MEMORANDUM

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TO: Members, House Committee on General Government Budget
From: Katrin Osterhaus, Principal Auditor
DATE: March 19, 2013
SUBJECT: Audit information related to HB 2396

I appreciate the opportunity to provide information from our State Assets Audit we published last November to your hearing on HB 2396.

Overview information (p. 3-4)

- The Department of Administration has primary responsibility to identify any State-owned surplus real property. Department staff must proactively look on their own, and must assist state agencies in identifying and selling surplus real property.

- The Department plays a key role in guiding agencies through the sale approval process, which requires several steps. For example, the governor must approve the surplus designation, the land must be appraised, and the Joint Committee on Building Construction must be consulted.

We found Kansas agencies have Surplus Real Properties that could feasibly be sold, and selling them could create revenues between \$1.5 and \$2 million (p. 7-9)

- To evaluate whether the state has any surplus real properties that could feasibly be sold, we reviewed available property inventories the Department of Administration maintains. Based on that review, and our discussion with officials, we ultimately and judgmentally selected 13 properties from 10 agencies for further study.

- The table on page 9 shows 5 agencies, with a total of 8 parcels we determined to be surplus. Our evaluation was based on the property not being used, or not being mission-critical for those agencies. Examples:

  - The smallest, least profitable property is the first one listed, owned by DCF. This land is located in Colorado. We actually identified the same land as surplus in our previous audit in 2000. Agency officials agreed with our decision.
  - We also identified about 100 acres at the Kansas Juvenile Correctional Facility that aren't used. As the figure shows, selling that land could fetch between \$160,000 and \$331,000. While selling this land has some barriers, officials stated they would welcome selling the unused areas to gain better control.
  - We identified about 450 acres at KCVA's Soldier Home as surplus. The land is not <u>actively</u> used by the agency, but officials objected to our surplus designation because they see the land serving as a noise and development buffer and protecting groundwater. The agency currently receives about \$14,000 in annual lease revenues from a local farmer. As the table shows, selling the land could bring between about \$200,000 and \$516,000 in one-time revenues.

Attachment 2
GGBC 3-20-13

We found Identifying surplus real property is a subjective, lengthy, and sometimes difficult process (p. 10-11)

- Identifying surplus property requires a review and understanding of how agencies use each property, which can change over time.

- Moreover, owners and boundaries of land aren't always clear. For example, we found a number of State-owned parcels for which the deed doesn't exist.

- Lastly, lease arrangements can make it more difficult for agencies to view land as potentially surplus because the land is viewed as being "in use."

We found the Department of Administration has not proactively identified surplus real property as required by law (p. 11-12)

- Requirements include developing criteria for surplus property, assisting state agencies in identifying property, developing guidelines for the sale of surplus property, and reviewing agencies' real property periodically to identify potentially surplus land.

- The department fell short in its statutory responsibilities

- One contributing factor to the Department's poor performance is the fact that it lacks the authority to independently designate real property as surplus. This means that even if Department officials identified potentially surplus land, the agency simply has to disagree with that opinion to stop any further consideration.

We found that the process for selling surplus real property includes disincentives for state agencies (p. 13-14)

- The biggest one likely is the fact that agencies who sell their land only get to keep 20% of the proceeds.

- Additionally, as of last year, the remaining 80% goes to KPERS, which means the State General Fund balance doesn't benefit from selling land.

- Lastly, state agencies may be able to generate ongoing revenues from leasing real property, and the process of selling land consumes staff time and resources.

In the interest of time I'll stop here, but want to point out two additional features you might find interesting to look over later:

- Atchison Juvenile Correctional Facility property discussion (p. 14-15) highlights current problems with the surplus process. For property that hasn't benefitted the state in almost four years, and with everyone agreeing on its surplus status, this process has been taking too long.

- Appendix B (p. 29+) contains aerial photos of the surplus property discussed in this audit.