

# CAPITAL PLANNING ADVISORY BOARD

## Minutes of the 5th Meeting of the 2007 Calendar Year

September 14, 2007

The 5th meeting of the 2007 calendar year of the Capital Planning Advisory Board was held on Friday, September 14, 2007, at 9:00 AM, in Room 169 of the Capitol Annex. Representative Reginald Meeks, 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; James Deckard; David Fleenor; Ben Fletcher; Paul Gannoe; John Hicks; Bill Hintze; Doug Teague; Laurel True; and Garlan Vanhook.

Guests: Jim Abbott, Commissioner, Department for Facilities and Support Services, and Mark Rutledge, Commissioner, Commonwealth Office of Technology, Finance and Administration Cabinet; Rob Edwards, Chief of Staff, Jonathan Copley, Undersecretary for Administrative and Fiscal Affairs, John Burton, Commissioner of the Department for Mental Health and Mental Retardation Services, Lisa Detherage, Deputy Executive Director of the Office of Fiscal Services, and Lorna Jones, Chief Information Officer, Cabinet for Health and Family Services; George Ward, Secretary, and Gretchen Landrum, Executive Director of the Northern Kentucky Convention Center, Commerce Cabinet; Teresa Barton, Deputy Secretary, John Rees, Commissioner, Department of Corrections, Dr. Tracey Corey, State Medical Examiner, and Mike Sebastian, Director of Budget and Finance, Justice and Public Protection Cabinet; Tommy Greenwell, Executive Director, Office of Administrative and Information Systems, Environmental and Public Protection Cabinet; and Brian Crall, Secretary, Wayne Harman, Deputy Secretary, and Carla Hawkins, Commissioner of Personnel Administration, Personnel Cabinet.

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

Noting he had been unable to attend due to a court hearing that had taken longer than expected, Representative Meeks thanked Senator Westwood for presiding at the CPAB meeting on August 17.

Representative Crimm's motion to approve the minutes of the August 17, 2007 meeting was seconded by Mr. Hintze and approved by voice vote.

Representative Meeks noted that the Information Item included in the members' folders was a response from the Finance and Administration Cabinet to the request at the last meeting for an update on the use of state-owned vs. leased space to house state agencies in Frankfort.

Representative Meeks said today's meeting would conclude the Board's review of the 2008-2014 agency capital plans. He then asked Committee Staff Administrator Pat Ingram to provide the staff overview. Ms. Ingram directed the members' attention to a document in their notebooks that summarized information from agency plans that would not be reviewed individually by the Board. These agencies have either no proposed projects or projects that would be financed solely from restricted or federal funds such as the Kentucky Lottery Corporation. Ms. Ingram also noted that several occupational and professional boards and commissions have relocated from leased space in Lexington to the state-owned Spindletop Building.

Ms. Ingram next reviewed the materials provided in the members' notebooks for the agency plans to be reviewed at this meeting. She also noted that the format would be the same as had been used in prior meetings with each review consisting of a CPAB staff overview, followed by the cabinet/agency presentation, and a period for questions from the Board.

Finance and Administration Cabinet - Jim Abbott, Commissioner of the Department for Facilities and Support Services (DFSS), presented the Finance and Administration Cabinet's plan on behalf of Secretary Mike Burnside.

Following the CPAB staff overview, Mr. True asked about renovation of the CHR Building. Commissioner Abbott explained that under an Energy Savings Performance Contract project most of the major mechanical components and aesthetics had been addressed such that the useful life of the building had been extended and a major renovation project was currently not needed.

Commissioner Abbott then proceeded to address the Cabinet's 2008-2014 capital plan. He read a portion of the Cabinet's Plan Overview narrative, which stated that its focus is on making government function in a more efficient and effective manner and on delivering quality services.

Commissioner Abbott explained that the Cabinet's four top priorities are project pools - specifically, the Emergency Repair, Maintenance, and Replacement Fund; the Capital Construction and Equipment Purchase Contingency Fund; the Miscellaneous

Maintenance Pool for the Cabinet's facilities; and the Statewide Deferred Maintenance Pool. He said the Board may question whether funding for these pools has been adequate in light of the aging property inventory of the state and the large amount of new construction that has been authorized in recent budgets.

As the Cabinet's fifth priority, Commissioner Abbott explained that the Upgrade Data Center Readiness project will ensure that redundancies are in place in order to avoid interruptions in the state's information technology (IT) service. He said the Commonwealth Data Center is an aging facility and ensuring that it is adequately maintained and has a high level of reliability is especially important due to state government's dependence on computers and the IT consolidations that have been implemented recently.

Commissioner Abbott said the Cabinet's next priority (#6) is an additional \$18 million for the Kentucky Emergency Warning System (KEWS) Upgrade. He said Phase I of the project, which will convert the eastern part of the state from an analog to a digital system, is underway. The proposed additional funding will address the western part of the state.

Commissioner Abbott next discussed the Repair Site Infrastructure Capital Plaza Complex project (Cabinet Priority #7). He explained that while funding for design of the Capital Plaza renovation was authorized in the 2006-08 budget, the facility is much more complex than anything the Cabinet has addressed thus far. It includes parking garages, the Civic Center, the Fountain Plaza rental spaces, and the Capital Plaza Tower. An assessment to better understand the facility has been completed, and there is a need now to engage the various stakeholders in the planning process. The \$2.5 million proposed for 2008-10 will allow some maintenance items to be addressed to keep the facility operational until an actual renovation proposal can be made in 2010-12.

