CAPITAL PLANNING ADVISORY BOARD

Minutes of the Third Meeting of the 1999 Calendar Year

July 7- 8, 1999

The third meeting of the Capital Planning Advisory Board (CPAB) of the 1999 calendar year was held on Wednesday and Thursday, July 7-8, 1999 in the Conference Room of the Council on Postsecondary Education. Representative Perry Clark, Chair, called the meeting to order at 9:00 a.m. on July 7, and the secretary called the roll.

Present were:

Members: Representative Perry Clark, Chairman; Bill Hintze, Vice-Chairman; Susan Clary; Glenn Mitchell (representing Secretary James Codell); Representative Brian Crall; Bonnie Howell; Lou Karibo; Cicely Jaracz Lambert; Jim Nealy; Norma Northern; Nick Schwendeman; Laurel True; and Senator Ed Worley.

Members of the General Assembly: Representatives John Adams, Rocky Adkins, Hoby Anderson, Adrian Arnold, Eddie Ballard, Carolyn Belcher, Larry Belcher, James Bruce, Robert R. Damron, John Draud, Tim Feeley, Joseph M. Fischer, H. G. “Gippy” Graham, Jodie Haydon, Charlie Hoffman, Dennis Horlander, Joni L. Jenkins, Paul H. Marcotte, Fred Nesler, Stephen R. Nunn, R. J. Palmer II, Marie L. Rader, Jon David Reinhardt, Charles Siler, Dottie Sims, John Will Stacy, Kathy Stein, Jim Stewart, James Thompson, Tommy Turner, John Vincent, John “Mike” Weaver, Robin Webb, Susan Westrom, and Senator Tom Buford.

Guests Appearing before the Board: Aldona Valicenti, Chief Information Officer of the Commonwealth; Doug Robinson, Kentucky Information Resources Management Commission; Secretary Sarah Schaaf and Paul Johnson, Revenue Cabinet; Deputy Secretary Singer Buchanan, Jackie Shroat, and Walt Gaffield, Personnel Cabinet; Deputy Secretary Mike Sparrow, Labor Cabinet; Adjutant General John R. Groves and Larry Barker, Department of Military Affairs; Commissioner Leslie Beavers, BG (Ret) and Charles Lewis, Department of Veterans’ Affairs; Eddie Duvall and Bill Burnette, Department of Agriculture; Secretary Ronald McCloud, Public Protection and Regulation Cabinet; Tanya Dickenson, Department of Public Advocacy; Commissioner Gordon Duke and Commissioner Jerry Frantz, Economic Development Cabinet; Tom Engstrom, Department of Education; Secretary Marlene Helm, Education, Arts and Humanities Cabinet; Michael Hardy, Kentucky Center of the Arts; James Nelson, Kentucky Department for Libraries and Archives; Ginny Fox, Kentucky Educational Television; Ken

Walker, Council on Postsecondary Education; Deputy Secretary Pamela Murphy, Justice Cabinet; Commissioner Gary Rose, Department of State Police; Commissioner Doug Sapp, Department of Corrections; Commissioner Ralph Kelly, Department of Juvenile Justice; Commissioner John Bizzack, Department of Criminal Justice Training; Secretary Viola Miller and Terry Thompson, Cabinet for Families and Children; Deputy Secretary Marcia Morgan, Cabinet for Health Services; John Friel and Brian Easton, Workforce Development Cabinet; Deputy Secretary Bruce Williams, Melanie Bailey, and Commissioners Hugh Archer and Bob Logan, Natural Resources and Environmental Protection Cabinet; Secretary John McCarty, Finance and Administration Cabinet; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Don Mullis, Kentucky Infrastructure Authority; Londa Wolanin, Kentucky Higher Education Assistance Authority; Howard Kline and Harvey Roberts, Kentucky Lottery Corporation; Commissioner Bob Arnold and Mike Hale, Department for Local Government; Secretary Ann Latta, Tourism Development Cabinet; Commissioner Kenny Rapier, Department of Parks; and John Nicholson, Kentucky Horse Park.

LRC Staff: Pat Ingram, Mary Lynn Collins, Ginny Wilson, Melissa Biggs, Lola Lyle, and Phillip Smith.

Chairman Clark first thanked members for their attendance, then noted that members of the General Assembly had been authorized to attend this meeting and welcomed those legislators who were present.

As the first item on the agenda, Chairman Clark introduced Dr. Virginia Wilson, LRC Chief Economist, to report to the Board on the state's bonded indebtedness. Dr. Wilson explained the material she would be presenting was contained in her memorandum dated July 7, 1999, which was distributed to the Board members. In her presentation, Ms. Wilson discussed numerical indicators of the Commonwealth's debt position, including amount of debt outstanding, debt per capita, debt as a percent of personal income, and debt service as a percent of revenues. She also discussed other indicators of state credit quality and noted that in June, Moody's Investor Services increased the rating on debt issued by the State Property and Buildings Commission, the Kentucky Infrastructure Authority, and the Asset/Liability Commission from A2 to Aa3 which is a two-step increase. Factors principally responsible for the state's improvement include having a structurally balanced budget, consensus revenue estimating, the Budget Reserve Trust Fund, the Asset/Liability Commission, and the Capital Planning Advisory Board.

In conclusion, Dr. Wilson stated that the debt position of the Commonwealth is more positive now than it has been at any time in at least the last 20 years. She said several factors would tend to support increasing the amount of new debt authorized, including historically low interest rates and the recent improvement in the state's credit rating. Factors which would support decreasing the amount of new debt authorized are the likelihood that the economy will stall and move into a recession during the 20-year term of any new debt and the fact that Kentucky still has high debt burdens compared to other states. Dr. Wilson noted that policy makers should carefully consider whether the returns to be achieved from additional capital investments outweigh the benefits of continuing to improve the Commonwealth's debt position.

Chairman Clark thanked Dr. Wilson and asked if members had questions or comments.

Mr. Hintze commended Dr. Wilson on her presentation. He said the Administration has typically taken the approach that 6 percent of revenues available is the maximum amount of debt service that should be recommended or authorized.

In response to questions from Senator Worley, Dr. Wilson said if the state approves new debt consistent with the amount being retired (approximately $600 million), she would not expect the rating agencies to change their opinion of the state's credit rating. She said the primary limiting factor to achieving a very high rating may be the state's economy; the rating agencies evaluate the strength of the economy in allowing a state to capture additional revenues for debt service.

Responding to questions from Representative Crall, Dr. Wilson said Kentucky ranks in the mid-40s relative to personal income, which is a significant improvement from when the state was ranked 48th lowest.

Chairman Clark asked whether use allowance payments for court facilities are, or should be, factored into the state debt figures. Dr. Wilson said they are not currently included and the rating agencies do not look at them as state debt. She explained the use payments are not debt in the traditional sense, although they do represent an intent to pay on behalf of the Commonwealth that supports the issuance of debt by local governments. They are a long term moral obligation commitment that, like debt, reduce the ability to spend for future current services. Refusal to make the payments would probably attract the interest of investors and rating agencies as being an indicator of the state's commitment to its long term financial obligation.

Chairman Clark also asked whether it was sound fiscal policy for counties to lengthen the terms of bonds for court facilities from the standard 20 years. Dr. Wilson explained that the useful life of the project should exceed the term of the bond; however, lengthening the term increases the time it takes to pay the debt and increases the cost. She said there is also a policy implication in that giving this authority to the counties allows local entities to define for the General Assembly the size of the financial commitment it is making.

The next order of business was approval of the minutes from the May 6, 1999 meeting. Representative Crall made a motion, which was seconded by Mr. Hintze, that the minutes of the meeting be approved. The minutes were approved by voice vote.

Chairman Clark thanked staff for their work in preparing for this meeting and asked Pat Ingram, CPAB Committee Staff Administrator, to explain the overview materials provided for members.

Ms. Ingram directed the members' attention to a series of three pie charts included in their notebooks which provide an overview of the plans to be reviewed at this two-day meeting. They exclude the plans of the postsecondary education institutions, which will be reviewed at a September meeting. Ms. Ingram noted that postsecondary education usually accounts for about one-half of the total costs of the projects reviewed. Excluding that area results in the largest portion of the dollars being in the Finance and Administration Cabinet, as indicated in the first pie chart. This is primarily due to programs of the School Facilities Construction Commission and the Kentucky Infrastructure Authority. Compared to two years ago, there has been a significant increase in the total cost of projects submitted by both the Judicial Branch and the Justice Cabinet. Ms. Ingram noted that the second pie chart shows approximately one-half of the projects, based on cost, are categorized as new construction or major expansion of facilities, followed by grant and loan programs. Finally, the third chart indicates that almost three-fourths of the project costs are proposed to be financed from state funds, either general fund or bond funds.

Ms. Ingram also described three information items provided to members. The first item noted that approximately $6 million will be added to the Statewide Deferred Maintenance Fund at the end of the Fiscal Year 1998/99, and provided a summary of Fund allocations to date. In response to Mr. True's question, Mr. Hintze explained that obtaining an allocation from the Fund requires approval of the state budget director or his designee and the Secretary of Finance or his designee. Considerations in making the decision include the legitimacy of the need and whether the agency has a maintenance fund or other resources that can be applied to the project. Allocations are then reported to the Capital Projects and Bond Oversight Committee. The primary recipient of amounts from the Fund has been the Finance and Administration Cabinet because it is responsible for more buildings than any state agency, other than the universities. Since the universities have other resources that can be used, they have not, by policy, been permitted to access the Fund; however, a number of KCTCS projects are currently being reviewed for emergency or deferred maintenance allocations. Responding to further questions from Mr. True, Mr. Hintze said he did not believe agencies were artificially splitting projects into components of under $400,000 each in order to get Deferred Maintenance funding.

The second information item described two projects, in Florence and Maysville, in which local governments are constructing facilities to house state agencies in a "one-stop government service center."

The third information item summarized discussion at a June 25 Court Facilities Standards Committee meeting at which it was reported that five currently authorized court projects are over budget and will need to seek additional funding from the 2000 General Assembly.

Ms. Ingram next described the materials contained in the meeting notebooks, including a "Staff Analysis and Comments" for each plan, and the format which would be used relative to review of the agency plans in this two-day meeting. Ms. Ingram also thanked LRC Committee Staff Associates Melissa Biggs and Lola Lyle, who had helped with review of the agency plans, and agency staff who had assisted in responding to various follow-up questions from CPAB staff regarding those plans.

At Chairman Clark's request, Ms. Ingram introduced Aldona Valicenti, the state's Chief Information Officer (CIO), and Doug Robinson, Executive Director of the Kentucky Information Resources Management (KIRM) Commission, to present their response to the Board's request that the CIO's Office review and make recommendations on the information technology (IT) projects submitted as a part of the agency capital plans.

Ms. Valicenti said, using the handout distributed to members, she would first discuss Executive Branch reorganizations relative to information technology, then review the report of project and other recommendations submitted at the Board's request. She said the EMPOWER Kentucky initiative had lead to development of a strategic plan for information technology including agreements on an IT architecture and standards.

Ms. Valicenti said the reorganization effort has had a lot of employee input. The resulting recommendations called for a shared services organization which determines where services can best be provided whether at the statewide (enterprise) level or the cabinet level. Other recommendations were that each cabinet appoint a CIO and that an advisory council or governance team of cabinet CIOs working with the state CIO be established to address technology investment decisions. Ms. Valicenti said an executive order on the new organizational structure is expected in approximately a month.

