

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 1st Meeting of the 2007 Calendar Year

May 9, 2007

The first meeting of the Capital Planning Advisory Board (CPAB) of the 2007 Calendar Year was held on Wednesday, May 9, 2007, at 10:00 AM, in Room 171 of the Capitol Annex. Senator Jack Westwood, Presiding Co-Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jack Westwood, Co-Chair; Representative Reginald Meeks, Co-Chair; Senator David E. Boswell, Representative Ron Crimm; Bradford Cowgill, David Fleenor, Paul Gannoe, John Hicks, Bill Hintze, William May, Jason Nemes, Doug Teague, Laurel True, Garlan Vanhook, and Judge William Wehr.

Guests: John Turner, Chair, Kentucky Council on Postsecondary Education (CPE); Peter W. Scanlon, Project Director, VFA, Inc.; Dr. John Hayek, Interim Vice President, Finance, CPE; Sherron Jackson, Assistant Vice President for EEO & Finance, CPE; Wayne Onkst, State Librarian and Commissioner, KY Department for Libraries and Archives; and John Dobson, General Manager of Court Services, Administrative Office of the Courts.

LRC Staff: Pat Ingram, Shawn Bowen, and Debbie Rodgers

Noting that members are named to the Board by the heads of all three branches of government, Senator Westwood introduced the three most recent appointees to the Board. Representative Reginald Meeks, who was named by Speaker of the House Jody Richards and is the new House co-chair of the Board, said he looks forward to working with the Board. Senator Westwood then introduced Doug Teague, Budget Director for the Administrative Office of the Courts, who was appointed by Chief Justice Lambert, and David Fleenor, General Counsel in the Governor's Office, who was appointed by Governor Fletcher.

Senator Boswell's motion to accept the minutes of the December 6, 2006 meeting was seconded by Representative Crimm and approved by voice vote.

At Senator Westwood's request, CPAB Staff Administrator Pat Ingram reviewed the Information Items included in the members' folders. The first Information Item reported that the first allocation for moving expenses for state agencies had been made

from the Capital Construction and Equipment Purchase Contingency Account. The Board's recommendation to allow this use of the Contingency Account had been included in the *2004-2010 Statewide Capital Improvements Plan* and was enacted by the 2005 General Assembly as an amendment to KRS 45.770. The allocation of approximately \$550,000 was for agencies to move from leased space to state-owned space in Lexington and Owensboro. The second Information Item reported on an agreement between the Finance and Administration Cabinet and the Office of Insurance. Under the agreement, when they visit state facilities in conjunction with their responsibilities related to evaluating properties insured through the state's Fire and Tornado Insurance Fund, adjusters from the Office of Insurance will also update the Facilities Assessment Forms for the state's real properties database, which is maintained by the Finance Cabinet.

Senator Westwood noted that in May 2006, the Board received a briefing by Council on Postsecondary Education (CPE) staff concerning a recently initiated study to assess the condition and adequacy of facilities and space on the campuses of Kentucky's public postsecondary institutions. He said the study has now been completed and introduced representatives of the CPE and their consultants to report on how the study was conducted and its findings. Making the presentation were John Turner, CPE Chair; Sherron Jackson, CPE Assistant Vice President for Finance and EEO; and Peter Scanlon, Project Director from VFA, the lead consultant for the study.

Mr. Turner said the purpose of the study was to address three critical capital infrastructure questions: 1) condition - what is needed to bring the condition of current facilities up to good condition; 2) adequacy - how do we make sure the facilities fit their intended or anticipated purpose; and 3) capacity - how much more space would be needed between now and 2020 to achieve the long-term postsecondary education reform goals which will require doubling the number of bachelor degree holders in Kentucky over the next 14 years. Mr. Turner said he hopes this comprehensive study will be used as both a short, medium, and long-term business plan to address the need for capital renewal, renovations, and capacity. The six-year capital plan of each institution will include critical elements of the findings from this study. Mr. Turner concluded by noting that the objectives will be to manage facilities so that they have a Facility Condition Index at the national average, to implement a policy that institutions annually budget and invest funds for capital renewal, and to reduce the capital renewal backlog by a consistent infusion of state and institutional funds and the flexibility to allow authorization of projects in the interim using institutional funds.

