MINUTES

JOINT COMMITTEE ON STATE BUILDING CONSTRUCTION

February 6, 2008
Room 123-S—Statehouse

Members Present

Senator Dwayne Umbarger, Chairperson
Representative Joe Humerickhouse, Vice-Chairperson
Senator Pat Apple
Senator Stephen Morris
Representative Steven Brunk
Representative Bill Feuerborn
Representative Bob Grant
Representative Jo Ann Pottorff

Members Absent

Senator Greta Goodwin
Senator Laura Kelly

Staff Present

Audrey Dunkel, Kansas Legislative Research Department
Kimbra Caywood, Kansas Legislative Research Department
Jarod Waltner, Kansas Legislative Research Department
Mike Corrigan, Office of the Revisor of Statutes
Helen Abramson, Committee Assistant

Conferees

Eric King, Board of Regents
Howard Smith, Pittsburg State University
Ray Hauke, Emporia State University
Debra Prideaux, Fort Hays State University

Others Attending

See attached list.

Chairman Umbarger called the meeting to order at 12:15 p.m.

Representative Feuerborn stated that he would like to express his input at this time regarding replacing the funding for capital improvement projects and for debt service principal payments from the Enhanced Lottery Act Revenue Funds (ELARF) with State General Funds. He stated the budget is based on estimates anyway, and his concern is that perhaps the Committee is going through some unnecessary work.

Chairman Umbarger noted that the information he received is that the Supreme Court will come up with their decision about the constitutionality of the lottery in June, but most likely, it may be September or October, and could even be longer than that. Also, members of the Building Committee and other legislators appear to be very hesitant about the budget in general. Therefore, it was thought by this Committee that language should be put in as discussed in a previous Building Committee meeting.

Discussion followed concerning taking out funding from the State General Fund. There is not a true picture of the ending balance of the budget and if ELARF dollars do not materialize, then the state is placing itself in a position of severe disadvantage.

Staff drafted language to be used where ELARF dollars are used to fund bonding and capital improvement items as follows: “The Joint Committee on State Building Construction expresses concern over the use of Expanded Lottery Act Revenue (ELARF) dollars for debt service principal payments and capital improvements projects in the state. The ELARF is a new fund, and as such, revenue estimates for the fund are little more than speculative. In addition, pending legal action regarding the Expanded Lottery Act casts further doubt on the revenue to the ELARF. Given these concerns, the Joint Committee on State Building Construction recommends the shift of expenditures from the ELARF to the State General Fund for the (agency name) in FY 2009 and recommends review of this shift at Omnibus.”

Staff presented an overview of FY 2008 and FY 2009 Board of Regents capital improvement requests (Attachment 1).

For FY 2008 the agency estimates capital improvement expenditures of $16.1 million for debt service payments funded by Crumbling Classrooms Debt Service and Research Bond Debt Service. The Crumbling Classrooms Debt Service is paid from the Educational Building Fund; however, the Research Bonds are paid through a transfer from the State General Fund so the expenditure does not show up as SGF expenditures because of transfer to the Research Bond Debt Service Account.

The Governor concurs with the agency estimate for FY 2008.

For FY 2009 the agency requests capital improvement expenditures of $136.8 million, including $84.4 million from the State General Fund. The request includes State General Fund enhancements of $56.4 million for state university deferred maintenance and $28.0 million for annual building maintenance. The $28.0 million for annual building maintenance is based on a calculation of total needs minus what the universities provide from their own operating budget and Educational Building Fund.

The Governor recommends FY 2009 capital improvement expenditures of $67.4 million, all from special revenue funds. The Governor does not recommend the additional State General Fund dollars for the requested enhancements, but increases the appropriation from the Educational Building Fund (EBF) for rehabilitation and repair by $15.0 million. The additional EBF reflects the transfer of $15.0 million from the new ELARF to the EBF in FY 2009.

Staff noted that once that transfer is made, it allows the Governor to increase the amount for the EBF for rehabilitation and repair from the $15 million saved up for several years to $30 million. There also is the debt service on the Crumbling Classrooms added on top of that money.

Eric King, Director of Facilities, Board of Regents, presented an update on the implementation of Senate Substitute for House Bill 2237, the five-year deferred maintenance funding package that was approved by the 2007 Legislature and provided an overview of the second quarterly report for FY 2008, which details the expenditures of the direct state funds/university interest earning portion of this legislation (Attachment 2).