In response to questions from Senator Boswell, Commissioner Abbott said there have previously been major repairs to the building's mechanical systems, and there was a recent retrofit of the elevators. Senator Boswell commented that given the overall age of the facility, it seems to have been a pretty good investment.

Relative to the Tax Roll Assessment and Certification System (Cabinet Priority #8), Commissioner Abbott explained that there is a need to design and develop a common system to replace the variety of systems used to value and track property, collect taxes, set rates, etc.

Commissioner Abbott said the next priority, Upgrade of the Capitol Campus, is similar to the Capital Plaza project in that it is funding to address needs that arise prior to completion of the major project to renovate/restore the Capitol Building, which is approaching its 100th birthday.

Addressing the Upgrade L&N Building project (Cabinet Priority #10), Commissioner Abbott said this facility in Louisville is intended to provide a one-stop shopping center for state services. Maintenance needs include addressing mechanical as well as aesthetic issues to ensure that the building projects the appropriate image for a state facility.

Commissioner Abbott said Cabinet Priority #11 is the Land Acquisition account that allows the state to purchase property during the interim when it becomes available rather than waiting for specific General Assembly authorization. He said he believes prior uses of these funds, including the acquisition of additional land for the KY Horse Park, have been appropriate and have served the needs of the Commonwealth.

In conclusion, Commissioner Abbott addressed the final Cabinet priority (#17), which is to design the Capitol Annex Addition and Renovation. He said this is the first and most critical step to allow for the renovation of the Capitol and Annex. The current tenants of these facilities cannot be displaced to leased space to accomplish the renovations so the proposal is to construct an addition to the Annex to accommodate their needs.

Noting that the Emergency and Contingency Funds are proposed by the Finance Cabinet to address needs throughout the Executive Branch and that their funding level is currently very low, Mr. Hintze said he hopes the priority placed on them by the Cabinet will be rewarded and that those funds will be replenished in the upcoming budget cycle.

Mr. Hintze said that, relative to the Capitol renovation project, some work has been undertaken such as constructing new chiller and boiler plants but those projects have not affected the people in the building. He asked about the status of plans for the Executive Office Building (EOB) that previously had been proposed and designed with the intent of reducing the population of the Capitol. Commissioner Abbott explained that construction of the EOB is no longer being proposed. The proposal now is to construct a four-story addition to the Annex, rather than the previously planned two-story addition.

Mr. Hintze noted that it has not been possible to undertake a major building renovation each biennium as was initially envisioned and asked about future projects to be undertaken as part of the overall plan for housing state agencies in Frankfort. Commissioner Abbott said that with completion of the State Office Building renovation, attention will now be focused on the Capital Plaza Complex. He said there are questions as to whether the building is appropriate for its intended use. Before a decision is made to spend tens of millions of dollars on a renovation project, there needs to be feedback as to the needs of the state and how they can best be served by that complex. Commissioner Abbott noted that the plaza area is seldom used, but is very difficult to maintain. He also noted that since construction of the bridges across the Kentucky River, this area has

become one of the major approaches to Frankfort but that entrance to the Complex is not very welcoming. It is also a high maintenance area. He added that until the recently-completed facility assessment was done they were unaware of the large number of issues related to the complex. They are now uncomfortable making future plans for it until engaging stakeholders in the discussion. After renovation of the Capital Plaza Complex, Commissioner Abbott said the intent is to focus on the Capitol renovation or the construction of a new major state office building.

In response to Representative Meeks' question about the timeline for getting feedback from the stakeholders regarding the Capital Plaza Complex, Commissioner Abbott said work is in progress to compile and narrow the list of stakeholders and, in conjunction with the consultant, to develop the discussion points for meetings with the stakeholders, which should begin in the next two months. Gathering that information and input will probably be a five-to-six month process.

Addressing a question raised by Senator Boswell about the L&N project, Commissioner Abbott said the DFSS Division of Historic Properties ensures that the historic value of a building is considered when renovations are undertaken.

Senator Westwood noted that the Administrative Office of the Courts had not proposed any new court facility projects for 2008-10 due to staffing limitations and the large number of projects currently underway. He asked about the capacity of the DFSS to handle additional new projects. Commissioner Abbott said he believes DFSS is adequate staffed. However, they sometimes struggle with the design phase and the initial launch when there are a large number of new projects. He said as the projects move along through the process, the activity becomes more spread out and easier to handle. Mr. Gannoe, Director of the Division of Engineering and Contract Administration, noted that there is also a resident observer program in which employees of the design team are hired on a contract basis by the state to manage in-the-field projects.

In response to Senator Westwood's request for clarification concerning the additional amount needed for the KEWS project, Mark Rutledge, Commissioner of the Commonwealth Office of Technology, explained that the original cost estimate was based on a Request for Information issued several years ago. That solicitation only addressed converting the system from analog to digital and did not envision an increased scope of services or changing technology to address interoperability, etc. With the funding that was initially provided, it was decided to address the eastern part of the state (going south and east from Jefferson County), which has the worst terrain and is most prone to service disruptions. He said federal Homeland Security funds for the additional cost are still being sought.

