MINUTES OF THE
CAPITAL PLANNING ADVISORY BOARD

July 17-18, 1997

The third meeting of the Capital Planning Advisory Board (CPAB) of the 1997 calendar year was held on Thursday and Friday, July 17-18, 1997 at 9:00 AM, in the Conference Room of the Council on Postsecondary Education. Representative Fred Nesler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Fred Nesler, Chairman; Bill Hintze, Vice-Chairman; Representative Lawrence Brandstetter; Susan Clary; Secretary James Codell; Gary Cox; Bonnie Howell; Paul Isaacs; Lou Karibo; Senator Denny Nunnelley; Senator Albert Robinson; Diane Thompson; Laurel True; Judge Edwin White; Judge Anthony Wilhoit.

Members of the General Assembly: Rep. John Adams, Rep. Scott Alexander, Rep. Adrian Arnold, Rep. Jim Bruce, Rep. Jim Callahan, Rep. Larry Clark, Rep. Perry Clark, Rep. Freed Curd, Rep. Bob Damron, Rep. Bob Helringer, Rep. Charlie Hoffman, Rep. Dennis Horlander, Rep. Bill Lile, Rep. Gross Lindsay, Rep. Marshall Long, Rep. Paul Marcotte, Rep. Harry Moberly, Rep. Stephen Nunn, Rep. Tom Pope, Rep. John David Reinhardt, Rep. Tom Riner, Rep. Richie Sanders, Rep. Charles Siler, Rep. Dottie Sims, Rep. John Will Stacy, Rep. Jim Stewart, Rep. Roger Thomas, Rep. Tommy Turner, Rep. Mike Weaver, Rep. Brent Yonts, Rep. Jim Zimmerman, Sen. Tom Buford, Sen. Paul Herron, and Sen. Dan Seum.

Guests: Jim Halvatigis, Department of Veterans' Affairs; Art Peters, Retired Military; Harold Workman, President & CEO, and Ron Duvall, State Fair Board; Mike Scales and John Nicholson, Kentucky Horse Park; Rhonda Edwards and David Lovelace, Tourism Development Cabinet; Jim Owens, Department of Fish and Wildlife Resources; Ron Bingham, Governor's Office; Bob Bender, Hugh Smith and Mike Crain, Department of Parks; Jim Nelson, Kentucky Information Resources Management Commission and Department for Libraries and Archives; Leslie Allen, Charlie Barnes, and Sue Geiger, Kentucky Center for the Arts; Roger Burge, Ron Carson, John Hicks, Allen Holt, Beth Jurek, Joe Lancaster, Paula Moore-Carson, Geoff Pinkerton, Bob Shimer, and Randy Smith, Governor's Office for Policy and Management; Tom Engstrom, Department of Education; Virginia Flanagan, Gretchen Haney, Dr. James Klotter, and James Wallace, Historical Society; Roy Peterson, Secretary, Education, Arts, and Humanities Cabinet; David Clifford, Teachers' Retirement System; Kim Blitch and Don Mullis, Office of Financial Management and

