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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 11, 2016

The Honorable Ty Masterson, Chairperson
Senate Committee on Ways and Means
Statehouse, Room 545-S
Topeka, Kansas 66612

Dear Senator Masterson:

SUBJECT: Fiscal Note for SB 498 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 498 is respectfully submitted to your committee.

SB 498 would effectively implement Real Estate and Lease Management–Recommendation #3 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal.

The Department of Administration would be required to contract with a project management office for the purposes of identifying, marketing and selling surplus real estate. All state agencies would be required to cooperate with the project management office. All surplus real estate that would be sold must be approved by the Department of Administration by November, 2016.

The surplus real estate identified through the special process in the bill would be exempt from current appraisal procedures in KSA 75-0343a. Also, under current law, 20.0 percent of the proceeds from the sale of surplus real estate must be credited to the state agency that owned the real estate and 80.0 percent of the proceeds must be credited to the Kansas Public Employees Retirement System and applied to the unfunded actuarial liability. SB 498 would instead credit the proceeds, after expenses are deducted, to the state agency in a surplus real estate fund or other special revenue fund. The Department of Administration would be entitled to a portion of the proceeds to cover any expenses or costs associated with each sale of surplus real estate.

According to the *Kansas Statewide Efficiency Review*, selling surplus property under the process in SB 498 would generate additional revenue of $3.8 million from all funding sources in FY 2017 and approximately $9.7 million from all funds over a five year period. The assumptions used to create the estimates included:

1. Estimated values of surplus buildings were calculated using a comparable sales approach combined with market knowledge from local brokers and state staff;

2. In the analysis of comparable properties, it was assumed that land value is incorporated into the sale of the building. Building values were estimated on a value per square foot basis. For large properties or properties near high population areas, land values were used instead;

3. A range of estimated value was created for properties in which market data differed from value estimates of local brokers or real estate experts; and,

4. It was assumed that 10.0 percent of properties with large tracts of land in high value areas could be sold or leased at market value.

After the Department of Administration deducts any expenses, the remaining proceeds of the sales would be returned to agencies that owned the land. Because the proceeds would be deposited into agency special revenue funds, there would be no fiscal effect on the State General Fund. The amount that the Department would receive to offset the costs of selling the surplus real estate and the specific agencies that would receive additional revenue from the sales is unknown at this time.

The Department of Administration indicates that $50,000 from the State General Fund would be needed in FY 2016 for start-up costs. Also, using the estimates from the *Kansas Statewide Efficiency Review*, KPERS would not receive approximately $3.0 million in revenue that would have otherwise been credited to the KPERS Trust Fund in FY 2017 for the unfunded actuarial liability. Any fiscal effect associated with SB 498 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Colleen Becker, Department of Administration