Mr. Hicks said the total \$45 million cost estimate for the KEWS project has been known since the last budget process and federal funds authorized for a portion of that cost

have not materialized. He said work in the western portion of the state needs to be completed and relying on federal funds - while a desirable approach - is probably risky.

Mr. Hicks said the Cabinet is to be commended for its success relative to the goal of reducing the amount of leased space and relying more on state-owned space to house state agencies in Frankfort. He added that the results of the master plan and advocacy of CPAB in that effort are beginning to be seen.

Relative to questions about the state's ability to handle the significant amount of capital construction authorized in the last two budgets, Mr. Hicks noted there are also critical issues related to the construction market. Commissioner Abbott said firms doing commercial construction report being the busiest in the history of their companies. DFSS and some of the universities have expressed concerns about the supply and demand relative to firms being available to accommodate and provide appropriate competition when projects are bid. When there are a limited number of firms that can accommodate the needs, the quality of the work may suffer. Additionally, there is concern that because of the availability of so much work, firms may not be "hungry" when they submit bids.

Representative Meeks asked about the process for estimating project costs and whether any changes in that process are anticipated. Commissioner Abbott explained that costs are estimated during the design phase and take into account various factors such as the amenities of the building, the construction materials, the site, and issues associated with the suppliers and contractors where the project will be located. He said a good design sometimes cannot be built because of insufficient funds in the authorization, so the project must be re-scoped. That may simply require removing an enhancement or signature feature, while still maintaining the functionality needed, or it may involve significant changes such as removing programmatic elements that were initially planned. Commissioner Abbott said no changes are planned for this process, but an effort is made to be conscious of issues that may impact the cost such as increases in the price of materials or the availability of contractors.

Mr. Vanhook said he wanted to reiterate Commissioner Abbott's comments about the bid climate. He added that AOC has already seen a reduction in the number of bids being received for some court project solicitations.

Addressing the Information Item provided to the Board on the use of state-owned vs. leased space in Frankfort, Commissioner Abbott said the chart reflects a reduction in overall state government-occupied square footage of approximately 400,000 square feet since 2004. It also reflects progress toward the goal of the state reducing its dependence on leased space to 15 percent of the total occupied by state government. Between 2004 and 2007, leased space will decrease from 28 percent to 23 percent of the total due to the completion of renovations and staff relocating from leased space to the state-owned Jones Building and State Office Building. Recent projects have also used modular furnishings

to increase efficiencies by allowing the building to house more employees. For example, prior to its renovation, the State Office Building had a population of 800. It will now have a population of approximately 1,200.

Representative Meeks asked for an explanation of the differences and similarities between the Upgrade Data Center Readiness project proposed for 2008-10 and the Commonwealth Technology Emergency Plan proposed for 2010-12. COT Commissioner Rutledge said the Data Center readiness upgrade project is intended to ensure that there is no single point of failure in the distribution of power within or to the Commonwealth Data Center on Cold Harbor Drive. The Emergency Plan is intended to provide a hot site at another facility where IT services critical to the Commonwealth would be replicated and immediately available should anything happen to the Data Center facility itself or the ability to gain access to that facility.

Health and Family Services Cabinet - The plan for the Cabinet for Health and Family Services (CHFS) was presented by Rob Edwards, Chief of Staff; John Copley, Deputy Undersecretary for Administrative and Fiscal Affairs; and Lisa Detherage, Deputy Executive Director of the Office of Fiscal Services. A handout was distributed in conjunction with the presentation.

Mr. Edwards said the Cabinet's top priority is the health, safety, and protection of those it is serving. Ms. Detherage explained that Department for Community-Based Services (DCBS) offices have been reviewed relative to operation and maintenance issues as well as issues relating to the safety of both staff and clients. Recommendations are being made for improvements to address needs that have been identified. Examples of such projects include segregating lobbies from office space, having separate entrances and emergency exits for staff, and providing better exterior lighting.

Mr. Edwards said the Cabinet's number one priority is its Maintenance Pool. Ms. Detherage explained that the people who reside in CHFS facilities must be protected. There are a number of older structures and often when one need is being addressed, additional problems come to light. This has happened recently at both the Glasgow State Nursing Facility and Western State Hospital.

According to Mr. Edwards, the next priorities are replacement of the Glasgow State Nursing Facility (SNF), Sprinklers and Fire Suppression Systems for the Western State Nursing Facility and Western State Hospital, and the e-Health Interchange System, which will allow Kentucky's mental health/mental retardation facilities to interface with the statewide electronic health network.

Mr. Copley explained that the Kentucky Automated Vital Statistic Information System (Priority #6) will continue the automation of the CHFS vital statistics office, which began with funding in 2002 and will facilitate data sharing. He said Priority #8 is

the Local and District Health Department Infrastructure Pool, which was first funded in the 2006-08 budget. A scoring process is used to award the funds as grants to local health departments to address capital needs, and the 2006-08 funding (\$10,000,000) was insufficient to address all of the needs. Mr. Copley said Priority #9 - the Kentucky Automated Support and Enforcement System (KASES) - assists child support staff in administering programs and enforcing child support judicial orders. The proposed project would replace and combine the two systems currently in use - one that serves Jefferson County only and one that serves the other 119 counties. Finally, Mr. Copley said Priority #10 is the first phase of a three-phase project to replace the Local Health Department Data Management System. This initial phase will include an assessment of the needs and development of the Request for Proposals.