Mr. Nealy asked how the CIO's office was coordinating with other branches of government particularly concerning issues such as the unified criminal justice system. Ms. Valicenti said she has worked with a subcommittee of the Kentucky Criminal Justice Counsel, which does involve other branches.

Relative to the CIO's report of recommendations, Ms. Valicenti said 145 capital items totaling over $213 million were submitted in the capital plans; 48 of the projects were from executive branch agencies. In evaluating projects, the following attributes were considered: enterprise-wide importance; effect on life, safety, or health; impact on infrastructure establishment, growth, or maintenance; whether it was necessary to advance the redesign process; and whether it was an exemplary or innovative project which could become a model for transfer to other agencies. She said 65 of the items were identified as "high value" including 37 submitted by postsecondary education. Additionally, 59 of those items were clustered into 14 groups in a prioritized ranking.

Ms. Valicenti said that Priority #1, Kentucky Information Highway Upgrade Expansion, is a critical enabler for the rest of the projects. Priority #2 is a cluster of five projects related to the unified criminal justice system, while Priority #3 is a similar cluster relating to statewide radio response systems. In both instances, it would have been very difficult to rank one of the projects over another in the cluster. Ms. Valicenti then explained that in looking at the mandate for the unified criminal justice system, it became clear that rather than building a big new system, it would have to be a collection of both old and new, and upgraded and interfaced systems.

Mr. Hintze noted that, relative to Dr. Wilson's comments about criticality and useful life being major factors in whether bonds should be issued to finance a project, this proposed investment of over $100 million for information technology would have a shorter useful life than the 20 or 30 years assumed for traditional capital investments. He asked Ms. Valicenti to address that issue in her next comments.

Ms. Valicenti said some of her recommendations would do so, then proceeded to outline the comments and recommendations contained in her report. First was a request for the Board's endorsement of the need for a legislative focal point for information technology issues. Second was to alert the Board to the fact that if sufficient surplus general funds are not realized at the end of FY 1998/99, some agencies will be amending their capital plans to include the remaining EMPOWER Kentucky related items that were to be funded from the surplus. Third was to ask the Board to support proactive and innovative funding approaches to address the support costs of major IT projects. Fourth was to request the Board's support for state government's efforts to recruit and retain qualified IT personnel. Fifth, it was noted that the CIO's office needs increased flexibility in the approach used for prioritizing capital items since it is becoming more difficult to categorize them in specific agencies or cabinets. Sixth, the CIO noted that good project management is vital to successful projects and that the CIO's office should have full oversight authority over major projects. The last recommendation was that a separate statutory definition should be established for information technology and that the cost threshold for a project to be classified as a system should be raised to a minimum of $1 million; the definition would include software and professional services, as well as hardware.

In response to Mr. Hintze's questions, Ms. Valicenti and Mr. Robinson said the current prioritized listing reflects project costs using the current definition, not the proposed revision. The new definition would add 50 to 60 percent for the cost of software to all but the digital television project.

Mr. Hintze also asked whether the report identified any projects which did not have statewide implications, but which were critical to the delivery of services by specific agencies. Mr. Robinson said those are designated as "high value" items on the comprehensive list of IT projects.

Revenue Cabinet. Ms. Ingram summarized the Staff Analysis and Comments for the Revenue Cabinet's plan, then introduced Cabinet Secretary Sarah Schaaf, who was accompanied by Paul Johnson, the Cabinet's Chief Financial Officer. Secretary Schaaf explained the Cabinet's EMPOWER Kentucky project, which was funded in 1996-98 with $36.1 million of surplus funds, is intended to make the state's administration and collection of taxes more efficient; the high speed mail processing system and the imaging portions of the project are now in place. The next step, already funded through EMPOWER, is to link all of the information that the Cabinet gathers. The proposed network infrastructure replacement project will provide for a Local Area Network so that information can be accessed via computer when needed rather than having to retrieve the hard copy from files at an office five miles away. The computer leases project would continue a pilot project begun with EMPOWER funding under which, instead of purchasing computers, the Cabinet entered into a three-year lease for them. With leasing, the vendor is responsible for installing, maintaining, and refreshing the equipment. At the end of the period, funding will be needed to either continue a leasing arrangement or to purchase the necessary equipment.

Secretary Schaaf said the Cabinet is also proposing the expansion of several of its Taxpayer Service Centers which are in leased space across the state. In Pikeville, the office is being relocated from a floodplain to a downtown facility; since Workforce Development Cabinet offices will also be located there, cost efficiencies will result from being able to network the two offices at the same time.

Mr. Hintze said he wanted to follow up on the earlier discussion of alternative funding methods and possible changes in definitions for IT projects and noted that, even though a new definition is not currently in place, in their upcoming budget requests agencies should make decision makers aware of all of the costs related to the project, not just hardware costs.

Chairman Clark asked about the Cabinet's desire, as expressed in its plan, to consolidate from two offices in Frankfort to one, at Fair Oaks. Secretary Schaaf said the Personnel Cabinet is currently located in the other space at Fair Oaks. The Revenue Cabinet is, however, making some changes to improve the use of its existing space.

Representative Crall asked the Revenue Cabinet officials to address the percentage of tax revenues that go uncollected on an annual basis and whether the situation has improved under the EMPOWER Kentucky project. Mr. Johnson said it is difficult to determine the tax gap, but approximately $60 million in additional revenues that otherwise would have been uncollected have come in to state and local government as a result of the new technology being used. He said that figure should increase in the future.

Chairman Clark thanked Secretary Schaaf and Mr. Johnson for their presentation.

<u>Personnel Cabinet</u>. Ms. Ingram summarized the Staff Analysis and Comments for the Personnel Cabinet's plan, then introduced Deputy Secretary Singer Buchanan, who was accompanied by Jackie Shroat of the Personnel Administration Department and Walt Gaffield of the Administrative Services Branch. Deputy Secretary Buchanan said the Cabinet's top priority is on-line access to employee records, which will allow state agencies to use centralized employee files electronically, thus decreasing costs to agencies who will need less space for storing files and fewer file clerks, and improving accuracy of the file content. The Cabinet's second priority would look at the feasibility of a new personnel-payroll system for state government to replace the 17-year-old system

which does not meet current needs. The final priority for 2000-02 is a feasibility study for a new building to be constructed as an investment of the Deferred Compensation Authority to house offices of that agency as well as possibly other state agencies.

Ms. Howell said she would like to speak in support of the initiatives of the Personnel Cabinet, particularly the proposed payroll system. She said it is the next logical step to follow the Management and Administrative Reporting System (MARS) which is currently being implemented.

In response to Mr. True's question about the return on investment that would be expected from the new building, Mr. Gaffield said that analysis would be done as a part of the feasibility study. He said since the private sector constructs buildings and makes a reasonable return on its investment, it seems logical to think the Authority could do so also and meet the additional goal of diversifying investments within their fixed annuity option. Mr. Hintze also confirmed, in response to another question from Mr. True, that retirement systems in other states do invest in buildings.

Chairman Clark thanked the Personnel Cabinet representatives for their attendance at the meeting.

Labor Cabinet. Ms. Ingram summarized the Staff Analysis and Comments for the Labor Cabinet's plan, then introduced Deputy Secretary Mike Sparrow. Deputy Secretary Sparrow said the Cabinet had no proposed new projects, but was reporting that its computer imaging system, which was initially authorized in the 1992-94 budget and reauthorized in subsequent budgets, would be completed and fully deployed this year. He said some changes in leased space, such as consolidating offices, had become possible because space was no longer needed for storage of files and records. Chairman Clark thanked Deputy Secretary Sparrow.

Department of Military Affairs. Ms. Ingram summarized the Staff Analysis and Comments for the Department of Military Affairs' plan, then introduced Adjutant General John R. Groves who provided a handout to the members. General Groves said the Department's top three priorities are pools to address maintenance needs. The increase for the aircraft maintenance pool is due to the recent addition of two planes and one helicopter; the total fleet consists of five fixed-wing aircraft and three helicopters. The facilities maintenance pool is to serve over 50 armories across the state, for which a backlog of maintenance needs totaling over $4 million has been identified.

The maintenance pool for Bluegrass Station serves the former army depot at Avon which is being transferred from federal to state control. General Groves said after that transfer is complete, a multi-year process of transitioning the complex from state to private ownership and operation will begin. In response to questions from Mr. True, General Groves explained that an error had been made in submitting the Department's plan and that only agency receipts (primarily from rental of the space) are being proposed to fund Bluegrass Station projects. He said that approximately 80 percent of the 1.2 million square feet of available storage space has been rented and that "it's stretching," but the facility is generating sufficient revenues to maintain the buildings. Approximately $1.9 million of the annual income ($3.2 - $3.5 million) funds personnel, with the remaining amounts available for maintenance needs. General Groves also noted that the cost of re-roofing each of the eight large buildings is about $1 million.

General Groves said the Emergency Operations Center Expansion project is needed to provide technology and space to meet the needs of today's response environment which involves federal as well as state agencies and which must be prepared to deal with terrorist threats and other situations; the current 25-year-old facility was constructed primarily to handle natural disaster situations.

Relative to the proposal to construct two new armories, General Groves said he hopes, through the Governor's office, to present a proposal to the General Assembly which would replace the existing inventory of 50 armories at a rate of one per year.

The Department is also proposing an Energy Pool to invest in energy conservation projects which will result in savings at its armories and other facilities.

General Groves described the need for a total renovation of the Kentucky Arsenal which houses the state's military history museum; he noted that it is considered a jewel among small military history museums but is "literally about to fall down around us."

General Groves concluded by noting that the Wendell Ford Training Center being developed in Western Kentucky may eventually grow from its current size of 8,000 acres to approximately 50,000 acres of reclaimed strip-mined land and be the premier training facility for military units east of the Mississippi River; no state funds are proposed for it in the 1998-2004 capital plan.

Chairman Clark thanked General Groves for his thorough presentation.

Department of Veterans' Affairs. CPAB Staff Member Mary Lynn Collins summarized the Staff Analysis and Comments for the Department's plan, then introduced Commissioner Leslie Beavers, BG (Ret). Commissioner Beavers first reported that two new veterans' nursing homes authorized in the 1998-2000 Surplus Expenditure Plan are both in the design phase; groundbreaking for the eastern Kentucky facility in Hazard will be in August and for the western Kentucky facility in Hansen (near Madisonville) will be in September. It was intended that both would be single-story facilities, but use of a former strip mine site in Hazard has necessitated a two-story facility. An $800,000 cost overrun has resulted from engineering problems caused by the site. The current plan is to use the $643,000 contingency included in the project, and to seek a grant increase of $150,000 from the federal government, to cover the cost overrun.

For the next two biennia, the Department is proposing three new veterans' cemeteries, in western and central Kentucky in 2000-02 and in eastern Kentucky in 2002-04. They would be 100 percent federally funded for development and initial equipping; the state must provide the land and funds for operating and maintenance. General Beavers reported that seven states, with projects totaling $18 million, are in line ahead of Kentucky for the $11 million federal appropriation currently proposed for FY 1999/2000. He said there is currently no veterans cemetery coverage in western and eastern Kentucky. The three open national cemeteries – Camp Nelson, Mills Springs, and Lebanon - are in central and southcentral Kentucky. The Department is proposing another cemetery for the region because of the population demand. General Beavers said the central Kentucky project is twice as expensive as the others due to its large size, and the regional priorities could change if needed to accommodate the federal funding available.