Mr. Scanlon explained that Vanderweil Facility Advisors (VFA) has been in business since 1992. The firm specializes in capital planning, providing both services and software solutions to manage the information. Clients include state and local governments as well as higher education institutions. Mr. Scanlon said his presentation would address the three questions listed by Mr. Turner and also outline some funding

options for handling the needs that were identified. Copies of the slides accompanying Mr. Scanlon's presentation were distributed to members.

Mr. Scanlon said the entire portfolio of the institutions includes about 2,000 facilities with 48 million gross square feet (GSF) of space, but the condition assessment looked at 736 buildings with about 30 million GSF (63% of the total). While all Education and General (E&G) facilities were included, the condition study did not include housing, dining, athletic, or other auxiliary facilities. The space study - done by another consultant working with VFA - looked at a smaller subset of about 141 buildings (21% of the total GSF).

Mr. Scanlon explained that the condition assessment focused on the major component systems of each building such as the roof; mechanical equipment (e.g., HVAC systems); the exterior including windows and facade; electrical power and generation systems; interior systems including ceilings, floors, wall finishes; and fixed furniture and equipment. System profiles examined the type, replacement cost, expected life, remaining life, renewal year, and renewal cost. The study did not provide a detailed list of requirements or deferred maintenance items and did not rate the maintenance operations at any of the institutions. The intent was just to catalogue what was there.

Mr. Scanlon said a Facility Condition Index (FCI) was used to rate or score the buildings. The FCI allows comparisons of buildings of different sizes, uses, and age. Since the Kentucky study focused only on renewals, the FCI was calculated as the cost of the renewals due for a building divided by the replacement value of that particular facility. A low FCI means the building is in very good shape with little work to be done. A high FCI means the building is in poor condition, and a large amount of work needs to be done.

The study calculated the FCI for two horizons. Systemwide, the FCI for the one-year horizon is 22%, which represents \$2 billion of renewal needs (current and accumulated backlog) compared to a \$9 billion replacement value for the facilities involved. Systemwide, the FCI for the five-year horizon - for planning purposes - is 38%, which represents \$3.4 billion of system renewals compared to the \$9 billion replacement value. Institutions reviewed by VFA elsewhere have an average five-year FCI of 18%. Each of the Kentucky institutions had a higher FCI than the national benchmark of 18%.

The cost of the needed renewals was calculated using three intervals of five years each. Systemwide, the total need for the first five years is \$3.4 billion, including the accumulated backlog. The needed renewals total approximately \$1 billion in each of the next two five-year periods.

Mr. Scanlon explained that the \$3.4 billion figure is the cost to address everything, but most clients can neither afford to finance nor manage that amount of work all at one

time. Additionally, since a 10% FCI is considered good condition, it would be normal and acceptable to have 10% of the replacement value in projects outstanding at any given time. Spending \$3.4 billion to achieve an FCI of 0% is probably too high of a goal to set.

Mr. Scanlon said the condition findings were not surprising given the age of the Kentucky facilities and past investment patterns. More than 50% of the buildings are 30 years old or older and in some instances up to 70% of the buildings are 30 to 40 years old or older.

Representative Meeks asked how the buildings included in the study were determined and why parking structures and housing - two critical elements of a growing institution - were not included. Mr. Jackson said the specific buildings were identified by CPE in collaboration with the institutions. The primary interest was to focus on the E&G portfolio that is primarily maintained by the state. It has been the state's practice and policy for the institutions to maintain revenue-producing facilities such as housing and dining, athletics, and other auxiliary enterprises. Mr. Scanlon concurred with Representative Meeks' comment that if other facilities were included, the challenge would be bigger than the figures presented in the study.

Mr. Hicks asked how the determination was made as to whether a need was included in the one-year horizon or the five-year horizon. Mr. Scanlon said it was based on when the system would need to be renewed again based on its expected useful life, the installation date, and the last renewal date. Often because of good maintenance, a system has gone well beyond its expected useful life. While the big spike in 2007 represents actual accumulated deferred renewal, determining exactly when to list future needs was based on the professional opinion of the assessors.