Mr. Hicks noted that the project to replace the Glasgow facility and another project that will appear in the Department of Corrections' plan appear to be the first time the state has proposed replacing residential facilities, other than when such a replacement has been ordered by the court. He asked for more information about the residents at the Glasgow SNF. John Burton, Commissioner of the Department for Mental Health and Mental Retardation Services, said the Glasgow and Western State Nursing Facilities house individuals who are both aging and have a mental disability. He noted that the need for these types of facilities will continue to grow. The Glasgow facility is licensed for 100, but currently has about 70 residents and a waiting list. The current reduced population is due to the construction now underway to stabilize the facility.

Noting that he serves as an AARP volunteer for older people and people with disabilities, Mr. True said he knows the Glasgow SNF provides good care. However, he would challenge the Cabinet to not replace the facility but instead to find private sector services to care for the special needs so the residents can stay in their community and the state does not have to be in the nursing home business. Mr. True also expressed concerns about the people with mental retardation who are currently being cared for by parents and who eventually will require other assistance to address their needs. He said that infrastructure currently is not in place.

Commissioner Burton said there are now more options for Medicaid reimbursements for community and in-home care. He said an examination of the gaps that exist in the continuum of care needs to be undertaken as well as a review of ways to encourage the private and non-profit sectors to address those gaps. Mr. True added that ways to provide housing options specifically need to be addressed so that people can remain closer to home and family rather than being in a state-operated nursing facility.

Senator Westwood expressed concerns about the lack of treatment options not only for the elderly with mental disabilities, but other age groups as well. He said the result may be that individuals are not getting the needed treatment and are being institutionalized in penal facilities, which then places a burden on that system. He urged

use of partnerships with private or faith-based organizations to provide more home- or community-based care, rather than expansions of large institutions.

Representative Meeks asked for more information about the proposed KASES project. Lorna Jones, Chief Information Officer for CHFS, explained that in the 1980s the federal government required that there be a statewide automated child support system. However, Kentucky received a waiver such that there is currently one system for Jefferson County and another system for the rest of the state. The new system that is being developed will modernize and replace the current systems with a single statewide system. In response to Representative Crimm's question about the \$65 million cost for professional services for the project, Ms. Jones said the funds would be used for design and development of what is a very complex accounting system. Cost figures obtained from other states for similar systems include \$89 million for South Carolina, \$81 million for New Jersey, \$84 million for Florida and \$1 billion for California.

Noting that Governor Fletcher had recently announced a \$1 million allocation relating to the replacement of Eastern State Hospital (ESH) in Lexington, Representative Meeks asked for an update on that project. Mr. Edwards said the \$1 million will allow the Bluegrass Regional Mental Health/Mental Retardation Board (which currently operates ESH) and the Cabinet to develop a legislative proposal for the 2008 General Assembly.

Commerce Cabinet - Secretary George Ward presented the Capital Plan for the Commerce Cabinet. He said the Cabinet's facilities have been developed to serve as a catalyst for private sector development or to provide a service that the private sector cannot meet and are not meant to compete with the private sector for the same customers in a given market.

Secretary Ward said the Cabinet's top priorities are maintenance pools to address needs of existing facilities. He noted that increased funding is proposed for the pools due to dramatic increases in the cost of labor and materials. In order to protect its revenue stream, Secretary Ward said the Department of Parks also needs to continue its program to upgrade lodge rooms and cottage accommodations as well as to provide various amenities. He cited Cumberland Falls as an example of where a lodge was recently renovated and the revenue has increased.

Projects to enhance the state's arts and heritage facilities reviewed by Secretary Ward included the Gateway for KY's Lincoln Heritage Tourism exhibit and the proposal for additional storage shelving, both at the Kentucky History Center, and proposals to replace the Whitney Hall hydraulic system and to replace the theatrical lighting and dimming systems at all three theaters at the Kentucky Center for the Arts. He also noted the proposal to construct a new amphitheater complex to replace Cardinal Stadium at the Kentucky Fair and Exposition Center, and the proposal for repairs to the amphitheater at My Old Kentucky Home State Park.

Secretary Ward said a second priority is to expand facilities where the demand for specific services outpaces the supply and where the economic impact from the expansion will improve the agency's financial position as well as positively impact private businesses in the given area. There are three major expansion initiatives for 2008-10. Expansion of facilities at the KY Horse Park would include an 8,000 to 10,000-seat outdoor arena, additional exhibition space at the indoor arena that is currently under construction, and improvements to the road system throughout the park. These facilities would be used for the 2010 World Equestrian Games as well as for annual events that would follow. Expansion of the Northern Kentucky Convention Center would double the usable meeting space to accommodate the demand. Expansion of camping opportunities at the state parks would include enlarging campgrounds that have the most demand, upgrading some existing parks to accommodate larger recreational vehicles, and providing a campground at Ben Hawes State Park.

Representative Crimm asked why maintenance funds are not being used to demolish dangerous and dilapidated buildings on the former Cardinal Treatment Center property that was recently transferred to E.P. "Tom" Sawyer Park. Secretary Ward said the needs exceed the available maintenance pool funds so the projects must be prioritized, but he will look into the situation described by Representative Crimm.

In response to questions from Senator Westwood and Mr. Hintze, Secretary Ward said the proposed expansion of the Northern Kentucky Convention Center will be in the direction of the neighboring IRS building. The layout will depend on whether or not the IRS continues to occupy the property, which is owned by the federal government.