Economic Analysis; Buddy Buckingham, Tom Denton and G. Dewey Yeats, Murray State University; Dr. Ronald Eaglin, President, Sue Bang, Porter Dailey, and Angela Martin, Morehead State University; Doug Robinson, Executive Director, and Shirley Rodgers, Kentucky Information Resources Management Commission; Ed Roberts and Donnie Wainscott, Transportation; Larry Barker, Bob Carter, Hubert Payton, and W. Cleland White, Military Affairs; Steve Dooley, Commissioner, and Dave Ballard, Department for Information Systems; Jesse Holbrook, Kentucky Educational Television; Dr. Mary Smith, President, Doug Baldwin, Gus Ridgel, and Carson Smith, Kentucky State University; Joe Wind, Covington Business Council; Carla Chance and Paul Gaston, Northern Kentucky University; Ben Carr, University of Kentucky Community College System; Dr. John Schumaker, President, Larry Mehlbauer and Ron Moore, University of Louisville; Bill Abney and Jim Clark, Eastern Kentucky University; Gary Cloyd and Allen Rose, Workforce Development Cabinet; John Bizzack, Kenneth Schwendeman and Bernie Thompson, Department of Criminal Justice Training; Dr. Robert Tarvin, Executive Director, School Facililites Construction Commission; Melanie Bailey, Natural Resources and Environmental Protection; Paul Branham, Department of Financial Institutions; Hugh Archer, Kentucky River Authority; Roger Tharp, Kentucky Higher Education Student Loan Corporation; C. Howard Kline and Greg Shade, Kentucky Lottery Corporation; Commissioner Armond Russ, Paul Hoffman, Jack Tharpe, and Jim True, Department for Facilities Management; Marilyn Eaton-Thomas and Amy Palmer, Kentucky Infrastructure Authority; Londa Wolanin, Kentucky Higher Education Assistance Authority; Carroll Roberts, Administrator, Board of Hairdressers and Cosmetologists; David Bratcher, Lori Flannery, and Jerry Frantz, Economic Development Cabinet; Leesa Hayden, Nick Schwendeman, and Debra Wash, Administrative Office of the Courts; Laura Douglas, Secretary, Public Protection and Regulation Cabinet; Edward Monahan, Department of Public Advocacy; Rodney Murphy, Cabinet for Families and Children and Cabinet for Health Services; Ken Adelson, Jean Baldwin, Paul Gibson, Linda Hammond, Randall Hancock, Melba Storey, David Thomas, and Jacqueline Watkins, Cabinet for Families and Children; Bart Bolin, Linda Harney, Gene Long, Larry Lyles, and Donna Veno, Cabinet for Health Servies; Nicholas White, ; Yvonne Mahoney, Department of Insurance; Jim Devers, Office of the Treasurer; Eddie Duvall and Scott Willett, Department of Agriculture; Mary Allen, University of Kentucky; Sherron Jackson and Ken Walker, Council on Postsecondary Education; Mike Helton, McBrayer, McGinnis, Leslie & Kirkland; Jack Affeldt, Sharon Cantrell, Byron Costner, Karen Crabtree, Doug Huddleston, Steve Mason, Wanda Meeks, Nancy Osborne, Doug Teague, Virginia Wilson, Legislative Research Commission.

Press: Tom Loftus, Louisville Courier-Journal; Mark Chellgren, Associated Press.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Jonathan Downey.

Chairman Nesler said since the minutes were not mailed to members ahead of time, the Board would wait until the next day to dispense with them. He asked members to take special note of the discussion regarding the prioritizing of projects.

Chairman Nesler gave an overview of the agenda for the two days of this meeting at which the Board would be reviewing all of the agency and university capital plans, then thanked Gary Cox for the use of the Council on Postsecondary Education's conference room and its videoconferencing capabilities. Mr. Cox said the Council on Postsecondary Education (CPE) would be delighted to have the Board use this room any time.

Chairman Nesler asked Pat Ingram, Committee Staff Administrator for the Capital Planning Advisory Board (CPAB), to review the contents of the members' notebooks. Ms. Ingram said the notebook was organized in the order of the agenda. She then referenced the overview section which provides a statewide perspective of the plans. She said about $5 billion worth of projects have been submitted this time, the highest amount to date. She also pointed out the plans were submitted on April 15; the material is based on the state government organizational structure at that time and does not deal at all with changes relating to the special session on postsecondary education reform.

Ms. Ingram said there are many projects the Board has seen before, some of which have been in all three previous capital plans, and which have not been able to be undertaken yet. There were also several government mandates that have been in the plans before, such as compliance with the Americans with Disabilities Act and compliance with requirements to phase out chlorofluorocarbons (CFCs). She also said there are more proposals for public/private partnerships than have been seen in past plans and these would be pointed out as the projects are reviewed.

Ms. Ingram reviewed pie charts prepared by staff which gave an overview of the planned projects by area of government, project type, and source of funds. She also pointed out a list of those agencies that did not have any projects required to be submitted. Ms. Ingram also referenced the list of the project recommendations of the Board in the last plan and how those fared in the 1996-98 budget process.

Chairman Nesler introduced Virginia Wilson, LRC Chief Economist, to report to the Board on the state's bonded indebtedness. Dr. Wilson introduced Jack Affeldt, who is a staff economist with LRC, and said Mr. Affeldt was the person in her office who monitors the state's debt day to day and who constructed the charts and tables that were distributed to the Board. She then explained the material she would be presenting was contained in her

memorandum dated July 17, 1997, which was being distributed to the Board members. In her presentation, Ms. Wilson discussed changes in Kentucky's appropriation-supported debt for FY 1989/90 through FY 1997/98, various indicators of the state's debt burden for the period, and recent credit reviews of Kentucky by Moody's Investor Services, Fitch Investor Services, and Standard and Poor's Corporation.