In response to questions from Judge White and Mr. True, General Beavers said there is low participation in the current national cemeteries because of their locations, but participation would be expected to increase if sites are provided in eastern and western Kentucky. Their design is based on 25 to 45 percent usage by the population. Veterans (Kentucky citizens with 180 days on active duty), their spouses and dependent children, as well as active duty members would be eligible for burial in the state veterans' cemeteries. There would be no charge to the veterans and the federal government will provide a $150 reimbursement to the state per burial for the veteran, but not family members.

In response to Ms. Howell's question, General Beavers said operating costs are estimated to total $600,000 per year for all three cemeteries. He said the federal government is changing its emphasis from federally designed and developed national cemeteries to a program of grants for states to develop and operate the cemeteries.

Senator Worley asked if it was prudent to use the entire contingency for the Hazard nursing home project to cover a site development cost overrun, without knowing the results of the construction bids. General Beavers said if additional funds were required, it might be necessary to check into transferring funds from one site to the other. Senator Worley suggested it would be best to ensure that the first facility could be funded before proceeding with the second. Mr. Hintze clarified that money cannot be shifted from one of the projects to the other because they are separately authorized, line-item projects. Senator Worley said that, even though 29 acres had been donated for the Hazard facility, it would probably be better to purchase a more suitable site rather than proceeding with a project that is already $800,000 over budget.

Responding to Ms. Northern's questions, General Beavers said the current national cemeteries are projected to have spaces available beyond 2025. The new state cemeteries must have a life span of over 20 years, based on the population and projected usage rate.

Department of Agriculture. Ms. Collins summarized the Staff Analysis and Comments for the Department's plan, then introduced Eddie Duvall, Executive Director of the Office of Strategic Planning and Administration, and Bill Burnette, Executive Director of the Office for Environmental Outreach. Mr. Burnette explained that the Purchase of Agriculture Conversation Easements (PACE) program has now obtained 929 acres for $782,561 which represents expenditure of the original Federal grant and state matching funds from the 1996/98 Interim. An additional $1.5 million is available for the current biennium. To date, the PACE Board has received 55 applications from 26 counties totaling over 9,000 acres. The Board is seeking an additional $1 million in state funds in 2000-02 and 2002-04; federal funds of $700,000 are also proposed in each biennium, but Congress has not yet approved the President's request for additional funds for the farmland protection program. Ms. Collins noted that the PACE program has been considered as possibly eligible to receive tobacco settlement funds.

In response to questions from Mr. True, Mr. Burnette said the PACE Board uses a point system in evaluating which land to acquire. Because the objective is to preserve the better farmlands, soil type is a major criterion. While the Board has not targeted any specific areas, more of the applications and more of the purchases have occurred in Shelby County than elsewhere in the state. Chairman Clark asked whether the property owner can still farm the land when the easement is purchased. Mr. Burnette said the owner retains all ownership rights except that he cannot develop the land, nor can anyone he sells or leaves it to develop it. The tax base is not altered because farmland is based on agricultural value not fair market value.

Chairman Clark thanked Mr. Duvall and Mr. Burnette for their comments to the Board.

Other Government Operations Agencies. Ms. Ingram explained that three other agencies reported executed or proposed leases only. The Auditor of Public Accounts has consolidated from three locations in Frankfort to a single location; the Kentucky Retirement Systems and Unified Prosecutorial System reported the need for additional space. Various boards and commissions also reported executed or proposed new or expanded leases. Ms. Ingram also pointed out the list of agencies in the Government Operations area who reported that they had no projects requiring the submission of a 1998-2004 capital plan.

Public Protection and Regulation Cabinet. Ms. Ingram summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Secretary Ronald McCloud. Secretary McCloud said the Cabinet is trying to consolidate not only into fewer offices, but also to have those offices in closer proximity to each other. He introduced Tanya Dickenson, Assistant Director of Law Operations for the Department of Public Advocacy. She explained that the Department is in the midst of a long term expansion, with the intent being to cover the entire state with full-time offices and staff by 2004, thus the need for additional leases.

Economic Development Cabinet. Ms. Collins summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Gordon Duke, Commissioner for the Department of Financial Incentives, and Jerry Frantz, Commissioner for the Department of Administration and Support. Mr. Frantz explained that the uncommitted balance in the Economic Development (ED) bond pool is now $21.8 million. While the Cabinet usually seeks $20 million in additional authorization each biennium, taking a more realistic approach has scaled that back to $10 million each in 2000-02 and 2002-04.

Mr. True asked about the arrangement that would have the state, through the ED Cabinet, handle major maintenance on the new Northern Kentucky Convention Center. Mr. Frantz said the Cabinet was really just a conduit for funding the project and does not have the expertise to address its maintenance needs. Mr. Hintze explained that the Convention Center was modeled after Kentucky Center for the Arts (KCA) enabling legislation which provides for it to be managed by an independent board and to be self-supporting, at least in terms of day-to-day operations. KCA has become dependent on the state for major capital investments, and it is likely the Convention Center anticipates being in a similar situation. When the state puts significant funds in these projects, it is not likely to retreat from the investment. In response to further questions from Mr. True, Mr. Hintze said the state currently does not scrutinize the budgets and operations of the organizations on an on-going basis; only major capital items come through the state budget process.

Chairman Clark asked if there is any evidence of the effectiveness of the ED Bond Program in attracting or retaining business in Kentucky. Commissioner Duke said there is an annual report, which can be made available to the members.

Chairman Clark thanked Mr. Frantz and Mr. Duke, then announced the Board would break for lunch.

Chairman Clark called the meeting back to order at 1:35 p.m.

Department of Education. Ms. Ingram summarized the Staff Analysis and Comments for the Department's plan, then introduced Tom Engstrom, Director of Administrative Services for the Department. Mr. Engstrom said the Department's highest priority is maintenance. He noted that at the Board's February meeting, he had reported the receipt of $3 million for maintenance at the Department's three facilities in the last 10 years. At that rate of funding, it will take 60 years to erase the backlog of deferred maintenance which today totals $18 million. However, during that period, the costs and needs would still increase.

Mr. Engstrom said the Department sees four projects as its top priority – funding for miscellaneous maintenance, funds for steam line replacement at the Kentucky School for the Deaf (KSD), roof replacements and weatherproofing at the Kentucky School for the Blind (KSB), and roof replacements and weatherproofing at KSD. All address parts of facilities that have served their useful lives and need to be repaired or replaced; problems with these items have the potential to create emergencies and disrupt services at the facilities. Mr. Engstrom also said the Department has already identified $1.3 million in projects to be financed from the proposed $1.8 million miscellaneous maintenance pool.

Mr. True noted that enrollments at KSD and KSB have been dropping and asked about the long-range projections for those facilities. Mr. Engstrom said he was not prepared to address the issue in any greater detail than was provided in the handout, but said he would obtain the information if requested to do so.

Chairman Clark thanked Mr. Engstrom for his presentation.

Education, Arts, and Humanities Cabinet. Ms. Ingram summarized the Staff Analysis and Comments for the plans for agencies in the Cabinet, then introduced Secretary Marlene Helm, who said she would address each agency individually.

Kentucky Center for the Arts (KCA). Secretary Helm explained that in the 1998-2000 biennium, KCA was authorized $4.5 million in the Surplus Expenditure Plan for facilities enhancements, but subsequent cost estimates indicated that $1,375,000 in additional funds would be needed for a Phase II to complete the project as initially intended.

In response to Mr. True's question, KCA President Michael Hardy said the facility would probably not ever generate sufficient income to be totally self-supporting for both operating and capital expenses. He said since the KCA opened 15 years ago, the state has put about $8 million into capital projects for the facility, and the Center itself has financed about $4.8 million of such costs from its endowment or earned income. Mr. Hardy said it has been the Center's practice to finance a minimum of $200,000 in capital improvements through endowment or earned income each year. He further explained that KCA earns about 50 percent of its operational budget, receives about 10 percent of the budget from an endowment, and receives about 20 percent of its budget from the Jefferson County tourism tax; KCA depends on the state for only about 9 percent of its operating revenue.

Kentucky Department for Libraries and Archives (KDLA). Secretary Helm said KDLA is the primary caretaker of most major state records and must ensure that they are preserved accurately and effectively so that they can be accessed when needed. The volume of these records is increasing, and there is a need to replace two leased facilities in which they are currently stored.

Secretary Helm said KDLA is proposing the acquisition of a digital imager to help consolidate and reduce the volume of records being maintained. The $1.15 million cost would pay for the equipment as well as a study to look at how to best use information technology for records management, storage, and retrieval.

Mr. True asked what impact the imaging system would have on reducing space needs. State Librarian Jim Nelson responded that it would depend on various factors including how many people work on it, how many machines there are, and whether other agencies digitize and move their records to KDLA storage. He noted that KDLA now charges for its storage and retrieval services at an inexpensive rate, but when imaging is involved the price will increase. Secretary Helm said the study would help address that question. In response to Representative Crall's question, Mr. Nelson said digital imaging is in the operational stage and is being used by agencies, but is very expensive. He said this is also a transitional period of integrating paper and electronic records, and in standardizing the imaging technology so that sharing of records is easier.

Judge White asked whether this technology will be replaced by something else in a few years. He also asked if digitalization were in place now, would paper records be destroyed and warehouse space be emptied. Mr. Nelson said government only needs to keep about 5 percent of what it creates, but the proposed facility would address those records that do need to be saved permanently. He said the technology does change, so that it will be important to have a solution that allows access to the records in the future.

Kentucky Educational Television (KET). Secretary Helm introduced Ginny Fox, Executive Director of KET, then explained that the major focus of KET's capital plan is the federally-required conversion to digital television (DTV). The Federal Communications Commission (FCC) has mandated that all educational broadcasters file for DTV station licenses by May 1, 2000 and that those stations be operational with DTV by May 2003. KET's top priority is to address this requirement with 15 new transmitters at a total cost of $12.7 million; this is item number six on the prioritized list of IT projects presented by Ms. Valicenti. The sixteenth KET DTV transmitter, at Channel 15 in Louisville, will be installed in August as a pilot project.

Secretary Helm said KET must also complete the replacement of its existing 31-year-old analog television broadcast transmitters. Of those 16 transmitters, three have already been replaced, seven are being completed this year with funding from the Surplus Expenditure Plan, and two have been requested for a federal grant from the National Telecommunications Information Administration. The other four are listed as the second priority in the capital plan at a total cost of $2.8 million. Ms. Fox explained that even with the new DTV transmitters, the analog replacements are necessary because the FCC has required that until there is 85 percent DTV penetration, both digital and analog broadcasts must be provided.

Ms. Valicenti explained that digital TV is about more than just providing a better picture; it provides the capacity to deliver data which is important in addressing some of Kentucky's priorities such as postsecondary education and the Virtual University and early childhood education. In response to Chairman Clark's question, she said current televisions will be able to receive the picture but not the data.

Kentucky Teachers' Retirement System (KTRS). Secretary Helm said KTRS is proposing only reauthorization of the records imaging system that was initially authorized in the 1998-2000 budget. That system is needed to help ensure the accuracy and accessibility of their member records.

Kentucky Historical Society (KHS). Secretary Helm reported that the Kentucky History Center held its grand opening on April 10 and described some of the areas of the facility including permanent and changing exhibit areas, the Hall of Governors, the gift shop featuring Kentucky-crafted products, and the state-of-the-art library and genealogical reference room. She also introduced KHS Director Kevin Graffagnino.

Postsecondary Education – Space Planning Guidelines. Ms. Ingram explained that the Board will not be reviewing the plans of the postsecondary education institutions until September, because the Council on Postsecondary Education (CPE) has given the institutions an opportunity to revise the plans initially submitted on April 15. This was done to allow changes based on the new space planning guidelines which have recently been completed. The revised plans are due to the Council and the Board on August 1. Ms. Ingram then introduced Ken Walker, CPE's Vice President for Finance, Facilities and Data Management, to report on those guidelines.

