The Rundown podcast transcript for Performance Audit report titled ***State Surplus Property: Evaluating Opportunities to Generate Revenue from State Owned Land and Buildings*** – Released July 2019

**Andy Brienzo, Host and Principal Auditor:** [00:00]
From the Kansas Legislative Division of Post Audit, this is The Rundown. Your source for news and updates from LPA, including performance audits recently released to the Kansas Legislature. I'm Andy Brienzo. In July 2019, Legislative Post Audit released a performance audit examining how much surplus property the state owns and could feasibly be sold, and how much revenue the state might generate from such sales. I'm joined in The Rundown studio by Matt Etzel, Principal Auditor at Legislative Post Audit who supervised this audit. Welcome to The Rundown, Matt.

**Matt Etzel, Principal Auditor and Supervisor:** [00:38]
Hi, thanks for having me.

**Andy Brienzo, Host and Principal Auditor:** [00:39]
So let's start off with a little bit of background and talk about the process a state agency must complete before selling a piece of surplus property.

**Matt Etzel, Principal Auditor and Supervisor:** [00:47]
Sure. So, maybe just a little bit of background. First, the focus of this audit was really on state owned real property, which is going to include things like office buildings, land, storage facilities, basically any real estate that state agencies own to help them fulfill their mission. So, what can happen is over time agencies might not need all of the property that they own. And when that happens, they can go through a process to have that property declared surplus and ultimately sold. So, there are several steps in that process. The first of which is to work with the Department of Administration to ensure there isn't any other use or functionality for that property. Assuming that there isn't anything else to do with that property, the next step would be to have the Governor approve that property as surplus. If that happens, that initiates a legislative process to approve the sale of the property, which if happens, then, it would be the Department of Administration's responsibility to actually sell that property

ultimately. So again, our objective was to identify surplus property in the state and then estimate the potential revenue to this date from selling that property.

**Andy Brienzo, Host and Principal Auditor:** [02:03]
So the report mentions that you focused on nine different agencies in your audit work and that the team excluded a few agencies from consideration. So who were the nine agencies that you looked at and which agencies did you exclude and why?

**Matt Etzel, Principal Auditor and Supervisor:** [02:16]
Yeah, so we picked a judgmental sample of nine state agencies that we felt like had the highest chance of owning property that was both surplus and feasible to sell. So those would be the Adjutant Generals Department, the Commission on Veterans Affairs, the Departments of Administration, Commerce, Corrections, Labor, Wildlife, Parks and Tourism, the Kansas Bureau of Investigation, and the Kansas Highway Patrol. Once we had these nine agencies selected, that's when we could dig down deeper into the data and start picking individual pieces of property that we felt like had the potential to be surplus. But we did, we excluded a few agencies from our analysis. The Department of Transportation was excluded because we knew from prior audits that although KDOT owns a lot of land, a lot of that property is actually right-of-way. So, kind of think about the grassy plains that border the highways across the state. It's not exactly ideal for selling a surplus property. We also excluded the Regents universities because they follow a different process to identify and sell surplus property than the other agencies in the state.

**Andy Brienzo, Host and Principal Auditor:** [03:27]
So why don't you take a minute and explain the methodology the team used in developing criteria to determine whether a given property was surplus or not.

**Matt Etzel, Principal Auditor and Supervisor:** [03:37]
Sure. So, once we had those individual properties selected that we thought could be surplus, we worked with officials from those nine agencies to really determine two things. One, is the property actually surplus and if so, is it feasible to sell? So, in other words, are there any significant barriers there that would make selling that property unrealistic? We really relied on federal guidance to help us determine whether or not properties were surplus. So there's kind of three fundamental principles that we adopted. The first was the status of the property. So, is it active? Inactive? Has the agency already declared it as surplus? The second is utilization. So how often are the agencies actually using this property? And the third would be mission dependency. So how critical is that property to the agency completing its mission and function? So, using those three principles, we developed a set of standardized questions that we then asked those agency officials. That allowed us to conclude whether or not those properties were in fact surplus.

**<u>Andy Brienzo, Host and Principal Auditor:</u>** [04:41]
The report states the state could generate about half a million dollars in one-time revenue by selling surplus property at three agencies. So, talk about each of the properties and how the team calculated this amount. Specifically, I'd like to hear about the assumptions you used and who you talked to.

**<u>Matt Etzel, Principal Auditor and Supervisor:</u>** [04:57]
Sure. So, of those nine agencies, three ended up having property that was surplus. The first was the Adjutant Generals Department , which owned 13 acres of property out in Salina, Kansas that we concluded with surplus and if sold could generate about $250,000 in revenue for the state. The second was the Kansas Commission on Veterans Affairs, which owned 79 acres of property out in Winfield, Kansas near their veterans' home that we also concluded was surplus and could be sold for about $150,000. And the third agency was the Department of Corrections, which actually owned properties at two separate locations. So, the first was again out in Winfield, but near their correctional facility out there. It was about 34 acres. We estimated it could be sold for about a $100,000. The second that it owned was north of the Kansas juvenile correction facility in Topeka. It's about 10 acres of property that we estimated could be sold for about $50,000 as is, but the unique thing about this property was it was surrounded by residential neighborhoods and it was actually zoned as residential as well. So, in working with the Shawnee County appraiser's office and the city of Topeka planner's office, we concluded that if that property were to be developed for residential use, it could be sold for significantly more. There are some important caveats to keep in mind with these estimates. The first thing to keep in mind is that all of these estimates are really based off of the 2019 appraised values for these properties, which we work closely with the county appraisers in these three counties to make sure that was a reasonable estimate to use in these cases. Another important thing to keep in mind is that there are a number of variables that will influence the ultimate sale price for these properties. So, things like market conditions at the time of sale, demand for the property, how the property is going to get used for (residential or agricultural purposes). These are all going to impact the actual sale price. So, we were pretty aggressive in rounding our estimates down to try to account for some of that uncertainty. You'll notice a lot of these estimates are round numbers, you know, $100,000, $250,000 that's to try to account for some of that uncertainty. We also identified some barriers in these properties to actually sell them. So, for example, the corrections land out in Winfield, Kansas. You know, that property is located very close to their correctional facility. That's probably going to impact the desirability of that land and officials noted too that's probably going [to] limit how that land really should be used. You're probably not going to want to put a commercial development right there next to the, you know, correctional facility. So, probably the best use there would be for agricultural purposes. There were some barriers like that. None that we felt like were significant enough to make the sale of these properties unrealistic, but barriers nonetheless. And so those are all included in our report as well.