In conclusion, Dr. Wilson stated that, in her opinion, the credit quality of the Commonwealth is stronger at the current time than it has been at any point in the last 10 years. This is primarily a function of the strong national and state economies, plus the actions taken to respond to credit quality concerns raised in 1994. Dr. Wilson said to the extent that the negative credit notification was a wake-up call to policy makers, they may want to consider treading carefully going into the near-term future. She said her standard advice to the Board, professionally, is that the Board recommend a capital budget which contains high quality projects with a total cost in either cash or debt that does not overly strain state resources, which adequately funds the Budget Reserve Trust Fund, and which does not entail a liberal amount of debt issuance.

Mr. Hintze said he agreed with everything Dr. Wilson said, and added that Kentucky is unique in that state government carries a burden that in many states is carried by localities - for example, the financing of community colleges or local schools and the provision of infrastructure. The state has done this not only due to the limited fiscal capability at the local level, but also because of constitutional, statutory, and historic constraints. Mr. Hintze said he thought this drives the state ranking and rating to be higher than it would ordinarily be. Dr. Wilson agreed, saying one has to look at the whole mix of state and local funding. She said she has looked at the states that rank above Kentucky and only Delaware issues substantially more local government debt.

In response to questions from Senator Robinson, Dr. Wilson said credit agencies review debt outstanding, regardless of purpose. She also said most, if not all, states are not able to carry a budget deficit. She said the difference between the federal deficit and long-term debt for the states is that the federal government is borrowing to fund its ongoing operating expenditures. It does not have a separate capital budget where it borrows to build a particular building, park, or highway; these are funded on an ongoing basis. States generally pay operating expenses out of current revenues, then borrow for particular long-term projects. She said rating agencies will generally swiftly and severely penalize both state and local governments who borrow long-term debt and use that to fund current expenses.

Dr. Wilson said rating agencies also look at ability to repay and the value of what was received. She said there are two kinds of ratings of a state's credit quality and that is a fairly new development in rating agencies. Traditionally,

the analysts have said they do not rate states, only bond issues. They look at the quality of the project, the likelihood of repayment for that project, and how it will be used in assigning that rating. With S&P's March review of Kentucky, rating agencies have expressed a willingness to rate the state, generally, on its credit quality as opposed to tying it to a specific project.

Dr. Wilson said there are reasons to issue debt and it is a legitimate financing tool for state government. She said we are in a period of historically low interest rates, so it is a low-cost time for the state to borrow. She added that the state has many pressing capital needs that it is the job of this Board to evaluate, prioritize and recommend.

Chairman Nesler thanked Dr. Wilson for her presentation. He said the next presentation would be made by the Kentucky Information Resources Management (KIRM) Commission. He said the Board counts on KIRM's expertise for the review of information technology projects that are submitted in the capital plans and also encourages KIRM to make other recommendations needed in that area. He introduced Jim Nelson, Commissioner of the Department of Libraries and Archives and Chairman of KIRM, and Doug Robinson, KIRM's Executive Director.

Mr. Nelson said one main purpose of KIRM is to aggregate the experience, expertise, and leadership of those working in information technology around the state, and take advantage of that in both making recommendations to this Board and in helping to direct the development and deployment of technology in Kentucky. Its primary responsibility is in strategic planning and architecture. KIRM was established by the General Assembly in 1994, based on the earlier version of KIRM - KISC (Kentucky Information Systems Commission) - which was started in 1984. He said the General Assembly wanted a tighter, more directed Commission, so it established KIRM and expanded its roles into strategic planning, research, and development. Mr. Nelson also gave a brief overview of KIRM's membership.

He said the main statutory responsibility of KIRM is to approve agency information resource plans. All the capital items were dealt with first so that KIRM could prepare its recommendation for this Board by July 1. The Commission forwards its plan findings to the Governor's office and to LRC. Mr. Nelson said KIRM also formulates a five-year strategic information technology plan, publishes information resources architecture, ensures compliance with standards for statewide information resources architecture, and reports its activities to the General Assembly.