Mr. Walker, representing CPE President Gordon Davies who is out of the country, welcomed the Board to the Council's offices, then said he would be speaking from a handout being distributed to the members.

Mr. Walker explained that this spring CPE contracted with Paulien & Associates from Denver Colorado and the National Center for Higher Education Management Systems to develop a set of space planning guidelines and to review and recommend space utilization standards. The results of this work will be recommended to the Council for approval on July 19. Mr. Walker described the space planning guidelines as being in the middle of what other states do relative to the amount of space per student or staff member. The guidelines address all Educational and General (E&G) space categories including classrooms, laboratories, office suites, libraries, physical education and recreation, special use and general use, and support space. They do not address space that is self-supporting, such as housing and dining and bookstore space.

Mr. Walker said the guidelines were applied to existing space, including that authorized by the 1998 General Assembly but not yet constructed. The results show that systemwide at both the universities and the Kentucky Community and Technical College System (KCTCS) there is a surplus of space, ranging at about 4 percent at the University of Kentucky (UK) and the University of Louisville (UL) to 48 percent among the technical colleges. However, Mr. Walker said looking at the detail shows that even with an overall surplus there may be needs in specific space categories. For example, UK has a deficit of research space. Mr. Walker said there are some data issues relative to classifying the technical college space into the Higher Education Data Reporting System categories which are being used. He said when the analysis reflects a need for a specific type of space, the next question which should be raised is whether space in a category where there is a surplus can be renovated to serve the need or whether additional space should be constructed.

Relative to the new Regional Postsecondary Education Centers which were approved in the 1998-2000 budget, Mr. Walker said this analysis does not preclude nor does it indicate the need for additional centers or where they should be located. Relative to the maintenance of existing facilities, Mr. Walker said data being collected in conjunction with the budget requirement that institutions commit to a maintenance standard indicates that most of the building systems replaced over the past six years have exceeded 90 percent, and in some cases 100 percent, of their expected useful life. He said CPE is trying to make a distinction between "maintenance" needs which relate to items that have deteriorated faster than would have been expected vs. "capital renewal" which addresses systems that have exceeded their life expectancy.

Other issues raised by Mr. Walker included the research aspirations of UK and UL, identifying and deciding how to address underserved areas of the state, and disposal rather than renovation of existing, obsolete space on the campuses. He also said the CPE will consider the needs of the entire institution rather than having separate priorities for on-campus and off-campus sites.

Mr. True called the members' attention to the space quality analysis portion of the report and asked how the CPE plans to implement the recommendation presented there which calls for identifying and setting aside a percentage of replacement value to address facilities maintenance. Mr. Walker said these are very good recommendations, but additional and better data on replacement value will be needed in order to implement them. He said some states set aside 1, 1.5, or 2 percent of replacement value annually, while Virginia provides access to some state funds if less than 5 percent of the total replacement value of a campus is in need of maintenance. Kentucky postsecondary education's investment in plant is over $1 billion, so the replacement cost would be higher; a one percent set aside calculated on the $1 billion figure would be $10 million. Mr. Walker said the CPE hopes to address the issue further in September, and to the extent something cannot be done this biennium, an effort will be made in the next biennium. He said maintenance and renewal of existing facilities has been and will continue to be the Council's highest priority.

Mr. True quoted the consultant's statement that "there has been no real incentive to institutions to aggressively address deferred maintenance since state funds have been available when deferred maintenance became serious." He noted the need to address routine maintenance so that the needs do not turn into deferred maintenance projects. Mr. Walker said the requirement in the 1998-2000 budget for institutions to commit to a maintenance standard is a step in that direction. Until recently, CPE has not had information on how long the building systems last. He added that President Davies will continue to make the point that there is a cost to the institutions when a new facility is acquired. Mr. Walker also encouraged the Board to continue to reinforce that maintenance of facilities is the top priority.

Ms. Northern complimented Mr. Walker on his presentation and said the innovative approaches being taken in postsecondary education may provide some guidelines or principles that can be applied to other areas of state government. Ms. Clary said the consultant's recommendation about setting aside amounts based on replacement cost for maintenance should be addressed in the Board's policy recommendations. She also noted previous Board discussion about possibly including amounts for future maintenance needs when the project is first funded. Mr. Mitchell said the Government Accounting Standards Board has completed a new rule making which will require governments to provide some type of infrastructure condition assessment in their financial reports.

Chairman Clark thanked Mr. Walker for his presentation.

Justice Cabinet. Ms. Ingram said that in addition to officials of the Cabinet, representatives from Eastern Kentucky University (EKU) were also present since various Justice Cabinet projects are underway or proposed for the EKU campus.

Deputy Secretary Pam Murphy opened the Cabinet's presentation by noting that Secretary Robert Stephens was sorry he could not attend due to a prior out-of-state commitment. She thanked the Governor, the General Assembly, and the Board for their assistance in helping to manage the steady increases in the prison population and the probation and parole and juvenile justice workloads. In addition to the Commissioners who would be speaking later, Deputy Secretary Murphy introduced Louis Smith, the Cabinet's Chief Information Officer, and David Garr, Director of Administration for the Office of the Secretary.

Department of State Police. Commissioner Gary Rose described several of that Department's priorities for 2000-02. The Unified Criminal Justice System will allow for the exchange of information and communication among the Administrative Office of the Courts, State Police, Corrections, and Juvenile

Justice. Forensic Analytical Equipment will aid in the testing of criminal evidence samples at the central and regional laboratories. The Information System Resource Management IT project provides for upgrade and maintenance of the KSP's general office automation infrastructure. The Enhanced Intelligence Information project would develop and implement information system capabilities for the KSP intelligence section. The State-Level Law Enforcement Training Center would be a 75,000 SF facility for all state level law enforcement training. Three replacement state police posts would be constructed in Harlan, Columbia, and Richmond. Remaining KSP projects listed by the Commissioner included a Computer Aided Dispatch System, Digital Mug Shot System (replacement), Automated Fingerprint Identification System Support, Minor Project Pool, Security Enhancements at KSP Posts, expansion of the overcrowded Bowling Green post, In-Car Computers, construction of new technician repair shops (Ashland, Bowling Green, Richmond, Morehead, Harlan, and London), and emergency generator upgrades (Richmond, Ashland, London, Morehead and Dry Ridge).

Department of Corrections. Commissioner Doug Sapp said his Department's plan addresses three areas of need – new facilities to address prison populations which are projected to nearly double over the next 10 years, infrastructure support and maintenance needs of the existing facilities, and provision of the latest technologies to assist the staff in its work.

Commissioner Sapp said projects to increase the number of inmate beds include the two 894-bed medium security prisons to be constructed in Elliott County and Knott County, Phases II and III to complete expansion of the Kentucky Correctional Institution for Women, and conversion of the old hospital building at Northpoint Training Center to accommodate 640 medium security beds.

Commissioner Sapp said legislation passed by the 1998 General Assembly provided the opportunity to expand community programs in an effort to stem prison population growth, particularly in the lower felony classes. He noted that while prison population projections for the current biennium are lower than expected, there has been a corresponding increase in the probation caseload. The 1998 provision requiring violent felony offenders to serve 85 percent of their sentences will impact the system in about six-to-nine years in two ways – longer stays and more violent inmates. These factors led to the proposal to address medical and psychiatric treatment needs of inmates. Another aspect of the 1998 legislation which will impact the prison population is the denial of reduced time for good behavior for sex offenders until they successfully complete a treatment program, and adding a three-year conditional release supervision period to their sentences. A future issue which could affect bed needs are proposals for the civil commitment of sex offenders upon completion of their sentences, or longer criminal penalties for offenders. This will impact Corrections, Mental Health, or both.

Ms. Clary noted that the Department has done a good job, with the help of the General Assembly, in trying to divert individuals from the system when it is appropriate. Commissioner Sapp said Secretary Stephens is very interested in continuing the emphasis on alternative programs.

Mr. Hintze noted that the six-to-nine years it will take for the impact of the 85 percent sentencing provision to be felt is about the length of time it will take to implement the projects being proposed to increase bed capacity. He then asked Commissioner Sapp to address the maintenance needs of the existing correctional facilities so that they are not lost amid the discussion of new beds and capacity. Commissioner Sapp said the Department's Maintenance Pool has been very helpful in dealing with maintenance items; the ability to use inmate labor also helps keep project costs down. However, some of the projects in the plan such as HVAC systems and sewage treatment plants are beyond the scope of using in-house labor. Commissioner Sapp also said conversions from the originally intended minimum security use up to medium security use and from single to double cells have put additional stress on other aspects of the institutions including infrastructure, such as sewage and water treatment, and support areas, such as kitchens and dining areas. He said the staff does a good job of maintaining the facilities, but there are still needs which must be addressed.

Judge White said the Department of Corrections does an excellent job, but if the prison population projections come true, Kentucky will be in a crisis situation in 2014. He said constructing additional prisons is not the answer. He also said the 85 percent rule enacted by the 1998 General Assembly is not realistic because some people deserve parole consideration before then, and some never should get out of prison. Additionally, he said the drug problem must be addressed in realistic terms by making substance abuse programs available to those who need them. Noting that in the past the Board has made recommendations relative to alternatives to incarceration, Judge White said it should do so again.

Chairman Clark said he agreed with Judge White's comments.

Mr. True asked whether the Department will continue to use local jails and if additional local beds will be coming on line. Commissioner Sapp said local jails are housing 3,700 convicted felons for the state, and the Department is working with them relative to the future help they can provide. However, local governments are having to deal with the growing sentenced misdemeanor population and the pre-adjudicated population.

Mr. True then asked about the new prisons being proposed for 2000-02 and 2002-04. Commissioner Sapp said, as the Department's second priority, one 894-bed prison is planned for Elliott County and one 894-bed prison is planned for Knott County in 2000-02. The intent is to build the infrastructure and other program and support features in 2000-02, so that a Phase 2 or expansion project would only entail additional housing unit areas. Mr. Hintze explained that the 1998-2000 budget had authorized design funding as a single project with a decision to be made as to whether construction would be at one or two sites. It was recently decided to have two sites, so they are really two projects with a first phase of construction for each proposed in 2000-02 and a second phase for each in 2002-04.

Mr. True also asked the reason for the large number of projects proposed for the Kentucky State Reformatory (KSR). Commissioner Sapp said KSR has been designated as the major medical facility for the system, housing the geriatric and chronic mentally ill populations. While many of the housing units were renovated as a result of the 1982 Consent Decree, there are still maintenance and infrastructure needs related to wear and tear on the facility and its age.

In response to Representative Crall's question about the costs of alternative sentencing approaches, Commissioner Sapp said offenders handled in a non-residential, community-based program cost less than $5 per day (for treatment, electronic monitoring, and supervision by parole staff) compared to an average cost of $30 per day for an incarcerated inmate. He said those costs range from $60 per day at the KSR to $25 per day, which is paid to a county to house a Class D inmate. Ms. Clary said offenders can also be required to pay some of the costs. Commissioner Sapp said the Department is working on proposals to address some of the initiatives included in House Bill 455 for alternatives, but does not have cost figures for them yet.