Mr. Hintze noted that small projects are being proposed for some of the recently constructed facilities including the Northern Kentucky Convention Center and the Kentucky Artisans Center at Berea. He commented that these facilities have the statutory authority to generate revenues and to expend those revenues on capital needs but either had lacked the ability or the fiscal wherewithal to do so. He said the Board might want to consider recommending the establishment of a single maintenance pool for these Cabinet facilities (not including facilities of the Department of Parks, KY Horse Park, or State Fair Board) so that the multi-million dollar investments are not allowed to deteriorate.

Relative to the materials provided by staff on recently issued Requests for Information (RFI) or Requests for Proposals (RFP) for private development, Mr. Hintze noted the lack of success in both recent and prior efforts in this regard. He said it is a very labor intensive process on the part of the state to develop and issue the RFIs and RFPs and to review the responses; the respondents also go to a lot of time and expense in preparing their proposals. Mr. Hintze said it appears to be mainly wishful thinking rather than a viable alternative to something that would normally be addressed through state funding. Secretary Ward said typically an RFI is issued only if someone from the private

sector has already expressed an interest in a particular park. He said the responses sometimes indicate that building accommodations or other facilities may not be appropriate in some locations. He added that significant amounts are needed to maintain existing facilities of the Department of Parks, so he thought it was irresponsible to allocate the limited funding available to new projects that may or may not be successful.

Noting that the appropriation of a \$35 million Parks Renovation Pool in the 2004-06 budget recognized the maintenance needs, Mr. Hicks asked Secretary Ward to comment on the value of that pool to the state parks system. Secretary Ward said the funding restored visitor confidence in Parks' ability to deliver a rewarding experience and that, in turn, translates to additional revenues. Much of the work done with the funding just came on line this year, so better information on the payback will be available next year.

Representative Meeks asked about the status of the proposal for private development of a hotel at the Kentucky Horse Park. Secretary Ward said the vendor has been selected and recently was approved as qualifying for incentives under the Kentucky Tourism Development Act, so the Cabinet is hopeful that the announcement can be made soon. Since it is probably a two-year process, beginning construction in fall 2007 should allow for completion of the project in fall 2009.

Senator Westwood noted that some entities that made significant investments in major events such as the World Equestrian Games (WEG) have been left with facilities that turned out to be "white elephants." Secretary Ward said the new facilities at the Horse Park were already in its strategic plan, but their implementation has been accelerated because of the WEG in 2010. After the Games, those facilities will allow the Park to expand its season and will allow for a legacy event to be held on an annual basis so the positive economic impact will continue in future years.

Justice and Public Safety Cabinet - Teresa Barton, Deputy Secretary, represented the Justice and Public Safety Cabinet. She was accompanied by Mike Sebastian, Budget and Finance Director. Deputy Secretary Barton explained that Secretary Norman Arflack had planned to make the Cabinet's presentation but had been called away by a family emergency. (A handout was distributed in conjunction with the Cabinet's presentation.)

Mr. Sebastian said the Cabinet's first priority is construction of a secure 50-bed juvenile detention center in western Kentucky. It will be the state's tenth detention center and complete implementation of the previously-developed plan for detention facilities. He said the second priority is construction of a Kentucky State Police Training Center, which has been proposed several times in the past. The new center would replace the current facility in Frankfort and be located at an as-yet undetermined location. Mr. Sebastian said the Cabinet's third priority is to complete renovation of the old hospital building at the Northpoint Training Center, which is necessary in order to avoid repaying

federal funds already received for the project. The fourth priority is construction of a new Medical Examiner's Office in Louisville, in anticipation of losing the space that is currently being leased from the local government.

Mr. Sebastian said the next three priorities (#s 5, 6 and 7) are miscellaneous maintenance pools for the Department of Juvenile Justice, the Department of Corrections, and the Kentucky State Police to address needs of their facilities. These buildings are aging, and many are used 24-hours a day, seven days a week.

Mr. Sebastian said construction of a 60-bed youth treatment facility in Eastern Kentucky is Priority #8 for the Cabinet. He said this facility will allow juveniles to progress through the system without having to move to different locations. He added that the state-operated treatment facilities produce a better quality, more economical product than is available through private child-care facilities. Relative to Priority #9 - replacement of the Harlan State Police Post - Mr. Sebastian said several post replacements are proposed, but this is the facility that needs to be addressed first. In conclusion, Mr. Sebastian noted that expansion of the Elliott County Medium Security Prison is the Cabinet's tenth priority.

In response to Senator Boswell's question, John Rees, Commissioner of the Department of Corrections, said the Elliott County prison was completed in 2004. That project included the infrastructure necessary for the proposed expansion. Relative to changes in the prison population, Commissioner Rees said between early summer 2006 and late spring 2007, there were no increases but since April 2007, the felon count has increased by 1,000 inmates. He said the current count is approximately 500-600 less than had been projected, but over time, the projections have been very accurate. Commissioner Rees said efforts are made to find less expensive ways to meet the needs including the use of home incarceration, increasing the number of individuals in community corrections centers, and opening Recovery Kentucky Drug Treatment programs.

Representative Meeks asked about the number of out-of-state inmates in the Kentucky prison facilities. Commissioner said the only inmates from out of state are in local jails, or in the facilities contracted from Corrections Corporation of America at Otter Creek in Wheelwright (female inmates from Hawaii) and at the Lee Adjustment Center (male inmates from Vermont).

