

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 4th Meeting of the 2007 Calendar Year

August 17, 2007

The 4th meeting of the Capital Planning Advisory Board of the 2007 calendar year was held on Friday, August 17, 2007, at 1:00 PM, 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; Senator David E. Boswell, Representative Ron Crimm; James Deckard; David Fleenor; Paul Gannoe; John Hicks; Bill Hintze; Jason Nemes; Doug Teague; Laurel True; and Garlan Vanhook.

Guests: Mark Rutledge, Commissioner, and Rob Trimble, Executive Director, Office of Enterprise Policy and Project Management, Commonwealth Office of Technology; and Tom Layzell, President, Allen Lind, Vice President for Information and Technology, John Hayek, Interim Vice President for Finance, and Sherron Jackson, Assistant Vice President for Finance and EEO, Council on Postsecondary Education.

LRC Staff: Pat Ingram, CSA, Kimberly Link, Nancy Osborne, Shawn Bowen, and Debbie Rodgers.

John Hicks' motion to approve the minutes of the July 20, 2007 meeting was seconded by Bill Hintze and approved by voice vote.

Senator Westwood welcomed Mr. Deckard back as a member of the Capital Planning Advisory Board. He noted that Mr. Deckard, who served on the Board from 2002 through 2006, had been named by Chief Justice Lambert to serve as one of the five Judicial Branch appointees to the Board. Senator Westwood added that a letter has been sent to outgoing Board member Judge William Wehr thanking him for his service.

Senator Westwood explained that, in anticipation of a Special Session of the General Assembly being held this week, today's meeting had been changed from a full-day review of agency capital plans to a shorter agenda that would review one plan and receive reports that had been requested from the Commonwealth Office of Technology and the Council on Postsecondary Education.

Judicial Branch - Jason Nemes, Director of the Administrative Office of the Courts (AOC), introduced Garlan Vanhook, AOC General Manager for Facilities, to present the Judicial Branch's 2008-2014 capital plan.

Mr. Vanhook said AOC has been very busy working with the counties to implement numerous court facility projects authorized by the General Assembly in recent years. He said the plan being presented today is very different from previous plans in that it proposes only a single project for the 2008-10 biennium. That project is construction of a facility that would allow AOC offices to be relocated from multiple leased facilities at 100 Millcreek Park to a new state constructed and owned building. The estimated cost is approximately \$26 million for a 115,000 square foot facility. The projected size is smaller than the 140,000 square feet now being leased, but AOC feels the new facility could be designed to function more effectively and efficiently than the current space.

In addition to the need for more efficient and effective space to house AOC, Mr. Vanhook said given current AOC staffing levels and the approximately 35 projects currently underway, it would be difficult to administer the implementation of more new local judicial center projects at this time. Mr. Vanhook concluded by noting that the proposed new facility is also consistent with the positions taken by the executive and legislative branches that housing major government functions in state-owned facilities is the preferred approach rather than continuing to lease space.

Senator Boswell asked how cost estimates for proposed court projects are determined. Mr. Vanhook explained that the elements of a court facility are very similar regardless of the location. As such, in recent years AOC has developed a consistent set of criteria defining what is needed in a court facility. Costs associated with the criteria have been established and can be adjusted for the planned year of construction.

In response to Mr. True's question, Mr. Vanhook said he has adequate staffing to manage construction of the proposed new AOC facility but if more local court facilities are authorized, additional personnel would be needed.

Responding to Mr. True's further questions about operating costs and savings associated with constructing a new AOC facility rather than continuing to lease space, Mr. Teague, AOC Budget Director, said the annual lease cost is currently \$1,046,000, and the annual debt service cost for a new facility would be approximately \$2,400,000.

Mr. True also asked whether AOC has taken over the operation of any courthouses due to a lack of maintenance by the local government. Mr. Vanhook said about once a year there is a facility that is being inadequately maintained and, as such, requires additional attention by AOC. He said most of the county judges and fiscal courts are becoming very cooperative in meeting the AOC standards and expectations. He added

that adequate staffing is needed to allow AOC to be proactive rather than just reacting when problems are brought to their attention.