<u>Department of Juvenile Justice (DJJ)</u>. Commissioner Ralph Kelly said the bulk of the DJJ plan is in the area of detention. This has been a strong initiative of the Governor. In the past, juveniles in Kentucky were usually co-located in adult jails and until a few months ago, Kentucky was one of two states out of compliance with federal regulation in that area. Two years ago, a plan was developed for 13 detention centers which would have provided one within 60 minutes or a 60 mile radius of each county. Nine of the facilities would be new construction and four would be acquired by the state from existing county facilities. That plan has now been scaled back because the 60 minute/60 mile

criteria would have resulted in some very small facilities which are more costly to operate. The plan now calls for 10 centers of which nine would be new and one would be acquired by the state in Jefferson County. The original plan had provided for state acquisition of existing centers in Hardin, Daviess, and Fayette Counties. However upon further review, it was decided that the state should build its own facilities in these three areas; these are proposed for the 2000-02 biennium.

To obtain better projections of the numbers of beds that will be needed, two studies have also been done by the National Council on Crime and Delinquency. Commissioner Kelly said the Department is not planning to expand the number of long-term beds in the system, but wants to develop more prevention, alternatives-to-detention, and community-based programs. It is proposing to replace the three post-adjudication facilities remaining in Louisville after the already authorized replacement maximum security facility is completed in Adair County. The proposed new 100-bed facility would replace Cardinal, Johnson-Breckinridge, and Rice-Audubon, which are aging, dilapidated facilities with a total of 120 beds. Other proposals are for maintenance and repair/renovation of existing facilities and creation of better educational facilities at some of the youth development centers.

Ms. Clary asked if the DJJ would decertify the existing facilities in Daviess, Hardin, and Fayette Counties when the new centers are completed. Commissioner Kelly said the plan is for both holding facilities and intermittent facilities to cease to exist whenever the state opens a facility that covers that area. This would be done by discontinuing the state subsidy and by decertifying the facilities.

Ms. Northern asked for additional information on the proposed new Juvenile Justice Training Academy. Deputy Secretary Murphy said the program currently uses space at the Department of Criminal Justice Training at EKU, but that facility is overcrowded. They are in the early stages of determining the feasibility of having one multi-use building to address the needs of various agencies in order to maximize the resources available for construction and for training. It would be located on the EKU campus.

Mr. Hintze said that until the last two biennia, pre-adjudicative facilities for juveniles had been a local rather than state responsibility. Factors leading to the state's involvement included a desire to have a continuum to deal with all juvenile justice issues, to address inequities in amounts some counties charged to house juveniles from other counties, and to ensure adequate facilities. This is an expensive, new undertaking which has been superimposed on the previously existing capital needs of the state. Additionally, when the new Department of Juvenile Justice was created, it was given responsibility for existing postadjudicative facilities which were already old. Mr. Hintze asked Commissioner Kelly to address the replacement and renovation needs for those facilities.

Commissioner Kelly said that the current Lincoln Village treatment facility in Hardin County has maintenance needs totaling over $3 million, so the Department is proposing that it be replaced at the same time a new detention center is built in Hardin County. A single facility would house two separate programs – one for detention and one for long-term residential care. A new facility would also replace the three dilapidated facilities in Jefferson County. Replacement facilities would be designed with better program resources than are currently available, for example indoor recreation space. Other needs are for improvements at the Morehead Youth Development Center which is the only facility for girls, and for improved security at the Northern Kentucky Youth Development Center which is a closed facility; the security level just below maximum security. These improvements are needed because it will be about 16 months before the new Adair County maximum security facility is completed.

Mr. True said the map in the meeting materials shows six day treatment centers, and asked whether such centers are good alternatives to detention and whether having additional day treatment programs available would impact the number of beds needed by the DJJ. Commissioner Kelly said it is a good alternative. The map reflects only the six programs operated by the state; 20 others are contracted and the DJJ will propose funding for more in the next biennium. Legislation enacted in 1998 requires that, subject to appropriations, DJJ is to make a day treatment program available for each of the 51 judicial districts. Commissioner Kelly said that since 35 to 40 percent of juveniles in detention are status offenders, alternatives such as day treatment centers could affect the number of juveniles in those beds.

Department of Criminal Justice Training (DCJT). Commissioner John Bizzack reported on the status of the new facility being constructed at the Law Enforcement Complex at EKU. The 1998-2000 budget authorized $20 million for the new facility to include a 98-room residence hall, additional classrooms, office space, a gymnasium, and improvements to the skills center track. Updated data resulted in a total cost estimate of $23,275,000. Commissioner Bizzack introduced Ken Schwendeman, the DCJT's Director for Administration, to explain the $7 million project which is now being proposed in the EKU plan as an addition to the currently authorized facility. Mr. Schwendeman said the new project resulted from a combination of higher than expected square footage costs on the 1998-2000 project, the need to enlarge the gymnasium in order for the track to be an adequate size for certification testing, and the desire to incorporate some new driving simulator technology into the facility.

In response to Ms. Northern's question, Commissioner Bizzack said EKU provides law enforcement education while the DCJT provides law enforcement training, but the University does use the Department's facilities when needed. He also said the DCJT contracts with EKU for the maintenance and operation of its training facilities on the EKU campus.

Chairman Clark thanked the Justice Cabinet representatives, and the first day of the meeting was recessed at 4:05 p.m.

The meeting reconvened at 9:00 a.m. on Thursday, July 8, 1999. Chairman Clark noted that Deputy Secretary Kevin Flanery would be representing Transportation Cabinet Secretary James Codell for today's portion of the meeting.

Transportation Cabinet. Glenn Mitchell, Executive Director of the Office of Policy and Budget, presented the Cabinet's plan. He said the Transportation Cabinet is one of the largest cabinets in state government in terms of numbers of employees and budget, and is probably the largest cabinet relative to the number of buildings it operates.

Mr. Mitchell said the Cabinet's highest priority is reauthorization of the $87 million Transportation Cabinet office building authorized in the 1998-2000 budget; it is not yet underway because the site was just recently selected. Other high priorities are maintenance pools; a large increase is being proposed for loadometer and rest area maintenance, while the environmental projects pool is being de-emphasized because clean up of the fuel storage tanks has been completed. Relative to new construction, the plan proposes to increase the rate at which county maintenance facilities are replaced and includes 11 such facilities to be replaced in 2000-02 and 2002-04. Other major new construction in the plan includes a new district office building for Louisville in 2000-02 to replace the current facility which the State Fair Board wants to purchase, a new/replacement district office building for Elizabethtown in 2002-04, and a new state government motor pool facility in Frankfort. The Cabinet's plan also includes various equipment and information technology projects including two of which were listed as having "high value" in the CIO's report yesterday. Mr. Mitchell concluded by noting that all of the projects in Cabinet's plan would be financed from road funds.

Chairman Clark thanked Mr. Mitchell for his presentation.

Cabinet for Families and Children (CFC). Ms. Ingram summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Secretary Viola Miller who was accompanied by Terry Thompson of the Cabinet's Facilities

Management Branch. Secretary Miller explained that the Cabinet is the state's primary social service agency, and with protection issues having increased significantly in recent years, the personnel added to address them has put a strain on some of the Cabinet's facilities.

Secretary Miller said the primary focus of the Cabinet's capital plan is on the Ashland Office Complex, which was previously a TB hospital. Analysis has indicated that renovation of the facility would be at least 30 percent more expensive than any other alternative; therefore, the Cabinet is proposing the demolition of that building and either construction of a new, smaller facility or leasing space. Proposed renovation projects in the CFC plan include the Owensboro State Office Building, for which HVAC needs are currently being addressed with maintenance pool funds, and the elevator system in the L&N Building in Louisville. Secretary Miller also noted the importance of the Cabinet's miscellaneous maintenance pool. She said that about 50 percent of the buildings housing CFC employees are substandard facilities which is largely the result of renting low cost space. Relative to information technology, Secretary Miller said a recent federal review of its State Child Welfare Case Management Information System may result in recommendations which would require additional IT items to be added to the plan; there may also be additional projects related to expanding electronic commerce to areas beyond the food stamps program.

The Cabinet is also proposing legislation to transfer eight child care centers constructed in the 1990s with funding from the Human Services Construction Pool to the local entities which currently operate them.

In response to Chairman Clark's question, Mr. Thompson said the Cabinet has not sought any funds from the Statewide Deferred Maintenance Pool, but is looking at some options in that regard. He said two separate projects related to the Owensboro HVAC upgrade in the last two years have left few maintenance pool funds available for other CFC buildings.

Mr. Hintze said the problems stated with regard to leased space will need to be raised with the Finance Cabinet. He also noted that, unlike most other Cabinets, CFC owns office buildings and their needs must compete for funding with the needs of programmatic facilities.

In response to a question from Senator Worley, Secretary Miller said about 50 of the Cabinet's facilities are substandard, and she can provide a list which is prioritized in terms of the emergency and the need. She said the Cabinet is working with the Division of Real Properties to relocate its offices from the substandard facilities.

Chairman Clark thanked Secretary Miller and Mr. Thompson for their presentation.

Cabinet for Health Services (CHS). Ms. Ingram summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Deputy Secretary Marcia Morgan, who distributed a handout on which her presentation was based. Deputy Secretary Morgan said the primary mission of the Cabinet is to provide high quality health care services either through contract, direct payment, or by being the provider. It owns and operates three psychiatric hospitals and several ICFMRs and nursing facilities, ranging from one to 48 buildings each. Ages of facilities at the various complexes range from Civil War through 1988.

Deputy Secretary Morgan said while the CHS is proposing legislation to transfer the senior citizens centers which were built with funding from the Human Services Construction Pool to the local communities, its plan also includes a miscellaneous maintenance pool to address those facilities if that transfer is not accomplished.

Deputy Secretary Morgan said the bulk of the CHS capital plan deals with the Department for Mental Health and Mental Retardation and the Department for Public Health. In a major change from recent years, the focus is on infrastructure needs. She said the Cabinet is trying to look at its program strategies and how they impact the physical plant. In conjunction with the Finance and Administration Cabinet, they hope to do an in-depth study of all of the Cabinet's facilities to look at issues such as how many buildings there are, their useful life, and space utilization. Deputy Secretary Morgan said the Cabinet must think of new and creative ways to deal with space no longer needed for the delivery of services, for example, razing the buildings or rehabilitating the buildings and making them available for lease to other agencies. Currently, some of these buildings contain asbestos (not friable) and do not have running water. High quality treatment areas for patients and residents have been maintained, but they are insufficient going into the next biennium.

According to Deputy Secretary Morgan, the Cabinet's highest priority is to ensure the life and safety of the people served, both short-term patients and long-term residents for whom the facility is their home. Also of concern are licensure and regulation requirements, and compliance with environmental laws and regulations.

Deputy Secretary Morgan said the Cabinet's top three priorities are water pipe replacement at Eastern State Hospital, construction of a new power plant at

Western State Hospital, and boiler replacement at Central State Hospital. Several roof replacements are also high priorities as is a roof replacement pool; funds from the maintenance pool have been used to deal with interior damage but the roofs which are the source of the problems have not been addressed. In addition to an HVAC and chiller replacement pool, chiller projects are specifically listed for Eastern State Hospital and Oakwood.

Deputy Secretary Morgan said the largest project in the plan is construction of a $41.2 million forensic hospital complex to replace the Department of Corrections' Kentucky Correctional Psychiatric Center (KCPC) and Central State Hospital's Grauman Building. It would serve individuals accused of or convicted of serious crimes or individuals who are incompetent to stand trial. The need for those services is expected to increase. As secured premises would be necessary, the facility is proposed to be constructed at the Luther Luckett Correctional Complex.