Mr. King broke down the report into three parts. The first part was for the funding for the post-secondary Education Institution Long-Term Infrastructure Maintenance Program (HB 2237), containing several important financing components that will be implemented over the next five years. These components include (1) direct state fund of $90 million and $44 million in interest earnings from university funds to begin to address the documented $663 million backlog of deferred maintenance projects at the state universities; (2) $100 million in interest-free bonding authority available to Washburn University, the 19 community colleges, and five technical colleges to be used for infrastructure improvements projects; and (3) state-funded tax credits intended to generate up to $158 million in private contributions to the state's six universities, Washburn University, the 19 community colleges, and five technical colleges.

For the state's universities alone, the five-year maintenance plan will provide $90 million in direct state funding, approximately $4 million in retained interest earnings, and up to $118 million in private contributions generated by state-funded tax credits. If these separate funding mechanisms are fully realized, this legislation will allow the state universities to address approximately 38 percent of the documented maintenance backlog that currently exists on those campuses.

The Governor included $15 million for state university deferred maintenance in her FY 2009 budget recommendations. In addition, at the Board's request, HB 2610 was introduced and would further address the deferred maintenance backlog by completely freeing up the use of the Educational Building Fund ($15 million/year for five years).

Mr. King spoke about the first funding component of direct state funds and the university interest earnings portion of the Legislation. In June the Board of Regents (Board) formally approved a five-year maintenance project plan for each of the state universities. In August the Building Committee formally passed out the first year of the state universities' maintenance projects as reviewed favorably. The Building Committee's formal review allowed the state universities to begin work on the campuses.

The amount of state university maintenance funding (tax credit excluded) made available through the legislation and the number of projects initiated in the first year of the five-year maintenance plan for the seven universities totaled 50 projects for $38,355,000.

Today's referenced quarterly report covers the second quarter of FY 2008, ending December 31, 2007. As of the end of the quarter, the state universities have actual expenditures of $782,567. The expenditure report included only FY 2008 funds available through direct state funds ($30,000,000) and through interest earnings from university funds ($8,355,000).

Mr. King next called to the Committee's attention the Board's summary information of the universities' deferred maintenance quarterly report that summarized the project status for the seven universities (quarter ending December 31, 2007) showing actual Infrastructure Maintenance Program and University Interest totals to date of $782,567.

Mr. King then addressed the bond portion of the legislation. The legislation authorizes $100 million in bonds ($20 million each fiscal year) beginning in FY 2008 (see Attachment 2). The bonds are to be requested by the Board from the Kansas Development Finance Authority (KDFA) for Washburn University, the 19 community colleges, and the five technical colleges. The principal and interest for the bonds will be paid from the State General Fund, with institutions reimbursing the State General Fund for the principal portion of the payments each year. The date of maturity on the bonds may not exceed eight years from the date of issuance. The following steps have been taken to implement the bond program:

- In July, the KDFA prepared a summary of the bond provisions of the legislation and shared it with all eligible institutions;
- July 25, 2007, Board staff and KDFA convened a meeting of all 25 eligible institutions to discuss the program and gather input about the implementation. The decision was made for Board staff and KDFA to initiate a survey to gauge demand for the program and gather preliminary information;
- Board staff and KDFA developed and distributed a survey to all eligible institutions for completion;
- Board staff and KDFA developed a loan application;
- An independent review committee was formed to review applications and to rate projects in accordance with "need" as directed in the statute;
- The review team sought additional information and answers to questions from individual institutions that submitted applications;
- The Board approved the $20 million in loan applications from 13 institutions at its meeting on January 16, 2008. There was $34 million requested. In the paring-down process to $20 million, the Board contacted every institution. Each item was scrutinized and the Board informed each institution what items were not recommended and the reason for the decision, and informed the applicants of their ability to appeal the decision;
- The Board of Regents approved the $20 million in loan applications from 13 institutions at its meeting on January 16, 2008 (see Attachment B of this report); and
- On February 7, 2008 the KDFA directors approved the loan applications. Bond pricing will be the first week of March, 2008, and the funds will be available March 18, 2008 (estimated date, assuming no delays in bond transaction.

Mr. King next addressed the tax credit portion of the legislation. The tax credit provision establishes a new tax credit based on a percentage of a taxpayer's contribution made on or after July 1, 2008, to a community college for capital improvements (60 percent of the contribution), a technical college for deferred maintenance or purchases of technology or equipment (60 percent of the contribution), or universities for deferred maintenance (50 percent of the contribution). The credit, effective for tax years 2008 through 2012, is applicable to corporate and individual income tax, insurance premiums tax, and financial institutions privilege tax. The credits would sunset after tax year 2012. The first spreadsheet regarding this issue projects how much of the funds will be available through the tax credit program per fiscal year for FY 2009 and increasing each year up to FY 2013, totaling $158,125. The second table shows the impact on the State General Fund for the same fiscal years, totaling $82,500.