Mr. Hintze noted that since constructing the Central Laboratory Facility in Frankfort, the state's only capital investment in the Medical Examiner's Office has been for equipment. He asked State Medical Examiner Dr. Tracey Corey to talk about her Office and why proposals are being made to construct rather than continue leasing space in two locations. Dr. Corey said the Medical Examiner's Office has four regional offices located across the state. The state-owned space in Frankfort is the second largest office

and serves mainly Frankfort, Lexington, and eastern Kentucky. It is a state-of-the-art facility and has plenty of space. The office serving western Kentucky is located in Madisonville in state-of-the-art leased space, which was constructed for that purpose. Dr. Corey said there is a dire need for new space in Louisville and Northern Kentucky. She said the biggest and busiest office is housed in leased space in a Louisville Metro Government Building, which is a former hospital constructed in 1923. There are problems with both the facility and the equipment. Dr. Corey said while the northern Kentucky office is housed in a good facility (Saint Lukes Hospital), it has outgrown the space that is available.

Noting that the Department of Public Advocacy has taken over the Fayette County Public Defender's Office, Mr. Fleenor asked about capital needs related to that action. Deputy Secretary Barton said the facility housing the Fayette County office is jointly owned by the state and the Fayette County Legal Aid group. She said the state probably has a 60% to 70% interest in the facility because state funding has been provided for operations of the Fayette County Public Defender's Office. At some point, the state may seek to purchase the remaining interest in the facility. Mr. Hicks said the Finance and Administration Cabinet has been examining the legal issues as well as obtaining appraisals and assessing the condition of the facility.

Mr. True noted that the Board had previously made recommendations about the need to provide alternatives to incarceration in order to address the increasing prison population and the resulting need for new construction. He particularly noted the need for treatment facilities and said this is a crisis situation that deserves significant attention again in the statewide plan. Deputy Secretary Barton noted recent initiatives by the state to increase treatment options for drug addiction and said the Cabinet will bring additional legislative proposals to the 2008 General Assembly.

In response to a question from Senator Westwood, Commissioner Rees said of the prison population growth, approximately 60% can be directly attributed to substance abuse issues and another approximately 20% can be indirectly attributed to that source. He noted the importance of legislation proposed by Senator Kelly that would have authorized the establishment of a pretrial minimum security facility that would be an effort to divert some individuals before they go deeper into the system. He said the further an individual goes into the system, the more difficult it is to get them out or keep them out. Senator Westwood commented that the best use of funds would appear to be for treatment or diversion centers.

Commissioner Rees noted that corrections is an expensive operation. He said in addition to the inmates in correctional facilities, there are approximately 38,000 individuals in the community on probation and parole and that number is also growing. Additionally, the inmate population is aging resulting in an increase in medical costs.

Senator Westwood asked about the Cabinet's statement in its plan that federal funds would have to be repaid if the state does not fund the remainder of the renovation of the old hospital building at the Northpoint Training Center. Commissioner Rees said the original federal funds in 1999 were from the Violent Offender Incarceration Act, and at that time the plan was to renovate the building to house 700 medium security male inmates. Upon taking office, Commissioner Rees said he determined that security and operational costs for a seven-story medium security facility would be too expensive. As a result, the decision was made to change the plan to provide for a 200-300 bed facility for female inmates with substance abuse problems, which is a growing population. The \$7 million proposed in the last plan would have addressed the first three floors of the building, while the \$14 million in the current plan will address the entire building although all of it will not initially be occupied. Commissioner Rees said there is no danger of losing the \$5.4 million in already-received federal funds if the state is showing a good-faith effort toward occupying the building.

After recessing for lunch at 12:15 pm, the Capital Planning Advisory Board reconvened at 1:15 PM to continue reviewing the 2008-2014 agency capital plans.

Environmental and Public Protection Cabinet - Tommy Greenwell, Executive Director, Office of Administrative and Information Systems, presented the capital plan for the Environmental and Public Protection Cabinet (EPPC). He explained that the Department for Environmental Protection (DEP) is interested in relocating to the Fair Oaks Complex space that is being vacated by the Department of Revenue and the Personnel Cabinet. DEP's current location, known as the Ash Buildings, is in the flood plain and has had on-going problems with water damage. Some divisions have already been consolidated nearby, and this future relocation would allow for further consolidations.

Mr. Greenwell then reviewed some of the projects in the EPPC capital plan. He said the number one priority is the Mine Safety, Licensing and Mapping Applications information technology project, which will allow for additional underground mapping. EPPC's second priority is the State-Owned Dam Repair program, which provides funding for repairs of 62 dams statewide; eight of those dams currently need attention. Another priority is to either acquire approximately 250 acres and construct a new tree nursery to replace the existing Rhody and Morgan County nurseries, or to replenish the soil at the Rhody nursery. Also relative to the Division of Forestry, Mr. Greenwell said there is a need to replace bulldozers that are used in wildfire suppression efforts. Finally, he noted the proposal to acquire an updated paper shredder, which would increase the revenue-generating capabilities of the recycling program.