Mr. Nelson then reviewed some of KIRM's statewide priorities for information technology projects. These include the Kentucky Information Highway Upgrade Expansion, the Kentucky Telelinking Interactive

Videoconferencing Network, the Statewide GIS Digital Basemap, and the 800 Mhz Digital Trunked Radio System as well as other items addressing public access and dissemination of information.

Mr. Nelson said KIRM has been dealing with three major initiatives resulting from EMPOWER Kentucky: the Commonwealth Technology Framework, Information Technology Architecture, and Information Technology Standards. He said one of the reasons KIRM is so critical is that it is the way to integrate across cabinets and agencies to enable sharing of technology resources.

Mr. Nelson also gave the Board an overview of KIRM's strategic planning process. He said KIRM's basic goals are to tie the information resource planning process to agency missions and business objectives, to maximize use of the existing information infrastructure, to emphasize electronic delivery of services to citizens and customers, and to ensure access to information while maintaining privacy.

Mr. Nelson asked Mr. Robinson to discuss the agency information resources planning process and KIRM's recommendations. Mr. Robinson said initiatives as submitted in the agency plans are to be broad-based and may include several capital items. Also this year, for the first time, agencies were asked to address the state's strategic plan for information technology in their plans. The plans are reviewed internally, then by a functional workgroup who approves the IRP and makes recommendations on capital items, including designating high value items. The Commission then prioritizes the high value list.

Mr. Robinson said 46 plans were submitted this biennium; cabinet level submissions are encouraged. There are 354 total information resource initiatives. The initiatives contain 193 capital information technology items with a total value of $494 million of which $392 million are for state agencies. KIRM initially identified 44 high value items, which were eventually decreased to the 17 projects prioritized for the Board. Mr. Robinson reviewed the high-value criteria: a critical or immediate need, statewide strategic importance, and an exemplary program or innovative service. This is a different format from previous planning cycles in that items were grouped for the prioritized list because of their interrelationships.

Mr. Robinson said the number one priority is a major infrastructure project, the Kentucky Information Highway (KIH) Upgrade Expansion, which he said was critically necessary to support the other projects. The KIH is a public/private partnership under a multi-year contract with 12 local exchange carriers in the state. He also said Kentucky was the first state to use the market

mechanism to build the statewide integrated backbone to carry all voice, video, and data throughout the state.

Mr. Hintze asked what this project would do for the KIH. Mr. Robinson said this is the state portion of the Commonwealth Integrated Network System (CINS), which provides network capabilities to handle our data and video traffic over the information highway. It will provide additional functions to include expanding the network to a higher bandwidth within the Frankfort area.

Representative Brandstetter said this is an area unfamiliar to most people and asked how Board members and others can know the state is getting what it is promised when funds are spent for information technology. Mr. Robinson said in the case of an infrastructure investment such as KIH, there are demonstrated results. In the case of end-user devices and appliances, there obviously is some debate in terms of cost-effectiveness and productivity improvements. He said there is no question that expanding and upgrading the network infrastructure is a necessary and critical piece to support state government business as it is today. It supports the statewide direction of conducting business electronically, as well as the entire education environment, economic development, government operations, and health care.

He said the state, when establishing the KIA, had recognized it should not be in the telecommunications business and it should let those in the private sector already providing those services continue to do so. The state must make the investments to have network connectivity, etc., that provides the foundation for all of the other programmatic initiatives in human resources, higher education, etc. He said the state is saving significant amounts of money by taking this approach to an integrated network for voice, video, and data.

As Representative Brandstetter's question related to end-user devices, etc., Mr. Nelson added that one of the reasons KIRM is establishing an information technology architecture is to try to standardize the procurements and look at issues such as best value, rather than cheapest purchase. Regarding infrastructure, the existence of the KIH gives Kentucky an opportunity to immediately access the new special rates for telecommunications for schools and libraries.

Senator Nunnelley asked how it would benefit a courthouse to tie into state agencies. Mr. Robinson said the courthouses are connected to the KIH today, but it is an older network running an older protocol. A model courthouse team has been put together to determine what the courthouse of the future should look like in terms of connectivity. Besides AVIS, there are many state agencies that have interactions with courthouses that now conduct their business primarily by paper, for example, the Department of Local Government, the Auditor's Office, and the Revenue Cabinet. Although in many cases these

are not services that the county itself is going to benefit from directly, it will assist the state agency in conducting its business remotely.