The allotment of the tax credits in the legislation is handled differently for state universities and Washburn than for community and technical colleges. Legislation specifies that for tax year 2008, each community and technical college is allotted $78,125 in tax credits, which are increased yearly through tax year 2012. Assuming that all tax credits are utilized, each of the 24 institutions will generate private contributions for projects of $130,308 in tax year 2008, which will be increased yearly through tax year 2012.

For the state universities and Washburn, a total of $5,625,000 in tax credits will be divided between the seven institutions for tax year 2008. This total amount will increase yearly through tax year 2012. The legislation stipulates that the Board of Regents, in consultation with the Secretary of Revenue and university foundation or endowment associations for each institution, will make allotments of tax credits in advance of any credit issuance years, with not more than 40 percent of the total credits being allotted to any one institution, unless all institutions are in agreement.

Steps were taken to prepare for the July 1, 2008, date when taxpayers can make contributions. The Board of Regents approved the seven universities and Washburn University allocations totaling $5,625,000 at their meeting on January 16, 2008.

Committee discussion followed concerning whether alumni donors will be interested in giving money for determined projects versus a project that is for a choice that may not be as high of a priority, the net cost of extending bond money from eight to 20 years, the possibility of having a revolving ten-year fund, and unused tax credits.

The Joint Committee on State Building Construction expresses concern over ELARF dollars for debt principal payments and capital improvements projects in the state. The ELARF is a new fund, and as such, revenue estimates for the fund are little more than speculative. In addition, pending legal action regarding the ELARF casts further doubt on the revenue to the ELARF.

Representative Feuerborn moved that the Committee concur with the Governor's recommendation for the Board of Regents' FY 2008 and FY 2009 capital improvement projects with the exception that the Joint Committee on State Building Construction recommends the shift of transfers to the Educational Building Fund from the ELARF to the State General Fund for the Board of Regents in FY 2009 and recommends review of this shift at Omnibus. Representative Grant seconded. Motion carried.

Staff presented an overview of FY 2008 and FY 2009 capital improvements for Pittsburg State University (Attachment 3).

The agency estimated FY 2008 capital improvements expenditures of $8.9 million, including $285,018 from the State General Fund. The request includes $1.1 million for debt service principal payments and $2.8 million for deferred maintenance projects, including $2.1 million of the $30.0 million appropriated by the 2007 Legislature for the Infrastructure Maintenance Fund.

The Governor concurs with the agency estimate for FY 2008.

The agency requests FY 2009 capital improvement expenditures of $4.8 million, including $308,532 from the State General Fund. The request includes $1.1 million in debt service payments and $773,000 for deferred maintenance projects.

The Governor concurs with the agency request for FY 2009, but shifts $160,000 in debt service principal expenditures from the State General Fund to the ELARF.

Dr. Howard Smith, Pittsburg State University, presented FY 2009 capital improvement amendments for the following projects (Attachment 4):

- The University requests permission to modify its FY 2009 capital improvement plan to include providing the new Columbarium for Timmons Chapel. This $44,000 project will be financed by private gifts and will include funding for perpetual care. This project was not included in the original budget submission because the project is a result of involvement and identification from alumni in the past few months and their interest in the project being completed this next summer. The project and program statement were approved by the Board of Regents at its January 2008 meeting;

- Improvements to existing student parking lots and construction of a new student parking lot and pedestrian plazas. The University requests permission to modify its FY 2009 capital improvement plan to include providing improvements to two existing student parking lots, adding one new student parking lot, and adding two pedestrian plazas. This $4 million project was not included in the original budget submission because the opportunity to acquire several properties that are contiguous to the campus has been recently presented to the University. The project will be financed by revenue bonds to be repaid from parking revenues. The project and program statement are planned to be presented to the Board of Regents at its March 2008 meeting. This is a new project that is outside the Governor's Budget Plan;

- Improvement to existing student housing facilities and construction of a new student housing facility. The university requests permission to modify its FY 2009 capital improvement plans to include providing improvements to seven existing student housing facilities and constructing a new student housing facility. This $22 million project will be financed by revenue bonds to be repaid from housing revenues. The project was not included in the original budget submission because the opportunity to acquire several properties that are contiguous to the campus has been recently presented to the University. The project and program statement are planned to be presented to the Board of Regents at its March 2008 meeting. This is a new project request that is outside the Governor's Budget Plan; and

- Modify budget for new student health center. The University requests permission to modify its FY 2009 capital improvement plan to include increasing the project budget from $3,200,000 to $3,750,000 due to inflationary factors. The project will be financed by revenue bonds and it remains the intent of the University to reduce the bonded amount by funds raised through private sources. Any remaining amounts will be repaid by student health center revenues. The project and program statement were approved by the Board of Regents in 2006 and reviewed with the Joint Committee on State Building Construction the following August.