Mr. Cowgill asked for further clarification of the FCI calculation. Mr. Scanlon said for a building, the denominator is the sum of the replacement values of all the systems. The numerator represents the replacement value of the system(s) that need to be addressed as well as any additional costs that would be incurred in conjunction with doing the work in a building that is continuing in operation. If the calculation is done for a single system, it is possible that the numerator could be larger than the denominator. If the renewal involves the whole building, there is a point where it makes more sense to start from the ground up with a new facility than to try to replace systems because of the extra costs. The cost for a system is not included in the numerator of the calculation until the year the renewal is projected to be needed. Only major renovation/renewal costs are included, not ongoing maintenance costs.

In response to Senator Boswell's comments about the importance of facility maintenance and his question about the adequacy of the university maintenance staffs, Mr. Scanlon said VFA has done such evaluations elsewhere but that was not a part of the

scope of work for the Kentucky study. Senator Boswell suggested that issue be taken into consideration when commissioning these types of studies in the future.

Mr. Scanlon said the second part of the study focused on space needs at each institution: 1) is the space, especially research facilities, adequate to meet current educational standards, and 2) how much more space is needed to address the current enrollment and the enrollment goals in the next 15 years. A renovation cost of \$862 million was calculated to bring the 141 buildings evaluated systemwide to today's educational adequacy standards.

After reviewing a graph showing the age of existing facilities on the various campuses, Mr. Scanlon noted that systemwide about 60% of the buildings are 30 years old or older. He said older buildings have implications not only for the condition portion of the study, but also for the adequacy portion. For example, today's more interactive teaching styles affect how classroom furnishings need to be arranged.

Relative to space needs, Mr. Scanlon said based on 2004 enrollment figures, systemwide there is a 4% deficit in the amount of space needed. There is plenty of classroom and service space, but a large deficit in open labs and research labs. Looking forward to 2020 when enrollment is targeted to increase by 58%, the overall space deficit for the system is about 71%. The cost of constructing the 71% of additional space that is needed in the next 15 years totals \$6 billion. Spread out over the same three five-year intervals that were used to look at the cost of addressing the condition needs/renewals, \$2.25 billion would be required in the first five-year period to address space adequacy needs in existing buildings and the additional capacity to serve current enrollments, and an additional \$2.25 billion and \$2.75 billion would be needed in the second and third five-year intervals, respectively, to address capacity needs for future enrollments.

Senator Boswell asked if collaborative agreements between universities and community colleges were factored into the analysis to the extent they might minimize the demands for facilities. Mr. Scanlon explained that the model used to forecast the space needs was developed by Paulien and Associates, who had developed the model for Kentucky and revised it three times in the last seven years. He said the model was updated as part of the current study and takes into consideration items such as the sharing of space between institutions and the reduced need for library space due to the virtual library.

In response to Mr. Hintze's question about the relationship between recent CPE space studies and the current report, Mr. Jackson explained that in 1989 an architect, David Banks, looked at all of the facilities on the campuses and that information has been used to develop budget recommendations and requests for matching funds pools for capital renewal, deferred maintenance, and life/safety projects. Over the years, Mr. Banks has analyzed specific projects proposed by institutions while the VFA study blended the

examination of existing facility condition with the analysis of what would be needed to reach the enrollment goals of the 1997 Postsecondary Education Improvement Act (House Bill 1) and provided cost figures.

In response to a follow-up question from Senator Westwood, Mr. Jackson said Mr. Banks had recommended a large infusion of revenue to address needs of the campus physical plants. He had also recommended that the Council engage a consultant to undertake a more in-depth review of the institutions' physical plants.

Responding to questions from Mr. Cowgill, Mr. Scanlon confirmed that the amount identified as being needed for "space adequacy" is to address quality of space issues and the amount identified for "capacity" relates to quantity of space.

While the chart presented in the materials shows the need for a large infusion of funds for space adequacy and capacity needs in 2007 and no additional funding needs until 2012, Mr. Scanlon said the amount shown in 2007 would probably actually be distributed over the five-year period from 2007 to 2011. Providing the 2007 amount would address the needs for the entire five-year interval.

In response to Mr. Cowgill's further questions about capacity, Mr. Scanlon also confirmed that the study assumes there would be no intent to move students from the campus with the deficit to the campus with the surplus. So a surplus is of no advantage when calculating the amount of new space that is needed.