Deputy Secretary Morgan also discussed two information technology projects which the CIO has ranked as "high value." They are the local health department integrated system to allow for the more efficient collection and analysis of data, and the early childhood information technology system.

Representative Crall asked if there were any projects proposed for the ICFMR at Central State Hospital (the Bingham Building). Deputy Secretary Morgan said the two projects – a sprinkler system and an elevator replacement – are not now high priorities but will be moved up if it is determined that the facility will continue to house patients on a long-term basis; currently an effort is being made to find placements elsewhere for those individuals.

Mr. Hintze said the Cabinet had presented an "appalling litany of facility conditions" which would be very expensive to correct. He asked whether the review planned in conjunction with the Finance Cabinet would include an analysis of whether the state should continue to operate all of the current facilities, and whether in some instances replacement rather than expensive renovations should be undertaken. Deputy Secretary Morgan said the review would look at how program delivery strategies are going to change. While the state will always need facilities in which to provide psychiatric care, some buildings may be able to come out of service. She said maintenance and other Cabinet personnel have done a good job of ensuring that people are housed in safe, standard buildings, but that has been done to the detriment of the rest of the physical plant.

Senator Worley complimented Deputy Secretary Morgan on her presentation. He then noted that the $1.3 million in maintenance funds available for this biennium to address 2 million square feet of space and over 1,000 acres calculates to less than 50 cents per foot. He asked if that was the reason Eastern State Hospital has 323 licensed beds and a daily census of 128. Department for Mental Health and Mental Retardation Commissioner Margaret Pennington said the census dropped fairly dramatically when a 100-bed psychiatric facility opened at the Appalachian Regional Hospital in Hazard.

Senator Worley asked whether an effort had been made to calculate the point at which the state should stop putting money into fixing facilities and instead consider building new facilities or consolidating services. He said he was particularly concerned about the large sums being put into court facilities when human services are being provided under such bad conditions.

Mr. True said he thought it was important to know more about the type of patients being served in the current facilities in order to determine whether there might be ways to serve them in the community rather than renovating the state facilities. Commissioner Pennington said even though there has been an increase in the number of private sector beds in the communities, they are not necessarily willing to serve the individuals that come to the public sector and sometimes are not able to design specialty programming that is provided in the public sector. She cited the example of increased numbers of people at Central State Hospital who have served their prison sentences but still have mental illness to the extent they may continue to be dangerous; she said private entities often do not want to take the risk of serving these individuals. Others are individuals who have committed misdemeanor offenses and need determination of competency to stand trial.

Mr. True also asked about the report provided in the CHS plan submission showing four of the seven senior citizens centers constructed in the 1990s to be in poor or fair condition. Deputy Secretary Morgan said the Cabinet is currently trying to determine if those are credible assessments, and that there is reason to believe they may not be.

Mr. True said this raised a general concern about whether information the Board was receiving overstated or understated the needs of various facilities.

Mr. Hintze said it is indisputable that the maintenance pools provided to the various cabinets and agencies are “woefully inadequate.” The pools are funded from investment income on capital construction, which is dedicated to this purpose by policy and history, not by statute. It is a stable source that generates about $12 million - $14 million per year to be divided among 12 to 14 entities. In some instances, this source is supplemented by using bond issues for large maintenance projects, but those projects then must compete with other capital projects. The

Statewide Deferred Maintenance Pool has also been helpful but is only a few million dollars per year. Mr. Hintze said that unless the state devises a way to finance maintenance, repair, and renovation from a source of funds in a different manner than has historically been done, it will not be possible to make much of an imprint on the backlog of needs that have been outlined. This would have to be done legislatively and in the budget process, but the Board could urge some policy direction in that regard.

In response to Senator Worley's question, Mr. Hintze said the state does periodically look at how other states address this issue. He said most rely on a combination of general revenues and some dedicated revenues. Some states dedicate lottery money toward capital repair and improvement. Other states make it a recurring part of regular operations similar to the approach discussed yesterday relative to the CPE consultant's recommendation for a regular set aside within the recurring budgets to address needs on an on-going basis. This would require a large amount of funds to be carved out of the base budget to get the effort started. Pursuant to statute, the state's court system funds its maintenance from the general fund.

Mr. True asked why Americans with Disabilities Act (ADA) projects appear to have a lower priority now than in previous plans. Mr. Hintze said most agencies must fund those projects from the miscellaneous maintenance pool, rather than receiving a pool designated for that purpose. He said the state has not met all of the ADA needs but has made substantial progress.

In response to Judge White's question, Deputy Secretary Morgan said the new forensic hospital would be run by the Cabinet for Health Services with perimeter security provided by the Department of Corrections. Judge White said Western State Hospital once had a forensic unit and asked whether that would be a possibility again. Deputy Secretary Morgan said she was not aware of any discussions in that regard. She said the Cabinet is just beginning to identify all of the issues to be addressed during the two-year review, and is currently focusing on infrastructure needs of facilities expected to continue in operation for a long time. She said she would also provide information on the cost per patient per day at Grauman and at KCPC, as requested by Judge White. He also asked that the Cabinet look at a different way of handling evaluations of those who may potentially stand trial for serious crimes, because it is difficult to get into KCPC.

Ms. Clary said she knows there are delays and that KCPC is overtaxed; she asked if the Cabinet wished to comment. Commissioner Pennington said about one-half of the evaluations are done in the community and the other half go to KCPC for in-patient evaluations. One of the reasons KCPC is used is because they are able to provide security. She said the delays are no more than a month or two, and they try to respond more quickly when requested. Commissioner Pennington added that the increased need is reflected in the size of the proposed new facility.

Chairman Clark thanked the CHS officials for their presentation and comments.

Workforce Development Cabinet. Ms. Ingram summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Brian Easton, Branch Manager for the Division of Facilities Management, and John Friel, Executive Director of the Office for Policy and Budget. Mr. Easton said the Cabinet's top priority in each biennium is the miscellaneous maintenance pool which is used to maintain 24 Department of Employment Services (DES) office buildings and three other Cabinet-owned facilities. Needs totaling $2 million have been identified at these locations. The next two priorities are for the Carl D. Perkins Rehabilitation Center - replacement of roof-top mechanical equipment and a renovation project to provide additional classroom space. The current roof-top units must be sprayed with water to keep them from overheating, and a consultant has said that, due to their age and poor condition, repair of the units would not be cost effective. Two other pools which are high priorities are the ADA barrier removal pool and the DES facility renovation pool.

In response to Mr. True's question, Mr. Easton said federal equity in three DES buildings which are to be closed will be transferred to the new Winchester office building which will be run by the Finance and Administration Cabinet. If the DES facilities are sold, the equity would probably total $300,000 - $400,000.

Chairman Clark asked if the Cabinet had accessed the Statewide Deferred Maintenance Pool. Mr. Easton said they were aware of the Pool but had not received funding from it.

Natural Resources and Environmental Protection Cabinet (NREPC). Ms. Ingram summarized the Staff Analysis and Comments for the Cabinet's plan, then introduced Deputy Secretary Bruce Williams, who was accompanied by Melanie Bailey, the Cabinet's Budget Officer. Deputy Secretary Williams said one of the Cabinet's top priorities is consolidation of its office space in the Frankfort area; that project is included in the Finance and Administration Cabinet's plan. He said of particular concern is the Ash Complex Building which is leased space in the 100-year floodplain and in which the Cabinet has incurred damage and extensive costs from three major floods. Deputy Secretary Williams said projects in the Cabinet's plan address safety concerns, protection of public health, and the environment. The top priority, repair of state-owned dams, calls for all high hazard and the top moderate hazard dams to be addressed by the end of FY 2003/2004. The second priority is funding for the maintenance of Cabinet-owned facilities; the proposed funding would address the most critical needs, then a long-term maintenance plan would be established to avoid major renovations in the future.

Other priorities include acquisition of additional property to further protect and provide access to the Blanton Forest State Nature Preserve, construction of two replacement structures to allow continued operation and maintenance at the Maxey Flats Nuclear Waste Disposal site as required by a Federal Consent Decree with the Environmental Protection Agency, replacement of the Division of Forestry's current low-band radio system which is susceptible to excessive long distance skips and interference, and state funding for the Hazardous Waste Management Fund in the event the current assessment fee on hazardous waste generators is not renewed.

In response to Mr. Hintze's question about the availability of federal funds for the radio system, Hugh Archer, Commissioner of Natural Resources, said most of the federal grants to forestry have been zeroed out in the Administration's current budget, but Senator McConnell is trying to get funding added to address this need. Mr. Hintze said he thought the Cabinet had withdrawn a similar project last biennium, and asked if he was correct. Commissioner Archer said he was not at the Cabinet then, but if that occurred it was probably because there were higher priorities.

Regarding the state-owned dam repair project, Mr. Hintze asked whether any dams owned by Transportation, Fish and Wildlife, or other state agencies are included and whether any need to be addressed immediately. Bob Logan, Commissioner of Environmental Protection, said six of the 62 state-owned dams are identified as high hazard dams that need repair. They involve both Transportation and Fish and Wildlife lakes. Commissioner Logan said it is sometimes difficult to determine ownership; but in response to a further question from Senator Worley, he said they try to prevent any failure that would result in loss of life or property first, then sort out any issues of ownership and responsibility. He said these are all state-owned lakes, so the Corps of Engineers is not involved.

Chairman Clark asked about funding for the state's acquisition of mining and timber rights on Black Mountain. Deputy Secretary Williams said negotiations as to the cost are currently underway, but there has not been a final decision on the source of funds. Possibilities include the State Nature Preserves Commission, the Heritage Land Trust, or private funds.

Chairman Clark thanked the representatives of the NREPC for their presentation.

Finance and Administration Cabinet. Ms. Ingram said in addition to discussing the Cabinet's capital plan, Secretary McCarty had been requested to address three other items - an update on the long-range plan for state offices in Frankfort, the Capitol restoration and renovation project, and energy savings performance contracting. She noted that in its last plan the Board had recommended performance contracting as a way for agencies to implement needed energy savings and related projects.

Secretary McCarty said he first wanted to comment on the earlier discussion of deferred maintenance; he said that, as Mr. Hintze indicated earlier, the state needs to develop a methodology to provide funding on an on-going basis for the maintenance and protection of existing assets.

Relative to the Capitol renovation and restoration project, Secretary McCarty said an ad hoc committee and the state's consultant, Norman Berry and Associates, have been looking at what needs to be done to the Capitol, both to restore the historic areas and to bring it up to today's construction and technology standards in order to function efficiently. He said at this point the consensus is that not only should the Capitol be renovated; but upon completion of the renovation, it should not be repopulated at levels where wear and tear would quickly diminish the effects of the investment. Thus, space needs to be provided to house those currently in the Capitol who would not be returning there. Alternatives being considered include construction of an executive office building and construction of a visitors' center on the Capitol grounds. More definitive recommendations on construction should be available by the time the budget is presented; design funding will be requested for 2000-02.

Secretary McCarty asked Armond Russ, Commissioner of the Department for Facilities Management, to update the Board on the long-range plan for Frankfort. As background, Commissioner Russ explained that the plan as previously presented to the Board sought to increase the amount of state-owned space in order to reduce the state's dependence on leased space in Frankfort, and to begin a cycle of needed renovations of existing state buildings. That renovation cycle would begin with the State Office Building upon completion of a new Transportation Cabinet Office building into which occupants of the State Office Building could be relocated. Commissioner Russ said it was initially thought the new building would be constructed on existing state-owned property, but a decision has now been made to locate it on Mero Street in downtown Frankfort. This change has caused a two-year delay of the project – the one year it took to decide on the site, and a second year which it will take to acquire the necessary property. Thus instead of the original completion date of 2001, the new building is now expected to be occupied in Spring 2003. Additionally, the 1998-2004 capital plan includes a $10,900,000 “stop-gap” renovation project for 2000-02 to address air quality issues at the Health Services Building because it cannot wait the 12 years until its scheduled renovation.