Relative to Mr. True's questions about the initiation of local court facility projects, Mr. Vanhook said the counties do not come to AOC. Pursuant to statute, the Chief Justice has established a priority list of needs, and AOC is working through that list. A county with a proposed facility must sign a Memorandum of Understanding (MOA) agreeing to implement the project according to the Rules of Administrative Procedure that govern court projects. If the county will not sign the MOA, the next level of government may be approached. In summary, AOC establishes the criteria and the budget and seeks the county's cooperation and assistance in implementing the project.

Mr. Hintze said, given the number of projects currently underway, he thinks it is good that AOC has not proposed any new courthouses for the immediate future.

Mr. Hintze also said he was a little surprised that it has taken so long for a Court of Justice Complex to be proposed. He noted that one was proposed in 1978 shortly after passage of the Judicial Article to the Kentucky Constitution, which established the state's current court system. He asked if there has been any coordination with the Finance Cabinet relative to siting the proposed facility. After Mr. Nemes said AOC has not made that contact, Mr. Hintze suggested that a meeting with the Cabinet could be valuable and would facilitate the cross-branch planning process that was the basis behind establishment of the Capital Planning Advisory Board. Mr. Vanhook added that AOC criteria were used to develop the plan and budget in order to initiate the proposal for a new facility, and that upon authorization there would be more formal coordination with the Finance Cabinet in order to act in the best interests of the Commonwealth regarding location and other items.

Responding to Mr. Hicks' question about what happens to the savings when a local fiscal court refinances the debt issued to construct a court facility, Mr. Nemes said the county and Court of Justice each realize savings based on their proportionate occupancy of the building.

Senator Boswell asked that the Board be provided information on state owned vs. state leased property in Frankfort.

In response to Senator Westwood's question about court records retention, Mr. Nemes said the policy had called for all felony records to be preserved as well as all misdemeanor records that were less than five years old or that could be used for an enhancement in the future; other misdemeanor records over five years old were allowed to be destroyed. That policy was suspended last year, and a new records retention policy is being created. Mr. Nemes said there will not be a problem with preserving appropriate court records whether or not the KY Department for Libraries and Archives (KDLA) is

able to store them. Senator Westwood then asked whether there should be a merger of the KDLA and AOC records storage functions rather than constructing new space for that purpose at both agencies. Mr. Vanhook explained that KDLA is the agency that has expertise in managing and maintaining records, and AOC is supportive of the proposed addition to the Library and Archives building. He added that adjustments to the court facilities design criteria are also being considered that would provide space to allow records to remain at the local courthouse for a longer period before being transferred to Frankfort.

Commonwealth Office of Technology Report on State Agency Information Technology (IT) Projects - Senator Westwood explained that during each planning cycle it is CPAB's practice to ask the statewide information technology agency to review and provide a report on the information technology projects submitted in the six-year capital plans. That report was presented by Mr. Mark Rutledge, Commissioner of the Commonwealth Office of Technology, who noted that the state agency projects were reviewed by COT, and projects of the postsecondary institutions were reviewed by the Council on Postsecondary Education (CPE). Commissioner Rutledge was accompanied by Rob Trimble, Executive Director, COT Office of Enterprise Policy and Project Management.

In describing the project review process, Commissioner Rutledge said a team comprised of agency information officers evaluated and scored the projects against two sets of criteria - business value and risk. As a result, 30 of the 73 projects proposed for 2008-10 received a high value ranking. A smaller list of projects specifically identified as the Commissioner's priorities was also developed.

The Commissioner briefly reviewed the eight projects on his list. The Child Support System (KASES) project proposed by the Cabinet for Health and Family Services (CHFS) would replace old technology and is a great need. Another CHFS project, the eHealth Interchange System, would make it possible for Kentucky's mental health/mental retardation facilities to participate in the statewide electronic health network in the same manner as private providers. The Education Cabinet's TeleLearning project would employ video technology to provide interactive learning experiences for Kentucky students. The Mine Safety, Licensing and Mapping Application proposed by the Environmental and Public Protection Cabinet would be a major enhancement of an existing system to address requirements enacted by recent General Assemblies. The Public Safety Infrastructure-KEWS project would be additional funding for a currently authorized project to upgrade the state's emergency management infrastructure. (Federal funding is also being sought for this project.) The Justice Cabinet's Kentucky Interoperability Plan project would improve the ability of safety agencies to communicate in the event of a catastrophic event. Also on the Commissioner's list were the Department of Military Affairs' Statewide Radio System Upgrade, a federally-funded project, and the

Transportation Cabinet's AVIS Replacement project, which would be funded from agency bonds.