Mr. Jackson introduced John Hayek, CPE's Interim Vice President for Finance, to address Judge Wehr's questions about the source of the 2020 enrollment projections. Mr. Hayek explained that the goal contained in HB 1 was for Kentucky to reach the national average in educational attainment by the year 2020. The national average was projected to be 32% of the population having a bachelor's degree or higher. Based on Kentucky's projected population, the goal would be for 800,000 Kentuckians to have bachelor's degrees in 2020. The enrollment numbers are a reflection of how many students are needed to produce the degrees to meet the educational attainment goal.

In response to Representative Meeks' question about the source of the students, Mr. Hayek said there is a model that looks at the enrollment needs by sector such as high school graduates, GED graduates, community college transfers, etc. Representative Meeks asked for those figures to be provided to the Board.

Mr. Scanlon responded to a question from Mr. Teague by listing the space categories included in the capacity projections. They were classrooms, laboratories, offices, library, physical education and recreation, and special and general use space (e.g., student unions), and support space.

Senator Boswell asked if the study looked at better utilizing existing space or surplus capacity by moving students rather than creating new space. Mr. Jackson said the CPE regularly reviews the productivity of academic projects at the institutions but does not look at moving programs from one campus to another other than some specialty programs at KCTCS that are mobile and move based on demand (e.g., the dental technician program). In response to Senator Boswell's further comments about Kentucky's need for multiple law and medical schools, Mr. Jackson said they are good questions that would need to be addressed by the Council. The current study did not address them.

Mr. Scanlon reported the consolidated results of the condition and space study relative to the total funding need. He noted that it would not be feasible relative to funding or project management to try to address the total \$2.3 billion for adequacy and current capacity needs in the first year, nor would it be reasonable to spend \$3.4 billion over a five-year period to bring the FCI for the affected buildings to 0%. They will be in good condition with an FCI of 10%, which would have a cost of \$1.26 billion over five years. Similarly, the spending for space adequacy and capacity needs can be distributed over five years. These two actions would save \$2 billion of the total needs and is a more realistic plan.

Relative to how to fund these costs, Mr. Scanlon noted that Dennis Jones, principal with the National Center for Higher Education and Management Systems, was involved in this portion of the study. Mr. Jones looked at funding for similar projects in other states and reported that funding sources for renewal and renovation of existing buildings differ from the funding sources for new construction. Additionally, within new construction there are different sources for academic, research, and auxiliary facilities. Possible funding sources include tuition and special assessment fees charged to students, state government, local government, federal government, individual donors, and institutional funds. With regard to local government funding, it was noted that the City of Phoenix was constructing a new downtown campus for Arizona State University because of the economic impact to the city. With regard to federal funding, it was noted that uses of this source are becoming more narrowly defined and targeted, such as for research facilities for Homeland Security initiatives.

Mr. Scanlon explained that the primary funding for renewal and renovation of existing buildings is from state government and institutional funds. There tends to be a wider variety of sources for new construction. He referenced a chart showing the different sources that could be used to finance various portions of Kentucky's total \$11.7 billion 15-year need, but noted that additional input is needed to determine specifically which sources would be appropriate and should be pursued.

Mr. Scanlon said Mr. Jones also suggested the development of a new policy in Kentucky relative to funding for postsecondary facilities. He said other states have agreed

to make one-time investments to bring existing infrastructure up to a specified standard (e.g., the 10% or 18% FCI). Thereafter, the institutions would be expected to set aside a certain amount (usually 2%) into their own capital reserve funds to pay for renewals that are needed in the future. For Kentucky, he suggested that for the first five years the state would fund the renewal needs to bring facilities to good condition (FCI of 10%), to address existing space adequacy needs, and address existing space capacity needs. The institutions would be required to set aside funding for renewals needed in years six through 15. This would leave the state and other sources to only fund new construction for new capacity in the future.

Representative Crimm said he is very concerned about the General Assembly being able to fund all of these needs for bricks and mortar. While saying the 2020 goals are admirable, he also expressed concerns about the higher tuition rates being charged to finance achieving them and said the tuition rates must remain affordable.

Senator Westwood asked how the institutions came to the point of having such a large volume of major maintenance and capital renewal needs. Mr. Scanlon noted the aging portfolio of buildings and said that given the lack of a concerted reinvestment effort in the last 10 or 15 years, the institutions have used "band aids and duct tape" to extend the life of building systems beyond what would have been expected. Mr. Jackson added that the report confirms that the institutions have done a good job of maintaining their physical plants but there has been pressure to put available funds into new facilities. He said the report presents a strategy to address the current backlog of maintenance needs and to avoid having maintenance backlogs in the future.

