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**Senate Committee on Assessment and Taxation
Neutral Testimony on SB 35**

January 21, 2025

**Blake Flanders
President and CEO, Kansas Board of Regents**

Good morning Chair Tyson and Members of the Committee. Thank you for the opportunity to appear before you today to discuss SB 35, a bill that would, as introduced, reduce a vital and stable source of state funding for the state universities. We absolutely appreciate that property taxes in Kansas need to be addressed. Because facilities and the stewardship of those facilities are such an important aspect of what we offer our students, we can support the legislation with amendments I have in my testimony.

The Educational Building Fund was first established by the 1941 Legislature. For most of the past 80+ years, the EBF has been the one consistent dedicated source of state funds for academic and research building projects at the state universities. Income to the Fund is derived from a one mill, statewide levy on property subject to ad valorem taxation.

State universities' buildings provide the physical environment to fulfill the institutional missions, help with recruitment and retainment of students, faculty and staff, inspire ongoing participation of alumni and donors, and create a sense of community.

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A table outlining past and projected revenues to the EBF and expenditures from the Fund is below. Our Board is pleased to have the benefit of this dedicated fund to address the ongoing maintenance of state facilities.

Educational Building Fund					
	FY 2022 <u>Actual</u>	FY 2023 <u>Actual</u>	FY 2024 <u>Actual</u>	FY 2025 <u>Projected</u>	FY 2026 <u>Projected</u>
Beginning Balance	\$ 41,251,865	\$ 45,536,174	\$ 57,124,155	\$ 60,202,946	\$ 3,605,705
Revenues					
Property Tax	40,658,136	44,303,002	48,119,640	50,150,000	51,840,000
Motor Vehicle Taxes	3,890,318	3,999,874	4,090,570	4,172,381	4,211,828
Other Receipts/Recoveries	<u>36,807</u>	<u>5,789</u>	<u>18,909</u>	<u>--</u>	<u>--</u>
Total Revenues	\$ 44,585,261	\$ 48,308,665	\$ 52,229,119	\$ 54,322,381	\$ 56,051,828
Resources Available	\$ 85,837,126	\$ 93,844,839	\$ 109,353,273	\$ 114,525,328	\$ 59,657,533
Total Expenditures	\$ 40,300,952	\$ 36,720,684	\$ 49,150,327	\$ 110,919,623	\$ 58,500,000
Ending Balance	\$ 45,536,174	\$ 57,124,155	\$ 60,202,946	\$ 3,605,705	\$ 1,157,533

Recognizing that the EBF by itself is not adequate to address the maintenance needs of our academic and research buildings, the Board is implementing a capital renewal initiative, made possible with your partnership. A best practice for annual investment in facilities maintenance equates to 2% of asset replacement value adjusted annually for inflation.

First and foremost, the Board of Regents has put the state universities on a path to meet that 2% standard with an annual maintenance assessment. They are also on a mission to tear down obsolete facilities that are in such poor condition the cost to repair them is too great, or they no longer meet the needs of the university. To date, we have earmarked 27 buildings over 625,000 square feet for demolition – eliminating \$95.0 million in deferred maintenance costs.

The EBF amounts to approximately 1/3 of the revenues needed to keep the maintenance backlog at bay for our mission critical buildings. The other 2/3 of the revenue needed will come from the universities' maintenance assessment.

We appreciate the effort in SB 35 to replace funds that currently come from property taxes. Unfortunately, the amount set forth in SB 35 is notably less than what is currently projected from the property tax. Projections indicate that slightly over \$56 million will be generated in Fiscal Year 2026 which is considerably more than the \$50 million figure set forth in SB 35. In addition, the annual escalator of "2% of \$50 million" stated in the bill is less than the average increase in revenues to the EBF in the past.

We offer the following amendments to SB 35 in order to make it comparable to the current funding available to the state universities for facilities capital renewal from the EBF. Proposed language for Section 1:

(c) On July 1, 2026, or as soon thereafter as moneys are available, \$56,000,000 shall be transferred by the director of accounts and reports from the state general fund to the Kansas educational building fund. On July 1, 2027, and on July 1 each year thereafter, or as soon thereafter as moneys are available, an amount as calculated in subsection (d) shall be transferred by the director of accounts and reports from the state general fund to the Kansas educational building fund. All moneys transferred or credited to such fund under the provisions of this act or any other law shall be allocated and distributed in the manner provided herein. All transfers made in accordance with the provisions of this section shall be considered to be demand transfers from the state general fund.

(d) Beginning on July 1, 2027, the funding provided under this section shall be adjusted annually to reflect the preceding three years' growth in property valuation for property subject to property tax within the State of Kansas.

(e) For purposes of this section:

(1) "Property valuation growth" shall be defined as the aggregate increase in the assessed valuation of all taxable property within the State of Kansas over the most recent three-year period, as determined by the county appraiser in each county in accordance with applicable statutes.

(2) The "preceding three years' growth in property valuation" shall be calculated by:

(A) Summing the annual percentage increase in property valuation for each of the three immediately preceding calendar years; and

(B) Dividing the total sum obtained under subsection (e)(2)(A) by three to determine the average annual percentage growth.

(f) The amount of funding to be provided in any fiscal year shall be increased by a percentage equal to the average annual percentage growth in property valuation as determined under subsection (e)(2)(B), applied to the baseline funding amount for the immediately preceding fiscal year.

(g) If property valuation decreases during any of the three years used for the calculation described in subsection (e)(2), such decreases shall reduce the overall average annual growth rate accordingly, but in no event shall the calculated growth rate fall below zero for purposes of this section.

(h) The adjustments provided in this section shall be subject to verification by the Kansas Department of Revenue prior to implementation.

For decades, the Legislature has made investments in buildings and infrastructure on the campuses of the state universities, for which the Board of Regents is grateful. The state universities and the Kansas Board of Regents oversee this investment, but the buildings and the land that they occupy belong to the citizens of Kansas. Currently, there are a total of 1,134 facilities in use with a total area of more than 39 million gross square feet with a total replacement value of just over \$13.5 billion.¹ These facilities comprise a substantial majority of the State of Kansas' total building inventory.

As stewards of these assets, the Board of Regents and the state universities seek to continue our partnership in ensuring the long-term viability of the campuses.

For reasons outlined above we are neutral to the enactment of SB 35, as introduced, but we look forward to working with you on amendments to accomplish your goal of reducing property taxes while protecting this valuable investment in your state university facilities.

Thank you for the opportunity to appear before you today on this matter important to our state universities.

¹ 2024 University Facilities Report (as required by K.S.A. 76-7,103).