The Joint Committee on State Building Construction expresses concern over the ELARF dollars for debt principal payment. The ELARF is a new fund, and as such, revenue estimates for the fund are little more than speculative. In addition, pending legal action regarding the ELARF casts further doubt on the revenue to the ELARF.

Representative Grant moved for the Committee to concur with the Governor's recommendation for FY 2008 and FY 2009 capital improvement request and the additional four requests to modify the FY 2009 capital improvement plan that was outside the Governor's Budget Plan, with the exception that The Joint Committee on State Building Construction recommends the shift of $160,000 expenditure for debt principal payment from ELARF to the State General Fund for Pittsburg State University in FY 2009 and recommends review of this shift at Omnibus. Representative Humerickhouse seconded. <u>Motion carried</u>.

Staff presented an overview of the Emporia State University FY 2008 and FY 2009 capital improvement requests (<u>Attachment 5</u>).

The agency estimates FY 2008 capital improvement expenditures of $5.3 million, all from special revenue funds. The estimate includes debt service principal payments of $631,000 and deferred maintenance projects totaling $2.5 million funded with $1.8 million of the total $30.0 million appropriated by the 2007 Legislature for deferred maintenance.

The Governor concurs with the agency estimate for FY 2008.

The agency requests FY 2009 capital improvements expenditures of $1.4 million, all from special revenue funds. The request included $668,000 from the Deferred Maintenance Support Fund, which receives revenues from retained interest on certain university funds.

The Governor concurs with the Governor's recommendation for FY 2009.

Ray Hauke, Emporia State University (ESU), presented an FY 2009 capital improvement amendment for Memorial Union (MU) Renovation for preliminary and final planning (Attachment 6) and a Program Statement (on file with Legislative Research Department). During the University's August 22, 2007 appearance before the Building Committee, ESU included material concerning the MU project, indicating it would be a part of the FY 2010 request and that a formal program plan would be forthcoming. With completion of the Program Plan the project could be facilitated, if preliminary and final planning progressed during FY 2008 and FY 2009. The Program plan estimates project costs at $25 million. The University obtained Board of Regents approval for its Program Plan on December 13, 2007. No formal bills or appropriations are required by this request, only Committee approval of the University to seek architectural services on the project.

Senator Apple moved that the Committee concur with the Governor's recommendation for FY 2008 and FY 2009 capital improvement request, and also the capital amendment project for Memorial Union Renovation for preliminary and final planning for Emporia State University. Representative Pottorff seconded. Motion carried.

Staff presented an overview of FY 2008 and FY 2009 for Fort Hays State University's capital improvements (Attachment 7).

The agency estimates FY 2009 capital improvements expenditures of $4.9 million. The request includes debt service principal payments of $679,432 and deferred maintenance projects totaling $2.7 million funded with $2.l million of the total $30.0 million appropriated by the 2007 Legislature for deferred maintenance.

The Governor concurs with the agency estimate for FY 2008.

The agency requests FY 2009 capital improvements expenditures of $1.7 million, including $709,258 for debt service principal payments and $613,000 for deferred maintenance projects.

The Governor concurs with the agency request for FY 2009.

Debra Prideaux, First Vice-President of Administration, Fort Hays State University (FHSU), appeared before the Committee seeking authorization to raze Wing "A", West Hall dormitory, and remove two structures that were formerly occupied by the FHSU Endowment Association (now known as the Foundation) at 610 Park Street and 507 W. 6th. The West Hall dormitory building is in need of significant improvement to convert it into modern living units (Attachment 8).

The Endowment Association was housed most recently at the 507 W. 6th Street location. The decision was made to move to a new Alumni/Foundation Center, which led to the Endowment Board acquiring adjacent properties. It successfully secured a two-story rental structure at 407 W. 6th. Unfortunately, other needed properties did not materialize and the decision was made to construct the Center on campus. In 2001, a land exchange was completed between the Endowment

Association and the University allowing construction of the new Robbins Center, now located along West Gustad Drive. The University is seeking legislative authority to raze the properties to provide critically needed visitor's parking for the east side of the main campus.

Representative Grant moved the Committee to concur with the Governor's recommendation for FY 2008 and FY 2009 Fort Hays State University's capital improvements requests and also the University's request for razing of wing "A" of West Hall dormitory and two other buildings located at 610 Park Street and 507 W. 6th, Hays, Kansas. Representative Pottorff seconded. Motion carried.

Chairman Umbarger adjourned the meeting at 1:15 p.m.

Prepared by Helen Abramson
Edited by Kimbra Caywood McCarthy

Approved by Committee on:

July 10, 2008
(Date)