In response to a further question from Senator Nunnelley, David Ballard of the Department for Information Systems said the $3 million KIH expansion upgrade cost includes communication switches and hardware needed for interactive video now available in 128 locations across the Commonwealth. It also includes hardware to help move voice and data communication between the 1200 locations across the state that are connected, including 144 courthouse locations, food stamps offices, and public assistance offices.

Ms. Howell said a lot of the benefit of the KIH is not in Frankfort and Franklin County, although a significant amount is. Most of the benefit is out in the state. She said the real savings are reflected in the line charges out in the state, and that those savings to the state have been documented. She said there are additional savings associated with local governments, but they are not documented.

Mr. Nelson added House Bill 5, enacted in the recent special session on higher education, allows the private K-12 schools to use the KIH and that every time more people use this infrastructure the cost for each user, including state government, goes down.

In reference to Representative Brandstetter's earlier comments, Mr. Ballard said the toughest job DIS has is getting people to understand the capability of the KIH. As such, they have spoken to the Kentucky League of Cities three times, the Kentucky Association of Counties twice, and the Governor's Local Issues Conference twice about what KIH can do for local governments. A marketing and education group, under KIRM, travels the state presenting information to stimulate use of the KIH.

Ms. Thompson said she agreed there is a lack of information about the KIH. In response to a question from Ms. Thompson, Mr. Robinson said in the private sector, 20 local exchange carriers led by Bell South, are making investments for the KIH. State government has entered a 10-year agreement as the major user, and, through its size and economies of scale, has driven those prices down to a point where it is affordable to local governments and other public entities, such as school districts and others that can buy off that contract. Mr. Robinson said in the strategic IT plan, the state would encourage more private sector partnering again to minimize the risk to state government and to keep the technology fresh. The state is not making the investment, the state is simply using the technology that is available. Ms. Thompson requested a copy of that contract, which Mr. Ballard said he would provide.

Mr. Robinson discussed KIRM's second priority, radio replacements. He said this was not the 800 Mhz system, but upgrades to current analog radio systems to address a critical and immediate need for mobile communications for life and public safety, for protection of the public, and for the officers and others involved as emergency responders. In past biennia, individual agencies have deferred replacement requests and essentially lumped those into their request for the digital radio system. Mr. Robinson said the existing radio systems, due to their age, cannot be maintained and are obsolete. He said KIRM has prioritized this at a much higher level because of its critical and immediate need, but recognizes that the ideal solution would be to have funding for the 800 Mhz project.

In response to a question from Judge White, Mr. Robinson said the increased cost for the 800 Mhz project is based on estimates from vendors. The fact that the state is dealing with 22 radio systems makes it a large project and the proposal to have essentially 99% coverage statewide probably drove the cost much higher. He said there has been a continuation of planning sessions with agencies trying to develop a stronger business case as to what is actually needed by all of the agencies involved.

Mr. Isaacs asked if there are still discussions about bringing local government radio systems in under the project in terms of them picking up part of the cost. Mr. Robinson said he would expect this to be a statewide price contract arrangement where local governments would be able to buy off that contract. He said there are already several local governments in the state that have acquired 800 Mhz digital radio for police and fire use.

Mr. Hintze said the $23 million radio replacement cost for the three agencies is characterized in the narrative as stopgap and interim. He asked to what degree these systems would be convertible if the state goes to 800 Mhz at some point. He also asked what distinction, if any, KIRM made between the proposed funding sources (general funds and bonds) for the project.

Mr. Nelson said the criteria that drove the ranking process (e.g. value to the state and need) was more critical than the source of funding. Mr. Robinson said the replacements would be a stopgap to be used for 5-8 years or possibly longer and that up to a six-year rollout is expected for an 800 Mhz system once it is funded.

Mr. Ballard said at least half of the $20 million cost for the state police portion of the replacement project would be able to be used in an 800 Mhz system because it is for infrastructure (e.g. towers and building replacements). He said a request for information has been issued to try to find out from the private sector what course of action they think the Commonwealth ought to take. He said there may be public/private partnerships that could develop,

similar to the KIH, which would minimize the state's investment and, at the same time, take care of the private sector for some of their needs.

At Ms. Ingram's request, Mr. Robinson explained that materials in the members' notebooks from KIRM included a list of capital items reviewed, the high value list, the prioritized list, and other recommendations.