Regarding energy savings performance contracting, Commissioner Russ said a third party financed energy contract is not simple to write or to manage. After looking at other states and the legal requirements, a contract has now been developed which should serve the agencies and the state well. Currently, the Department is working with Western Kentucky University and the State Fair Board on pilot projects, before proceeding to other agencies.

Senator Worley asked whether sufficient funds were available for the new Transportation Cabinet Building, given the two year delay and whether 2003 is a realistic completion date. Secretary McCarty said there are sufficient funds though some increase in the final cost has been programmed because of the delay. Additionally, different construction methodologies, such as design-build, are being reviewed to see if they would help make up some of the time. Secretary McCarty also said he believes 2003 is a realistic date. Most of the property appraisals are in and owners are being contacted; six of the 29 parcels of property have been acquired thus far.

Relative to other items in the Department for Facilities Management’s plan, Secretary McCarty pointed out that $5 million for land acquisition is a new project. That funding and authority which has not existed in the past will provide flexibility to purchase parcels when they become available to help implement long-range plans. Secretary McCarty emphasized again the need for maintenance funds and the importance of taking care of existing buildings before becoming too concerned about constructing more.

Senator Worley said, while the Capitol is not a museum, it serves that purpose to many visitors each year and the renovation should take that into account. Secretary McCarty said the consultants are aware of that situation. They have developed a lot of information about the original design and materials. Kentucky is fortunate that previous renovations covered over, rather than replaced materials, so it will not be necessary to duplicate original materials. The consultants have also said the exterior of the building is in extremely good condition, and so can be renovated and restored without significant efforts.

Mr. True asked whether progress was being made relative to transferring office buildings from other agencies to the Finance Cabinet. Secretary McCarty said there have been discussions with the agencies involved. He is concerned that the Cabinet not inherit properties with major deferred maintenance needs, but it does make sense to have a repository of fixed assets that can be viewed on a global basis relative to prioritizing and scheduling maintenance needs. He said he hopes they can come to closure on this in the not too distant future.

Mr. True commended the Cabinet on its efforts, then asked about housing for state agencies elsewhere in the state. He also asked about the potential for more local involvement in projects like those described yesterday in Florence and Maysville. Secretary McCarty said the Cabinet has taken the lead in discussions of whether there should be a one-stop shopping approach where all of the various functions and agencies of state government are located within one facility. Such discussions are on-going in Ashland and in London. Commissioner Russ said Florence and Maysville were unique opportunities for partnering with local government, and similar discussions are being pursued in Ashland to see if anything might be available. He said the study on housing agencies in Louisville, Lexington, and Northern Kentucky would be presented to the Board when requested. It will address those specific areas and also provide an indication of what may need to be done elsewhere. Commissioner Russ said, though, as agencies and programs change, the strategies used need to be flexible.

Mr. Hintze asked about the security systems project which is included in the plan for the Department for Facilities Management. Commissioner Russ said it is in response to a series of bomb threats at the CHR complex, which revealed the lack of an adequate security system. A consultant's preliminary report is now being reviewed. In addition to the improved electronic security systems, other actions may involve having public address systems in buildings so information can be transmitted quickly, and alerts that can flash across computer screens. Commissioner Russ said it is a very complex issue, and at some point, a recommendation or policy for all state buildings will be presented to the Board.

Chairman Clark referenced a parking structure for the new Transportation Cabinet Building which was included in the plan and asked if it was not initially calculated into the cost of the building because the location was not known. Secretary McCarty said that was correct.

Judge White noted that approximately $35 million was being proposed over the two biennia for energy conservation in state buildings and asked if, given the poor condition of so many of the buildings, the state still expects savings from such a program. Commissioner Russ said most savings would be realized where buildings are co-located and where there is a major utility plant (a campus-type setting). The focus would not be on individual buildings or on dilapidated buildings where there would not be a reasonable return on the investment. Commissioner Russ said there are two approaches to dealing with energy conservation. The traditional approach would be to use state funds. The newest concept is third party financing, where costs of the project are paid out of savings in energy costs. The provider guarantees the savings, but there are many contractual and operational issues associated with this approach. For example, changes in the way the building is operated may affect the amount of energy consumed and thus the guaranteed amount. Secretary McCarty said while performance contracts are very different from what has been done before, the state intends to pursue savings where they exist.

Kentucky Infrastructure Authority (KIA). Don Mullis, KIA's Executive Director, made the presentation on behalf of this agency of the Finance and Administration Cabinet. He said KIA has four funds. Fund A and Fund F are revolving fund programs in which federal funds matched by state funds are used to make loans to local communities. Fund A is for wastewater treatment projects; Fund F is for drinking water. Fund D provides for recycling projects, and Fund B is for water lines. Relative to Fund B, KIA is proposing to use repayments from previous loans to help underwrite a new loan program of assistance to communities, which would not require general fund support.

In response to Senator Worley's request for more information about Fund B, Mr. Mullis said that at one time Fund B was specifically to assist with economic development related projects. During the 1998 General Assembly, authorization was given for KIA to create a pilot program to assist with water line construction under the Governor's program in conjunction with the Water Resources Development Commission, which is operated by the Department of Local Government. The authorization set aside some of the requirements such as job creation which do not apply when the intent is to run water lines for residential use; it also allowed the repayment stream to be used differently. The program is self-funding, but does require appropriate legislative review and approval.

Chairman Clark thanked the representatives of the Finance and Administration Cabinet for their presentations.

Department for Local Government (DLG). Ms. Ingram explained that this agency in the Government Operations area was being taken up today following the KIA presentation, because its plan includes a new program proposal related to water resources. Ms. Collins summarized the Staff Analysis and Comments and introduced DLG Commissioner Bob Arnold.

Commissioner Arnold explained that the Water Resources Development Commission was created by executive order in 1996 to make potable drinking water accessible to all Kentuckians by the year 2020. It is also looking at getting sewer to the outer reaches of rural Kentucky. Phase 1 of the two-phase plan was to inventory all water and sewer systems in the state. Phase 2 is to determine what it would cost to extend water lines to the unserved areas, and then to devise a plan to get water to all Kentuckians. Extending the lines will cost approximately $3 billion, and another $3 billion would be needed to make needed repairs to existing systems.

Commissioner Arnold said the Department's plan calls for $40 million in bond funds each biennium for this program. These amounts would fund grants to be used as incentives to encourage the consolidation of systems to eliminate those which are ineffective and inefficient. Currently in western Kentucky, 12 systems in Logan, Todd and Christian Counties are working to consolidate into a single regional system; and in eastern Kentucky, systems in Letcher, Perry, Knott and Floyd Counties are also working to form a regional system for water, sewer and gas.

Ms. Northern asked it DLG had considered requiring that inefficient systems apply for loans rather than being given grants. Commissioner Arnold said the KIA Board, on which he sits, and DLG are taking a careful look at what type of support is provided for inefficient or ineffective systems.

In response to Senator Worley's question about whether there has been success in regionalizing water districts, Commissioner Arnold said it is going better than expected. He said that because of the expense involved in upgrading, the systems are beginning to realize the benefits of joining together.

Commissioner Arnold introduced Mike Hale, Director of the Flood Control program, to make that presentation. Mr. Hale said the program was established by the 1994 General Assembly to assist local governments with Corps of Engineers-sponsored flood control projects. Because some local governments had difficulty providing their required 50 percent share of the cost of the project study, the 1996 General Assembly appropriated general funds for this purpose. Then in 1998, the scope of the authority for the program was enlarged to assist with other federal programs such as Natural Resource Conservation Service programs and the emergency watershed protection program.

Mr. Hintze explained that state funds provided for the Flood Control program attract very high ratios of matching federal funds which are not shown in the capital plan. Commissioner Arnold said the projects are very expensive such that local communities would have trouble providing even the required 5 or 25 percent match for the federal funds.

In response to questions from Chairman Clark and Ms. Howell, Mr. Hale said the funds can be used for a wide range of activities including dams, dam repairs, and elevation or buyout of structures. When there is a buyout, the property is bought in the name of the local government, and there are deed restrictions to ensure there is no construction on the property. The fact that the property will be removed from the tax rolls is a consideration. Mr. Hintze said there is a requirement for an agreement representing local consent as a pre-condition to receiving the federal funds.

Chairman Clark thanked the DLG officials for their presentation.

Kentucky Higher Education Assistance Authority (KHEAA). Ms. Ingram summarized the Staff Analysis and Comments and introduced KHEAA's Chief Operating Officer Londa Wolanin. Ms. Wolanin said KHEAA has three projects in its plan. They are an imaging system upgrade which would expand the storage capacity of the existing system, an information technology systems upgrade for the agency's AS/400 system, and reauthorization of the office building which was approved in the 1998-2000 budget. The building would alleviate or eliminate the need for leased space. The $10,710,000 authorization includes $1,710,000 from restricted funds which would serve as a down payment, with bonds to be issued for the remaining $9,000,000; the annual debt service of $900,000 would be paid from restricted funds.

Kentucky Higher Education Student Loan Corporation. Ms. Ingram explained that this plan only reports an increase in leased space for the agency's offices in Louisville.

School Facilities Construction Commission (SFCC). Ms. Collins reviewed the Staff Analysis and Comments for this plan, and Ms. Ingram explained that in the members' notebooks was a letter from the agency's Director, Dr. Robert Tarvin, indicating that he could not be present for this meeting. Ms. Ingram said if there were any questions, Dr. Tarvin could be requested to come to a future meeting.

Mr. Hintze explained that the reauthorization being proposed by SFCC is different from most that the Board sees. Most of those are already funded, while this one is not. SFCC was authorized to make offers of assistance to local school districts for school construction, but full funding for those offers has not yet been provided.

Kentucky Lottery Corporation (KLC). Ms. Ingram introduced Howard Kline, Vice President for Finance and Administration, and Harvey Roberts, Vice President for Information Technology. Mr. Kline said KLC's two top priorities are the leasing of vending machines in order to sell its instant and pull tab products in a secured manner. Two other projects are contingent authorizations: the first would permit buy-out of the on-line gaming system if it was determined to be in the best interest of the KLC and the second is for property adjacent to the new headquarters building. There are also two information technology projects: the first is a pool for the acquisition of various items; the second would move KLC toward a distributed processing model of computing. Mr. Roberts explained that initially the Lottery had not placed a priority on coordinating its information technology with the rest of state government. It is now making an effort to use the same systems and a common platform, but that will require some re-investment.

In response to Ms. Northern's question, the officials said the KLC has looked at purchasing and operating its on-line system as compared to having a vendor. They found the cost savings of owing and operating the system to be minimal; the vendor also has expertise and other resources which cannot be measured and damages can be assessed if they do not perform. Mr. Kline said it would have to be a severe situation for the KLC to invoke the buy-out contingency authorization.

Chairman Clark thanked Mr. Kline and Mr. Roberts, then announced the Board would break for lunch.

Chairman Clark called the meeting back to order at 1:00.

Judicial Branch. Cicely Lambert, Executive Director of the Administrative Office of the Courts (AOC), and Nick Schwendeman, AOC's General Manager for Facilities, were introduced to make the presentation on the Judicial Branch's plan. Ms. Lambert said Chief Justice Lambert was out of the country and regretted not being available to make the presentation.