Commissioner Rutledge noted that there are more technology needs than there are funds available to finance them and identified some "business drivers" relative to technology in Kentucky. He said the state must take advantage of the momentum that has been generated in order to achieve greater returns on its technology investments, generations X and Y are demanding choices and personalization from government, technology investments need to transition from tactical to strategic, technology investments need to be shared so all agencies benefit, and technology innovation can transform government and make services available to all regardless of location.

According to Commissioner Rutledge, the Kentucky Enterprise Data Architecture being implemented by COT will establish an environment for integrated data that will improve data interoperability, improve data reliability, decrease redundancy, and promote reusability.

Commissioner Rutledge said Phase I of the IT consolidation effort being undertaken pursuant to executive order involved the Finance and Administration Cabinet, the Commerce Cabinet, the Transportation Cabinet, and the Governor's Office. He said the goals of consolidation are to provide reliable, secure, uniform and improved IT services at the same or lower costs; to transform the redundant IT landscape into a streamlined, shared IT services model of efficiency; and to leverage the state's combined IT procurement volume advantages in negotiating IT contracts. An assessment by Gartner (an IT research and advisory company) estimated over \$32 million potential IT consolidation savings annually.

Commissioner Rutledge enumerated some of the actual benefits and savings thus far from Kentucky's IT consolidation. He said increased volume led to a reduction of \$2.3 million in COT rated services for FY 2006-07, adjusted COT service rates will provide \$5.7 million in cost avoidance for agencies in FY 2007-08, agencies will receive a \$6.2 million credit from COT for FY 2006-07, the consolidated agencies saved \$6.8 million for alike services, and the new personal computer contract is forecasted to save agencies \$8 million over three years.

In conclusion, Commissioner Rutledge said Kentucky needs to "stay the course" in terms of implementing IT consolidation, developing the Enterprise Data Architecture, transitioning from E-Government to E-Democracy, implementing IT security, using business driven (best value) solutions, working together with cross boundary collaboration, and providing for disaster recovery (improvements to the data center and establishing a data hot-site).

Senator Westwood asked for a clarification of the distinction being made between E-Government and E-Democracy. Commissioner Rutledge said we currently have E-Government where the electronic content on-line is routinely updated but is static; E-Democracy would be a transition to accessing and interacting with government on-line in real time (e.g., voting).

Responding to a further question from Senator Westwood about having the ability to keep up with technology that changes so quickly, Commissioner Rutledge explained that users will always be behind the curve in keeping up with frequently changing technology. As such, a business decision must be made relative to what technology will meet the needs balanced with an evaluation of how long the technology has existed and how long it is scheduled to be available.

Representative Crimm noted his work on legislation relating to the AVIS system and said he would probably rank the replacement project as the number one need to serve the general public.

Noting that the IT system project budgets include hardware, software, and professional services (people), Mr. Hicks asked how much of the cost of a major project such as the Child Support System is for personnel. Commissioner Rutledge said the majority of the cost of such projects is the consulting services with implementation being a smaller part of the cost. He added that relative to development, COT wants to move to a service oriented architecture. Under that approach, once a module is developed to address a requirement, it can be used in any system in which it is needed rather than an application having to be developed in its entirety each time.

In response to Mr. Hintze's question as to why it was decided to include eight projects on his priority list, Commissioner Rutledge said the number of projects was a personal decision, and they are not necessarily the projects earning the highest scores in COT's evaluation. He selected projects that focus on the protection of life and property, education, and the needs of the counties.

Mr. True commented that Kentucky seems to undergo IT consolidation efforts on a routine basis and asked what the current effort involves. Commissioner Rutledge said every state is involved in some type of IT consolidation. In Kentucky, the focus is on consolidating functions that are common to all agencies and leaving unique services and functions to the appropriate agencies. It is a hybrid approach that involves some centralization as well as distributed services. He said CPE would need to address Mr. True's further question as to what opportunities for consolidation might exist at the universities.