In response to Senator Westwood's question about whether underfunding of maintenance had caused early deterioration of building systems, Mr. Scanlon noted that the study did not look at maintenance operations at the institutions. But it did find that good day-to-day maintenance had actually resulted in the institutions getting a longer life from their systems than would otherwise be expected.

Referencing the new policy being proposed relative to the institutions setting aside funds for maintenance needs, Representative Meeks asked about the current policy in that regard. Mr. Jackson said there is currently not a policy but the institutions do follow the GASB (Government Accounting Standards Board) recommendation on addressing the depreciated value of facilities in their financial reports. However, this does not actually fund the depreciation for future reinvestment. With regard to the new approach proposed in the current study, Mr. Jackson said the institutional budgets are already tight and discussions are underway about how the set aside would be accomplished. He anticipates that a policy recommendation on this will be forthcoming from the Council when its capital budget recommendations are made to the Governor and General Assembly in November.

Noting the important issues and worthwhile goals in various areas of state government including education that need to be addressed, Senator Boswell said members of the General Assembly should be open to considering all opportunities for revenue generation.

In conclusion, Mr. Jackson thanked the Board for its commitment and emphasis over the years on providing for capital renewal and taking care of the infrastructure of both state agencies and the postsecondary institutions.

After noting that the issue had been discussed by the Board many times in the past, Senator Westwood said the next item on the agenda would again address public records storage and how to adequately and appropriately deal with the requirements for preserving and maintaining the public records of Kentucky's state and local governments. He introduced Wayne Onkst, State Librarian and Commissioner of the Kentucky Department of Libraries and Archives (KDLA), and John Dobson, General Manager of Court Services for the Administrative Office of the Courts. Copies of the slides accompanying Commissioner Onkst's presentation were distributed to members.

Commissioner Onkst said the situation with regard to public records is very serious with thousands of cubic feet of state agency and court records awaiting transfer to the state archives where they can be preserved permanently under climate-controlled conditions. However, the archives is at capacity, and therefore unable to receive them. Since KDLA cannot fulfill its statutory mandate to maintain those records, they are located across the state - often in expensive storage space and under conditions that are not climate controlled. Members were invited to visit the state archives located at the KDLA building on Coffee Tree Road in Frankfort. The archives contain 99,600 cubic feet of state and local government records of which about 50% are judicial records, 25% are state records, and 25% are local records. Some are more than 200 years old. Only about 5% of public records are maintained permanently. A records retention schedule, developed by the State Archives and Records Commission, provides a systematic process for depositing of the other records.

Commissioner Onkst explained that KRS 171:410 defines what public records are, and KRS 171.640 states that records are created and preserved to adequately document functions, policies and procedures, and essential transactions of government. He noted that the late Dr. Thomas Clark emphasized the importance of public records when he said we have public records because our social, political, and economic structures would collapse without them. KDLA carries out its responsibility, pursuant to KRS 171.500, to maintain state records in two ways. The state archives is for permanent records. The state records center, located in two warehouses in Frankfort, is for records that are not permanent. The records center is an economical way to maintain records where they can be easily retrieved by the agencies when needed. Services are provided on a fee-for-service basis. In June 2005, KDLA issued a 90-day moratorium barring further

transfers to the state archives due to the lack of space. While a little more space was made available, it was still necessary to extend the moratorium, which continues in effect today.

With funding provided in the 2000-02 budget, Commissioner Onkst said KDLA engaged a consultant to devise a plan for maintaining Kentucky's public records into the 21st century. The three-part strategy included creating a digital archives, expanding digital format conversion services, and establishing a larger storage capacity for permanent records on paper. Progress has been made on the first two items, and it is now time to address the third.

Commissioner Onkst explained that the problem has become more serious because of the large amount of courthouse construction recently undertaken or planned. New courthouses are being constructed with the intent to hold only 25 years of the most recent records, with the rest to be transferred to KDLA. While KDLA agrees with this policy, the archives must be expanded in order to hold the additional records. The following summary of known records awaiting transfer to the state archives was provided (figures are in cubic feet): from courthouses - 14,000; from state agencies - 7,500; from the state records center - 30,000.