**Andy Brienzo, Host and Principal Auditor:** [07:54]
So what was the reaction of officials from the three agencies that you identified as having surplus properties? Did they agree with your findings?

**Matt Etzel, Principal Auditor and Supervisor:** [08:01]
So the Department of Corrections agreed that their property was surplus. The Commission on Veterans Affairs did not agree with our conclusion that their property was surplus. They felt like those 79 acres served as a buffer between the residents of their veteran home and possible disruptions. They felt like they'd like to maintain that property for that buffer. Similarly, the Adjutant General's Department also didn't agree that that property out in Salina was surplus. During our field work, in working with them on that property, they had told us that those 13 acres were part of a plan to develop a new training facility out there in Salina. But the funding for that training facility wouldn't be available for about 20 years. So, our conclusion there was that just given the amount of time that that property was going to remain inactive, we went ahead and concluded that it was surplus. Adjutant General officials didn't agree. They said it was part of their strategic plan for the new training facility and they'd like to retain that property.

**Andy Brienzo, Host and Principal Auditor:** [09:05]
If these surplus properties were to be sold, where would the revenues go?

**Matt Etzel, Principal Auditor and Supervisor:** [09:09]
That's a really good question because under state law, 80% of the revenue from selling any surplus real property is applied to the KPERS unfunded liability. So, the remaining 20% then is distributed back to the selling agency. So in all of these cases that we've discussed, none of that revenue would actually go directly back to the State General Fund.

**Andy Brienzo, Host and Principal Auditor:** [09:31]
So in the report you identified some other properties that currently might not be feasible to sell. Tell me about those.

**Matt Etzel, Principal Auditor and Supervisor:** [09:39]
The Kansas Bureau of Investigation owned six tracts of land, totally about one acre near its headquarters in Topeka, Kansas. But in working with the Shawnee County appraiser’s office, we ended up concluding that the value for those properties were so low that it really wasn't worth selling them as surplus. That and officials told us that they did have some plans to put a record retention center on some of those properties in the future. So, for that reason, we labeled that as not really feasible to sell. There was also a few properties, one with the Department of Labor in downtown Topeka, and one with the Department of Health and Environment near Forbes field

that although they're not surplus right now, they could become surplus in the next few years. Just based off of what agency officials told us they plan to do with those buildings in the next couple of years.

**Andy Brienzo, Host and Principal Auditor:** [10:29]
So while you were completing this audit, you all found that the Department of Administration does not have sufficient guidance or processes in place to help identify and sell surplus property, which are required by state law and were actually a finding of a 2012 LPA audit. What explanation did Department of Administration officials give as to why they are not in compliance with this law?

**Matt Etzel, Principal Auditor and Supervisor:** [10:51]
Yeah, so there's really three requirements there. The first on developing guidance to help state agencies understand the process of how to sell surplus property. They did have that, and they were able to provide that to us. They just hadn't updated that to the website yet. So that was something that they had agreed to do as part of our recommendation. The other two requirements though, on developing criteria to help agencies be able to identify surplus property and for the Department of Administration to do their own review of state property to identify potential surplus, agency officials at the time of the audit, there was some turnover and so they're relatively new to their position here. So they didn't have a great explanation for why in the past those requirements hadn't been fulfilled, but they did agree that moving forward those should definitely be implemented given that they are in state law.

**Andy Brienzo, Host and Principal Auditor:** [11:40]
Finally, what's the main takeaway of this report?

**Matt Etzel, Principal Auditor and Supervisor:** [11:44]
I think the main takeaway is that the state does own a significant amount of real property and as we've seen in this audit and the audit in 2012 some of that property is surplus. But I think as we've seen in both of these audits, a lot of that land isn't the most valuable land. There are some barriers to selling that property and I think although there is surplus property out there, we've yet to identify any that would produce significant revenue windfalls for the state.

**Andy Brienzo, Host and Principal Auditor:** [12:16]
Matt Etzel is a Principal Auditor here at Legislative Post Audit and he recently supervised a performance audit examining how much surplus property the state owns that could feasibly be sold and how much revenue the state might generate from such sales. Matt, thank you so much for taking the time to walk me through your findings.

**Matt Etzel, Principal Auditor and Supervisor:** [12:32]
Thanks.

**<u>Andy Brienzo, Host and Principal Auditor:</u>** [12:34]
Thank you for listening to The Rundown. To hear more podcasts, subscribe on Spotify or Apple podcasts. For more information about Legislative Post Audit and our audit reports, visit our website kslpa.org and follow us on Twitter @ksaudit.

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