Ms. Lambert said 39 projects were considered for inclusion in the Judicial Branch's 1998-2004 capital plan. Staff reviewed the space program and cost information, and projects were prioritized by Chief Justice Lambert, Ms. Lambert, Mr. Schwendeman, and AOC facilities and budget staffs. Priorities were based on need.

Before turning the presentation over to Mr. Schwendeman, Ms. Lambert noted the very difficult and unenviable job he has in dealing with the wide range of issues and numerous individuals involved in court projects.

Mr. Schwendeman explained the capital plan as submitted does not address projects authorized by the 1998 General Assembly for which funding of use allowances was deferred until 2000-02, nor does it address the five projects, referenced in the information item yesterday, for which cost overruns have subsequently been identified. Those five projects are in Boone, Harlan, Harrison, Christian, and Warren Counties. Mr. Schwendeman said the Boone County project had initially been planned as a renovation of the existing facility and construction of a new building; however, a new local administration recognized that the plans did not take into account rapidly growing caseloads and is seeking additional funding. A determination must be made as to whether undertake the first phase now, knowing that a second phase will be required in about 10 years, or whether to seek funding for the full project scope now. Relative to Harlan and Harrison Counties, both projects were originally proposed to be shared facilities involving renovations and additions on county-owned land. They are now proposed to be 100 percent court facilities for which sites must be acquired. Christian County was originally proposed as a two-phase project, but AOC has recommended that all of the needs be addressed at the same time. Judge White said the initial planning for Christian County in which he participated did not call for a phased project; and after that change was made, a mistake was made in not submitting both phases for inclusion in the capital plan.

Mr. Schwendeman said the top priority in the Judicial Branch plan is the court facility Use Allowance Contingency Fund which provides for cost overruns not to exceed 15 percent of the authorized use allowance. Of the 39 court facilities projects submitted to AOC, 24 are listed in the first biennium of the plan and 14 are listed in the second biennium. A Casey County project is listed next after the Contingency Fund. It was authorized in the 1998-2000 budget. However, after a change in local administrations, the realization that the county could not fund its share of the cost, and a determination that the proposed facility would not meet guidelines of the National Center for State Courts, the new administration requested that the project be included in the current plan as a 100 percent court facility.

Mr. Schwendeman explained that court projects are partnerships between the state and local governments and must be built in accordance with guidelines of the National Center for State Courts. In return for providing space, AOC pays a use allowance and an operating expense allowance to the local government. The use allowance is based on the courts proportionate share of principle and interest but may not exceed 8 percent of the capital cost. If there is no debt, or when the bond is retired, the rent obligation is 4 percent of the capitalized cost. AOC does not begin making use allowance payments until the courts occupy the facility, so interest payments during the construction period are capitalized into the bond, which adds 23 to 25 percent to the total bond amount.

Mr. Schwendeman concluded by noting that each county in the plan has a verifiable need to alleviate overcrowded, unsecured, poorly maintained, and generally inadequate facilities. He said major population areas were addressed in 1996 and 1998, and the focus is now on the less populated areas where citizens should expect justice to be provided in modern, secure, accessible, and comfortable facilities.

Mr. Hintze said he was not questioning AOC's stewardship, but in light of comments made at the last CPAB meeting where court projects were the focus of the discussion and the most recent developments concerning projects which need additional funding, he would like for representatives of the Judicial Branch to come back to the Board's next meeting with recommendations as to any statutory changes, policy direction, additional assistance, etc. they feel are needed to make the court facilities program better. He said he would ask that the Board consider making some recommendations in this area because of the state's huge investment in these facilities. Mr. Schwendeman said they would be pleased to do so.

Mr. Schwendeman also said they have suggested to counties that state agencies might be possible tenants for county space being vacated as the courts relocate to new 100 percent court facilities. This might provide a source of revenue to offset the loss of use allowance payments, which is often a concern of the local governments.

In response to Mr. True's question regarding funds provided in the 1998-2000 budget for additional staff to develop a statewide needs assessment, Mr. Schwendeman said a staff architect was hired in October 1998, but they have not been able to fill the junior architect position. Most of the architect's time, thus far, has been spent on the capital planning process but the statewide needs assessment is to be addressed next.

In response to Mr. True's questions about maintenance responsibilities for the buildings and if it is better to have a 100 percent court facility, Mr. Schwendeman said maintenance is a local responsibility for which they receive funding from AOC. If it is a shared facility, AOC, through its operating budget, helps with major capital replacements such as roofs or chillers. Mr. Schwendeman said a 100 percent court facility does provide some operational flexibility and the entire facility can be secured when it is not being shared with other users who do not want to be in the secure envelope.

Mr. True said the Jefferson County facility seemed to be very plush, especially given the conditions that were referenced earlier by the Cabinet for Health Services relative to facilities which house patients; he asked whether AOC makes any determinations about how fancy the building should be. Mr. Schwendeman said they are county projects but AOC can try to influence finish selections, etc.; and, if there are budget problems, AOC works with value engineering of the project. He said Jefferson County is a little more unique than the facilities elsewhere in the state and while the Floyd County facility may also be perceived as opulent, the Kenton County and Hardin County facilities are serviceable.

In response to Mr. True's question about whether it would be possible to have multi-county facilities, Ms. Lambert noted that the 120 circuit clerks are elected from each county, and statutory issues relative to judicial circuits and districts would have to be reviewed. Mr. True said it is time to start looking at such an approach in order to save money.

Saying he was not advocating it, Mr. Hintze asked if there were any advantages to these being county courthouses now rather than state courthouses in the counties. He explained that a major advantage of the current arrangement is that the projects, while funded by the state, are not considered state debt. Ms. Clary noted that when the new court system started, not only were the courts being taken from control of the county but revenues were also being taken because previously fines were paid to the county. Mr. Schwendeman said he sometimes wonders whether leasing might make more sense, particularly because it provides more flexibility when something new or different is needed.

Senator Worley asked whether problems sometimes occur because the local government wants to continue having court space in the old courthouse or to add on to the old courthouse, and thus continue receiving that use allowance payment. Mr. Schwendeman said that is a constant issue; some of the 39 projects in the 1998-2004 capital plan were submitted that way initially but revised when AOC convinced them that a 100 percent court facility would be better.

Senator Worley noted that Judge Wilhoit, a former member of the Court Facilities Standards Committee, had once commented that giving the district and circuit court their own identity away from the downtown courthouse might be a good idea, perhaps in areas with better access and more parking. He asked if AOC looked at parking availability as one of the criteria in ranking projects. While AOC does not get involved in site selection, Mr. Schwendeman said the guidelines emphasize the need to take parking into account.

In response to Senator Worley's questions, Mr. Schwendeman said he believes AOC defines the square footage the same way for calculation of both the use allowance payment and the operating expense allowance payment on a 100 percent court facility.

Responding to further questions from Senator Worley, Mr. Schwendeman clarified that the Jefferson County Bar Association does not pay rent for the space it occupies in the Jefferson County Judicial Center. In response to Ms. Howell's question, Ms. Lambert said that decision was made before Chief Justice Lambert assumed his current position; her understanding is that having the office there was considered to be providing a service to the public and the court system. Ms. Clary said this may highlight the need to put more standards in place regarding how various items should be handled.

Chairman Clark asked whether there is any mechanism to help a county which cannot pay for its share of needed projects. Mr. Schwendeman said AOC can help with the planning, but the county must pay its share of the cost if it will benefit or if the space involved is not occupied by the courts.

Judge White noted the General Assembly has required that courthouses in Kentucky comply with standards of the National Center for State Courts (NCSC). He said he hopes future projects will not have to deal with the NCSC, since they now have experience with that process and AOC has an architect on staff. Senator Worley said Mr. Schwendeman has a very difficult job and that despite highs and lows in the process in which he was involved (construction of the district court in Madison County), the entire staff did a very good job. He said working with the NCSC on that project was also a positive experience. Ms. Lambert said if a decision is made not to use the NCSC standards, it would be necessary for AOC to have some type of authority to help in their dealings with local governments. Mr. Schwendeman said they consider these to be guidelines and try to be flexible where appropriate. Judge White suggested adopting the NCSC guidelines, but not requiring local government to pay for the review. In response to Mr. True's questions, Mr. Hintze explained that the requirement was contained in the budget bill, not in statute, and was intended to ensure that long-range needs were considered. He added that use of the standards was mandated, but paying for them is a separate issue.

Chairman Clark thanked Ms. Lambert and Mr. Schwendeman for their presentation.

Tourism Development Cabinet. Secretary Ann Latta introduced representatives of each of the agencies in the Cabinet – Kenny Rapier, Commissioner of the Department of Parks; Tom Bennett, Commissioner of the Department for Fish and Wildlife Resources; Harold Workman, Executive Director of the State Fair Board; and John Nicholson, Executive Director of the Kentucky Horse Park. She noted that each of these agencies has projects in the Cabinet's 1998-2004 capital plan; a fifth agency in the Cabinet, the Department of Travel, has no capital projects. Secretary Latta said all of the projects in the plan are aimed at improving Kentucky's tourism product through the proper maintenance of existing facilities, through new or expanded attractions and facilities, and through acquisition and preservation of recreational lands. Highest priorities in the plan are facilities maintenance, road maintenance, minor projects, and land acquisition pools. This reflects the Cabinet's continuing policy of maintaining existing facilities and infrastructure as its number one priority.

In response to Mr. True's questions, Secretary Latta explained that the project for Breaks Interstate Park would involve matching funds from Virginia.

Ms. Northern asked whether the proposed land acquisition at the Kentucky Horse Park was necessary in order to do the campground expansion. Mr. Nicholson said they are separate issues. Land is available at the campground now to add approximately 100 new sites. The acquisition project would be land contiguous to the park, probably northward on Interstate 75.

In response to members' questions, Commissioner Rapier said a contract for the golf courses authorized in the 1998-2000 budget would be signed today with Colbert, Burns and McDonald who are affiliated with the Arnold Palmer Trail.

Chairman Clark thanked Secretary Latta and the other Cabinet representatives, then said the Board needed to discuss its next meeting. Ms. Ingram asked members to return the information about their availability for various meeting dates and their lists of top priority projects to staff as soon as possible. She said the next meeting would focus on development of the Board's policy recommendations for the 1998-2004 Statewide Capital Improvements Plan.

Judge White asked about the format to be used in presenting the project recommendations in the 1998-2004 plan. Chairman Clark said that had not yet been finalized. In response to questions from members, Ms. Ingram said the maintenance pools need not be included on the top priority lists because it has been the Board's practice and policy in recent years to consider the maintenance pools and the three statutory funds as the top priority. The Board will need to make a decision about how to deal with court projects since the capital budget authorization is not for state general funds, but the use allowance is financed from general funds.

Representative Crall suggested it might be good to have a policy recommendation calling for an independent body, similar to the federal base closure commission, which would look at the state's facilities and the services offered through those facilities, and determine whether they need to continue.

Mr. True said he hoped the state would just deal with the basic necessities of the mental hospitals until the Cabinets for Health Services and Finance complete their review in the next two years. He said he was also concerned that the Department of Corrections did not discuss any specific proposals for alternatives to incarceration.

Ms. Ingram said the agenda for the next meeting could also include a presentation from the Department for Facilities Management on its long-range plans for housing state agencies in Louisville, Lexington, and Northern Kentucky.

Mr. Hintze said he wanted to echo the Chairman's comments yesterday and give a special word of thanks to staff.

Mr. Karibo's motion to adjourn was seconded, and the meeting adjourned at 2:15 p.m.