1955. This equipment should have been replaced in 1975 given the typical service life of steam heating coils is 20 years. The building office area is air conditioned by large multi-zone air handling units that were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of the air equipment and ductwork is 30 years. The building fire pump was installed in 1910 and should have been replaced in 1930 given a typical service life of 20 years. Most of the power panels and switch gear in the building were installed in 1955. This equipment should have been replaced in 1985 given the typical service life of electrical equipment is 30 years.

Assumptions and Considerations*

- Construction estimate for individual repairs to Landon: **$83,064,794**.
  - Replace Air Handler Units
  - HVAC Piping
  - Ductwork Replace
  - VAV Boxes and Controls
  - Replace All Building Chillers
  - Fire Protections
  - Electrical and Lighting
  - Ceiling
  - Carpeting
  - New Walls and Finish
  - Hazardous Material Abatement
  - Roofing and Waterproofing
  - Exterior Wall
  - Elevators

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

Renovation of Dillon House

Description

The initial renovation work, completed in late 1998, included work to allow the first floor of the Dillon House to be used for events. Work on the upper floors and exterior was deferred. The roof has significant leaks that are causing deterioration to building structure and presents a potential for mold. The ultimate method to stop the leaks and to insure the long-term usability of the roof and the stability of the structure is to replace the roof material and repair any damaged substrate materials. The foundation walls are leaking causing water problems in the basement that are causing a deterioration of interior components as well as the presence of mildew and mold.

Condition

Year Built: 1914
2006 Building Condition Value: 45.7 (poor)

Assumptions and Considerations*

- Construction estimate for individual repairs to Dillon House: **$3,027,500.**

*All numbers above are estimates taken in today's dollars and are not reflective of true cost of construction. Inflation to middle of construction should be considered at a rate of 5% per year.

KANSAS
DIVISION OF THE BUDGET

Kathleen Sebelius, Governor
Duane A. Goossen, Director
http://budget.ks.gov

February 5, 2007

The Honorable Sharon Schwartz, Chairperson
House Committee on Appropriations
Statehouse, Room 517-S
Topeka, Kansas 66612

Dear Representative Schwartz:

SUBJECT: Fiscal Note for HB 2246 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2246 is respectfully submitted to your committee.

HB 2246 would amend the Unclaimed Property Act. First, the bill would allow for electronic communications between companies and their customers, if the customer agrees in writing. Second, the bill would authorize the State Treasurer to pay interest to claimants whose property was interest bearing at the time it was reported as unclaimed. This change would apply to demand and savings accounts as well as certificates of deposit.

The Office of the State Treasurer indicates that in-house programming changes would be made to the tracking system to accommodate the calculation and payment of interest. The agency estimates the number of accounts affected by this provision would be approximately 5.0 percent of the total claims paid out in any one year. According to information submitted by the agency in its budget submission, approximately 40,000 claims are expected to be paid in FY 2008; 5.0 percent would equate to 2,000 claimants affected by this bill. Beneficiaries of the interest would receive a 1099 form for income tax purposes, mailed by the State Treasurer at a negligible cost.

Paying interest to claimants on these accounts would reduce State General Fund revenues, as the interest currently accrues to the benefit of the State General Fund. The State Treasurer estimates the effect to be less than $100,000 each year.

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Peggy Hanna, Treasurer's Office

900 S.W. Jackson Street, Room 504-N, Topeka, KS 66612 • (785) 296-2436 •
e-mail: duane.goossen@budget.ks.gov

HOUSE APPROPRIATIONS
DATE 2-06-2007
ATTACHMENT 2

STATE OF KANSAS

Lynn Jenkins, CPA

TREASURER

900 SW JACKSON ST. SUITE 201
TOPEKA, KANSAS 66612-1235

TELEPHONE
(785) 296-3171

February 6, 2007

Testimony on House Bill 2246

Representative Sharon Schwartz, Chairperson, and Members
House Appropriations Committee

My name is Peggy Hanna of the State Treasurer's Office. Thank you for the opportunity to discuss House Bill 2246. This legislation would amend the Unclaimed Property Act in several ways. The first change brings our Act into the 21st century. We have moved from strictly verbal or paper communication to communicating with our business partners via email or other electronic forms of communication and this change allows Kansans to opt in to that method.

Another change to the Act adds a definition of interest bearing accounts – checking accounts that earn interest, savings accounts and certificates of deposit. This definition ties in with the change allowing the Treasurer's office to pay interest on claimed property originally reported to our office as interest-bearing. Currently the interest earned on those funds is retained by the State and becomes a part of the state general fund.

The Unclaimed Property program administered by the Treasurer's office has been in existence since 1979. During that time we have taken in over $281 million and paid out over $92 million – leaving $189 million in outstanding balance due Kansans or their heirs. The funds are held in the state general fund and are used to meet the cash flow needs of agencies. The outstanding balances are invested, mostly by KPERS, with any interest income or gains being credited to the state general fund.

Unclaimed property includes financial assets such as savings and checking accounts, stocks, utility deposits, rental deposits, insurance proceeds, and dividends. The only tangible property we receive is safe deposit box contents from banks and patient and inmate property from state facilities. Savings accounts and certificates of deposit are considered interest-bearing accounts and are reported as such. These types of accounts make up less than four percent of the outstanding balance of $189 million or approximately $7.5 million.

Each year we receive between $15 and $20 million in new assets of all types. Conversely, between $8 and $10.5 million dollars is paid to owners or their heirs each year. Less than *five percent of the dollars* paid out would be considered "interest-bearing". **Therefore, the fiscal impact of this legislative change would be under $100,000 per year.**

HOUSE APPROPRIATIONS
DATE 2-06-2007
ATTACHMENT 3

Currently, 18 states pay some type of interest on claims such as this. The Treasurer is mindful of the financial challenges that you as lawmakers are facing this session. She also understands the financial challenges our citizens are facing. Reuniting unclaimed property owners or their heirs not only with the principal but also with a reasonable amount of interest on their property is, very simply, the right thing to do for Kansans. We work hard to reunite people with their money at the Treasurer's office by various methods – through an interactive website where folks can look up their names and request claim forms and certain properties can be claimed and approved on line; through television call in shows and other media events; the State Fair where the Treasurer's office has had a booth for over 20 years; a dedicated staff member whose purpose is to use various tools to search for folks and send them their claim forms; and finally you and your personal contact with your constituents, an invaluable service! Thank you for helping us to return these assets to the citizens of Kansas. However, Treasurer Jenkins believes strongly that we should return both the principal and interest to the owners or their heirs.