In response to Mr. True's questions, Mr. Greenwell explained that funding for the State-Owned Dam Repair Program has traditionally been appropriated to EPPC. However, the 2006-08 budget appropriated it to the Governor's Office for Local

Development. He said EPPC has the statutory responsibility for overseeing and repairing the state-owned dams and the current process of going to GOLD for the funds is cumbersome. Therefore, EPPC would prefer to have the funding returned to its budget in future appropriations bills.

Mr. True also asked about the proposal for a new tree nursery and whether the land could be purchased with amounts from the statewide land acquisition pool. Mr. Greenwell said about \$875,000 for land acquisition is included in the \$5,023,000 proposed budget. Mr. Hicks, Deputy State Budget Director, said purchase of land for the tree nursery would be a legitimate use of the statewide pool.

Relative to the project to purchase fire suppression equipment (bulldozers), Mr. Hicks explained that the General Assembly usually appropriates a set amount for fire-fighting operations and requires that amounts from the General Fund Surplus Account be used for any additional expenses involved in forest fire suppression. As a result, funds have not been available in the Forestry budget to implement an equipment replacement schedule.

Personnel Cabinet - In his introduction, Representative Meeks noted that Personnel Cabinet Secretary Brian Crall was a former state representative and CPAB member. Secretary Crall said he had to leave to chair a meeting of the Kentucky Group Health Insurance Board and introduced Deputy Secretary Wayne Harman, and Carla Hawkins, Commissioner of Personnel Administration, to make the Cabinet's presentation.

Commissioner Hawkins said the Cabinet's only project - proposed for 2010-12 - is continuation of the current project to implement the Kentucky Human Resource Information System (KHRIS). The web-based system will consolidate and replace over 40 systems that perform human resource administration functions relative to personnel, payroll, and benefits administration. Commissioner Hawkins said the Cabinet was able to negotiate an 18% reduction in the cost of the original vendor proposal for the contract that was signed in March 2007. It is a deliverables-based contract with a 12% retainage on each deliverable. System design is underway; development, testing and training will be done in 2008; and the system is on time and on budget to be delivered in 2009. The proposal for 2010-12 is an enhancement of the system now being implemented to include workforce planning and reporting, enhanced recruitment and applicant processes, and performance evaluation.

In response to Mr. Hicks' questions about change management strategies, Commissioner Hawkins said the Cabinet decided that aspect of the process as well as workforce training would be handled by the state rather than by the outside vendor that is implementing the new system. An entire committee is focused on the change management responsibility. She added there will be significant changes because staff duties will no longer be segregated as they are with the current system.

Kentucky's Bonded Indebtedness - Representative Meeks noted that during each planning process, the Board receives an update concerning the state's bonded indebtedness. He introduced Kristi Culpepper from the LRC Staff Economist's Office to provide that report. (Ms. Culpepper's presentation was based on a memorandum included in the members' meeting materials.)

In her presentation, Ms. Culpepper analyzed Kentucky's historic, current, and projected debt position and the financial and economic factors contributing to the cost of issuing new debt; discussed the potential impact on the state's credit profile of fiscal priorities that compete with debt service in the budget process (e.g., unfunded pension liabilities and Medicaid); and provided updated information on nationwide trends in debt administration and the evaluation of Kentucky's debt by the three primary rating agencies.

According to Ms. Culpepper, Kentucky's economy appears to be improving, with both employment and personal income increasing. These improvements have contributed to higher than anticipated revenue growth and have made it possible to allocate additional funds to the state's Budget Reserve Trust Fund. These changes have been well-received by the rating agencies, resulting in Moody's and Standard and Poor's (S&P) raising the outlooks on their ratings of the state's debt and S&P upgrading its rating of the Turnpike Authority of Kentucky's debt. Ms. Culpepper also noted that offsetting these positive changes, the rating agencies have cited the state's structural budget imbalance, unfunded pension liabilities, increasing Medicaid costs, and high debt burden relative to other states as concerns.

Mr. Hicks asked how the rating agencies have reacted to recent actions by Kentucky's postsecondary institutions to issue general receipts bonds. Under these bonds, an institution pledges all source of revenue to the debt rather than separating revenue streams between educational and general buildings debt and housing and dining debt. Ms. Culpepper said the use of general receipts debt is a trend nationwide for postsecondary education. She said the rating agencies have not afforded any specific benefits to institutions that make that change. The ratings for general receipts debt have corresponded to the Consolidated Educational Building bonds ratings that were already in place. However, one advantage is that the institutions have greater financial flexibility by not having to deal with onerous terms of prior indentures relative to reserves, etc.

Responding to questions from Mr. True, Ms. Culpepper explained that Kentucky does not issue general obligation debt that is backed by the full faith and credit of the state. It issues debt through various state agencies such as the State Property and Buildings Commission (general-fund supported debt), the Asset Liability Commission (interim financing), and the Kentucky Turnpike Authority (road-related debt).

Discussion of Policy Recommendations - To begin the discussion of policy recommendations to be included in the 2008-2014 Statewide Capital Improvements Plan, Representative Meeks asked Ms. Ingram to review the recommendations from the 2006-2012 Plan that were being distributed to the members. The Board discussed each recommendation in terms of whether to include it in the 2008-2014 plan in the same form, in a modified form, or not at all.