In response to Mr. True's request for further information about the eHealth Interchange System project, Lorna Jones, Chief Information Officer for CHFS, addressed

the Board. She said the state is asking private providers to invest in the eHealth efforts, and the cabinet also needs to be able to participate. The project will include an assessment of specifically what programs and facilities will be involved.

Council on Postsecondary Education Report on Postsecondary Institution IT Projects - Mr. Allen Lind, CPE Vice President for Information and Technology, distributed a handout and reported on the CPE review of the postsecondary institutions' IT projects.

Mr. Lind said CPE's IT strategy involves using information technology to provide the efficiency, access, and quality needed to achieve the 2020 "double-the-numbers" goal; creating data systems that provide accountability, transparency, and analysis that support sound policy decisions; standardizing and sharing technology infrastructure to leverage limited resources; and creating a networked lifelong learning community of citizens enabled by technology. He noted that Best of Kentucky Awards have been received in recent years for various education-related IT projects including the Statewide P16 Blackboard Course Management System in 2006, and various projects in 2007 (Kentucky Education Network, CPE Education Data Portal, Learning Now Online Consortium, and University of Louisville campus network).

Relative to review of the IT projects proposed by the institutions for 2008-10, Mr. Lind said the process was similar to that used by COT. Two of the criteria were changed in order to take into account collaboration and alignment with the Council's strategic agenda. Of the 69 projects that were analyzed, 21 were designated as having high value.

Council on Postsecondary Education Report on Postsecondary Institution Construction Projects - CPE President Tom Layzell introduced John Hayek, Interim Vice President for Finance, and Sherron Jackson, Assistant Vice President for Finance and EEO, to present the CPE report on construction projects submitted by the postsecondary institutions. A handout to accompany the presentation was distributed.

Mr. Hayek noted that CPE's public agenda (preparation, affordability, degree completion, learning, and economic and community benefits) and the Postsecondary Education Improvement Act of 1997 (HB 1) are the touchstones relative to its planning priorities and budget requests. He said enrollments need to increase by 60% over the next 12 years to achieve the goal of increasing from 400,000 degree holders to 800,000 degree holders by 2020. Such an increase will impact facility needs. Mr. Hayek noted that CPE requested \$507 million in capital projects in the 2006-08 budget and \$480 million was approved for this purpose. Since the 1997 reform legislation, approximately \$1.5 billion has been appropriated for new postsecondary education infrastructure.

Mr. Hayek explained that additional information was available for this year's review of capital projects from the statewide facilities condition review completed in

April 2007. The purpose of the study was to address three capital infrastructure issues - condition, adequacy, and capacity. The study recommended implementing a balanced approach over the next 15 years to address a backlog of capital renewal and deferred maintenance projects, to remodel and renovate current space to ensure it is fit for continued use (adequacy), and to provide needed new facilities.

Relative to review of the projects proposed for 2008-10, Mr. Hayek said project priorities fall into five categories - capital renewal, maintenance, and infrastructure; space adequacy/renovations; new construction/expansion; research and economic development; and information technology initiatives. The evaluation criteria looked at five issues - whether a project supports HB 1 and the public agenda, whether it supports the institutional mission and is a high priority, whether it provides for completion of a previously authorized project, whether the space needs model indicates a need for additional space or there was an explicit need to remodel or replace existing space, and whether the project reduces the capital renewal and maintenance burden and the institution has demonstrated good facilities stewardship.

Mr. Hayek said there also needs to be a long term approach to ensuring there is an investment in facilities maintenance. Over the last six years, the institutions have spent approximately \$140 million for capital renewal and replacement.

In conclusion, Mr. Hayek noted that CPE is sensitive to the fact that there is a limitation on the amount of construction that can occur on a given campus at a given time both in terms of institutional ability to manage the work and industry support to do the work.

Mr. Jackson presented three policy issues for the Board's consideration in developing the statewide capital improvements plan. First, noting that the Board had previously recommended legislation to set aside funding for capital renewal and maintenance needs, Mr. Jackson said CPE recommends that as the backlog defined by the facilities condition study is being addressed, a methodology needs to be implemented to generate funding to deal with future upgrade and replacement needs as they occur. Second, CPE is asking the Board to support providing flexibility for institutions to undertake, during the interim, projects with financing from restricted funds even when those projects are not authorized in the biennial budget. Similar authority already exists with regard to projects funded at least 50% from federal or private funds. Third, CPE is seeking Board support relative to the institutional issuance of agency bonds to finance projects during the interim.