Commissioner Onkst said based on extensive study, the KDLA staff determined that the most appropriate and cost effective approach is to construct an addition to the present state archives building. The one-floor design would be three stories tall and fully automated. It would provide 12,560 gross square feet of space with storage for 67,000 cubic feet of records. This type of facility is in use at over 40 locations in the US and Canada, including the University of Louisville. No additional staffing would be required. The cost estimate is just over \$11 million, if funded in 2008.

Senator Westwood asked Commissioner Onkst to provide figures on the costs now being incurred to store records off-site around the state because of the lack of space at the state archives. Commissioner Onkst said the need for that off-site storage would be greatly reduced - if not totally eliminated - by the proposed new construction. He added that the concern is not just the cost, but the lack of accessibility and the risk to records that are stored under less than ideal conditions.

Representative Crimm asked why court records could not be maintained electronically rather than in hard copy. He noted that this would also provide easier access to the records. Commissioner Onkst said while some court records are being digitized it is a very expensive and labor intensive process. There is also a continuing expense involved in migrating from one technology to another as the technology continues to change.

Mr. Dobson said the cost to lease off-site storage for court records varies across the state from \$10 to \$18 per square foot, while space at KDLA is much more cost effective. He said one box of court records is about 1 cubic foot. To digitize the 3,200 cubic feet of records in Franklin County would cost about \$250,000 compared to storing the paper copies at KDLA (3,200 x \$4.56 per box). Mr. Dobson said it would take 20 years to recoup the cost of digitizing the records compared to storing the paper copies at KDLA. Mr. Dobson further explained that it costs about \$80 per hour to digitize a box of records - including preparation of the materials, scanning, verification, and rescanning if necessary. Only one box can be done per day.

Mr. Dobson said the Court of Justice's records retention schedule is constantly being reviewed. He noted that case files contain all information pertaining to a particular case including paper records, VHS tapes, CDs and/or DVDs and may require several boxes. Whether or not it is accessed later, it must be kept in storage for the period required by the retention schedule.

Mr. Dobson said space in new courthouses is being designed for 30% - 40% growth of court paper documents. If the space is utilized properly and according to the records retention schedule, once that growth maximum is hit and records are regularly transferred to the KDLA, then a courthouse should be able to maintain 25 years of records without having to lease extra space.

Relative to potential approaches for addressing the records storage needs, Mr. Dobson said one question is whether to continue with an all paper court environment or switch to a new platform using the available technology. He noted that the e-citation project being undertaken in conjunction with the Kentucky State Police is resulting in less paperwork coming into the clerks' offices. The e-warrants process will also reduce the volume of paper, and e-filing is being explored. Mr. Dobson said every document that comes through the court system could be electronically scanned, but that would require a rules change to state that the electronic copy rather than the paper document is the official record.

Mr. Cowgill said a couple of years ago he received very prompt and efficient service in obtaining copies of some judicial records from 1972. He then asked for more detailed figures on the cost of digitizing records. He said it seems counterintuitive to spend millions on storage space for paper records rather than digitizing them and said he needs more information on which to base a recommendation.

Mr. Cowgill said he would encourage the use of electronic pleadings, adding that Bankruptcy Court has years of experience with that approach. He further noted that digitizing has the value of providing much easier access to records

Responding to Mr. Cowgill's further questions, Mr. Dobson said the Court of Justice's retention policy has been suspended and is under review. Currently, all records are being retained longer than called for in the schedule.

Mr. Nemes noted that a Courts Technology Committee appointed by Chief Justice Lambert is considering whether to make rules changes similar to the Federal system, which would result in savings over the long term.

Representative Meeks asked why the proposed archives building project had increased from a cost of \$8 million in 2006 to \$11 million for 2008. Commissioner Onkst explained that construction costs have increased, particularly concrete and steel prices. He added that while digitization is the approach for the future, the current priority is to provide a place for already existing records.

After thanking Commissioner Onkst and Mr. Dobson for their presentations, Senator Westwood said the CPAB staff overview presentation on the 2008-2014 capital planning process would be deferred to the next meeting.

There being no further business, the meeting was adjourned at 12:30 PM.