Relative to a recommendation on capital renewal and major maintenance, Ms. Ingram noted that this has been a strong interest of the Board in recent years. She explained that the 2006-2012 recommendation called for legislation to be enacted by the General Assembly to establish an approach for funding for this purpose, but - unlike prior recommendations - did not specify an approach. Mr. Hicks noted that the Board has previously addressed establishing a way to accumulate funds for future maintenance needs of new buildings, and has also tried to address maintenance and deferred needs of existing buildings. He said that while setting aside funds for future needs is good policy and is done in the private sector, that is not the way government budgets. Mr. True said he does not like to give up on establishing an approach for future funding needs, but perhaps this time more emphasis should be placed on addressing deferred needs. Sherron Jackson, Council on Postsecondary Education (CPE) Assistant Vice President for Finance and EEO (attending on behalf of CPE President and CPAB member Brad Cowgill), urged the Board to consider recommending an approach for the postsecondary institutions specifying that if the state constructs a facility, the institution should be responsible for funding its future maintenance needs. Mr. Hicks asked this suggestion be included in the draft recommendation to be prepared by staff.

Relative to agency maintenance pools, Ms. Ingram said the 2006-2012 plan stressed the importance of having and adequately funding a pool for each agency that administers facilities. It also recommended development of a formula to calculate the amount of each pool. Mr. Hicks said while he agrees with having a rational methodology for distributing funds available for the maintenance pools, the overarching issue is the sufficiency of the funding. He explained that the primary funding source has been capital construction investment income, which is a limited resource and has had negligible growth over the years. He added that funding for the agency maintenance pools has remained relatively flat over the past four budgets at about \$30 million each biennium. In the last two budgets, the General Assembly authorized bonds for portion of the \$30 million in order to have the investment income (cash) funds available for other needs. Mr. Hicks said there have also been some instances in which additional funding has been provided to address special needs, such as the \$35 million bond-funded Parks Renovation Pool in the 2004-06 budget. In response to Mr. Teague's question about the cost of projects to be financed from maintenance pools, Mr. Hicks said those projects could now cost up to \$600,000 since the threshold requiring line-item authorization in the budget has increased from \$400,000 to \$600,000. In response to this discussion, Ms. Ingram said a

recommendation - focusing on sufficient funding for the agency maintenance pools - would be drafted for the Board's consideration.

The next recommendation from the 2006-2012 plan addressed the need for continued implementation of the statewide real properties/facilities management database. Ms. Ingram said the Finance and Administration Cabinet is making progress in that effort, such that the Board's continued inclusion of this recommendation is probably not necessary. Mr. Gannoe (Director of the Finance and Administration Cabinet's Division of Engineering and Contract Administration) confirmed that implementation of the system is proceeding within the constraints of time and other factors. There was no further discussion or direction to staff on this item.

Relative to recommendations relating to information technology operations and services, Ms. Ingram said the Commonwealth Office of Technology had not made any specific requests in that regard in its August report to the Board. There was no further discussion or direction to staff on this item.

Regarding the 2006-2012 recommendation urging that the executive, legislative, and judicial branches take action to identify and provide adequate treatment options and alternatives to incarceration to alleviate the need for the construction of new correctional facilities, Representative Meeks said he thought the Board has already expressed its agreement with continuing that recommendation. Mr. True said the recommendation should ask that the three branches "continue their priority" on providing treatment and alternatives so as to recognize that efforts have been made in that regard.

Ms. Ingram noted that the 2006 General Assembly had enacted the statutory changes called for in the next two recommendations such that they did not need to be included in the 2008-2014 plan. Those recommendations were to raise the planning and budgeting thresholds for capital projects and to raise the force account limit for the postsecondary institutions.

The next recommendation from the 2006-2012 plan had called for the Governor and General Assembly to place a high priority on replenishing the Budget Reserve Trust Fund to a level representing 3 to 5 percent of General Fund revenues. Senator Westwood said actions by the administration appear to recognize the continuing need to increase the funding level of the BRTF. He said a general recommendation calling for funding to the statutory 5 percent level would probably be a good idea since that funding level could help the state's bond rating. Ms. Ingram said the reference to "replenishing" the fund would be changed to reflect the need to fund it to the statutory level.

The final recommendation from the 2006-2012 plan that was discussed called for the establishment of a task force to review Kentucky's debt issuance processes and approaches to debt capacity. Mr. Jackson noted that, in its August report to the Board,

CPE had asked for a study in order to get some finality concerning postsecondary education's proposal for the institutions to be allowed to issue debt in the interim. As background, Mr. Hicks explained that Kentucky's current debt policy was based on the work of a 1988 task force and a general rule was established regarding how much debt should be issued. He noted that there have been situations where decision makers have varied from that general rule, but the bond rating agencies do like for the state to be consistent in following its self-imposed guidelines. Senator Westwood said decision makers have some concerns about the universities funding construction of a building when the state may ultimately become responsible for future maintenance costs. He asked whether it would be possible to include maintenance funding in the bond issuance. Ms. Ingram said she would obtain an answer to Senator Westwood's questions and work on a draft recommendation on reviewing Kentucky's debt policies and practices.

Ms. Ingram also said the CPE had asked the Board to recommend that an interim process be established to allow the postsecondary institutions to undertake projects financed from restricted funds without prior biennial budget authorization. She said additional information on that proposal will be provided for further discussion at the next meeting.

Representative Meeks said the Board expects to have two more meetings to complete work on the statewide capital improvements plan prior to the statutory submission date of November 1. Members will be contacted relative to a date for the next meeting.

There being no further business to come before the Board, the meeting was adjourned at 3:00 PM.