Senator Westwood asked whether agency bond issues impact the state's debt rating since that seems to be a concern relative to the CPE's third policy recommendation. Saying he could not definitively answer that question, Mr. Jackson explained that the CPE recommendation is for a committee to examine the issue and report back its

findings. President Layzell reiterated CPE's support for such a study. He added that in Illinois and Mississippi the universities have independent revenue bond authority, and those bonds had higher debt ratings than the state's general obligation bonds. In response to Mr. Hicks' question, Mr. Jackson said he did not know of any Kentucky institution that had approved a debt affordability policy.

Mr. Hicks asked for an explanation of the "Space Adequacy and Renovation" subcategory under Category 1 (Capital Renewal, Maintenance, and Infrastructure) and the "Space Adequacy and Renovation" projects listed separately as Category 2. Mr. Jackson explained that the two are related. The subcategory under Category 1 does not address any specific projects but is an amount to address 45% of the space adequacy and renovation need identified in the facilities condition report. Listed in Category 2 are specific projects proposed by the institutions in their plans, and these could impact the costs identified in the subcategory. As CPE's 2008-10 capital budget recommendation is developed this fall, the specific facilities that would be addressed by the subcategory will be identified, and there will be no duplication between the subcategory and Category 2.

Relative to CPE's first policy recommendation, Mr. Hintze noted that the Board has previously proposed legislation to make funds available to address capital renewal and maintenance needs, but the approach appears not to have been acceptable to at least some in the postsecondary education community. Relative to the second recommendation, he said he would be interested in allowing institutions to undertake unbudgeted restricted funds (cash) projects during the interim and that such an approach could reduce the laundry list of projects authorized in the budget - most of which are not implemented. It could also genuinely help institutions that have evolving needs. Relative to the third recommendation, he said the issue relating to agency bond funded debt is complex and, as was recommended by the Board in its last statewide plan, the overall state policy toward debt may need to be examined.

Mr. True asked if agency bonds would always fund a complete project rather than phased projects. Mr. Jackson said that would not necessarily be the case and cited the example of the University of Kentucky Hospital project which is a phased project involving agency bonds. Mr. True expressed concerns that if the agency funding was not adequate, the state might be required to complete a project.

Relative to Mr. True's question about the lack of a CPE recommendation on the institutional projects that had been vetoed in the 2006-08 budget, Mr. Jackson said there has been discussion with the presidents about integrating those projects back into the evaluation process that was applied to the new projects proposed for 2008-10.

With regard to project costs, Mr. True asked if CPE has the same authority as AOC to set project budgets or to challenge the figures submitted by the institutions. President Layzell said he, too, has concerns about how the project costs are determined

and noted that there are differing levels of sophistication and capabilities on the campuses. He said he thinks CPE has the authority and should become more active and involved in this process than it has been previously. Mr. Hicks noted that during the budget request process the Finance and Administration Cabinet is responsible for reviewing cost estimates for projects submitted by about half of the institutions and the remaining institutions, which administer their own capital programs, have staff comparable to the Cabinet and similar responsibility for reviewing cost estimates.

In response to Senator Westwood's question about the \$1.7 billion proposed for Capital Renewal, Maintenance, and Infrastructure, Mr. Jackson said the pool would fund a combination of projects costing less than \$600,000 each and projects costing \$600,000 or more. The intent would be to select for funding those projects that would have the greatest impact on the campuses.

Relative to the vetoed projects, Senator Westwood asked to be kept informed of the projects that continue to be priorities and those that are no longer needed.

Before adjourning the meeting, Senator Westwood asked if members would like to discuss anything relative to potential recommendations for the statewide capital improvements plan. Mr. Hicks said he believes the Board should continue to keep a focus on deferred maintenance and capital renewal needs in its policy recommendations and project priorities.

There being no further business to come before the Board, the meeting was adjourned at 3:20 PM.