Chairman Nesler thanked Mr. Robinson and said the Board would now begin its review of agency plans with the Tourism Development Cabinet and asked Ms. Ingram to give an overview of the Cabinet's plan. Ms. Ingram noted that for each agency plan to be reviewed, the members' notebooks contain a document entitled "Staff Analysis and Comments" which will be the basis for the staff presentations. Attachments to this document include the agency or cabinet's priority rankings of projects, the agency overview narrative, and a summary of the status of projects with authorization in the current biennium for the agency. Ms. Ingram then reviewed the "Staff Analysis and Comments" for the Tourism Development Cabinet.

Secretary Ann Latta said the highest priorities for this cabinet are facility maintenance, road maintenance, minor projects, and land acquisition pools for the Department of Parks, the State Fair Board, the Kentucky Horse Park, and the Department of Fish and Wildlife Resources. She also said maintenance of existing facilities and infrastructure improvements will continue to be the number one priority of the Cabinet. There are two new initiatives in the Cabinet's plan, both in the Department of Parks. The first is a pool of funds entitled Facility Infrastructure Pool. Funds from this pool will be used as a contribution from the Commonwealth of Kentucky toward infrastructure costs for a major project - a lodge, a golf course or a camping area - constructed on state park property by the private sector. Other than the infrastructure contributions, the remaining investment in any such project will be the total responsibility of the private sector. Secretary Latta said it should be noted that the major projects envisioned as being developed by the private sector utilizing this infrastructure pool, are also contained in the plan for development with total state funding. If private development is successful, then the projects will be removed from the listing for state funding. She said it should also be pointed out that this infrastructure pool could possibly be utilized in conjunction with the Kentucky Tourism Development Act which was passed by the 1996 General Assembly. That act provides tax incentives to the private sector to construct major tourism attractions. She said she believed the Facility Infrastructure Pool combined with the Tourism Development Act will make a very attractive package to encourage private development at some underdeveloped state parks.

The second new initiative, also in the Department of Parks plan, is entitled the Minor Facility Pool for underdeveloped parks. This pool of funds

will be used for projects that cost less than $400,000 to develop recreational facilities at the state parks which have underdeveloped facilities. These projects would include utility improvements and small construction projects such as picnic shelters, restroom buildings, mini golf courses, tennis courts, trail systems, playground complexes, and other games courts. At present, there is no funding source for these small improvements and Secretary Latta said they would greatly enhance the family recreation activities at the parks. She also pointed out that the Department of Fish and Wildlife is one of the agencies represented in the 800 Mhz system discussed earlier.

Mr. Hintze said if some of the new initiatives in the plan for partnerships with the private sector are approved by the General Assembly, public money will not have to be spent. In many instances if this type of partnership had been in place, there would be more development at some of the parks. Secretary Latta agreed, saying they have identified at least 10 parks where a resort lodge would be desirable; however, where RFP's have been issued, no interest has been shown by the private sector.

Representative Brandstetter said he was happy to co-sponsor and see passed House Bill 815 and that the first project to be approved was the Newport Aquarium. He asked if such projects would be eligible for this pool money. Secretary Latta said the tax incentive in House Bill 815 is felt to be enough incentive for private development in urban areas but the act currently only addresses lodging if it is in connection with a larger attraction; an amendment may be proposed to allow a state park to be that attraction.

Chairman Nesler asked why there are not more information technology projects in the Cabinet's plan. Hugh Smith, Director of Administration and Budget for the Department of Parks, said the Department intends to ask for some technology in the operating budget; no one project is of a magnitude to be in the capital plan or budget.

In response to a question from Mr. Hintze, Harold Workman, President and Chief Executive Officer of the State Fair Board, said the land acquisition item on their priority listing is somewhat of an indirect request. The Regional Airport Authority has said if they could receive $20 million to begin the early buyout of the Minor Lane Heights area, they, in turn, would provide $20 million worth of property to the state based on a formula previously set up in an agreement in 1994 related to acquisition of the Ashton Adair property. They are doing a voluntary buyout now of the Ashton Adair neighborhood of which the state and/or the Fair Board will receive approximately $10-$10.5 million worth of property. He said the Fair Board would like to acquire the net acreage in Ashton Adair and South Prestonia which lies to the southeast of the Fairgrounds property and is adjacent to its property line. It contains 30 acres and that would be included in this formula; therefore, the Fair Board could have

a net increase in acreage between 60 and 90 acres. He said the community prioritizes projects through the Chamber of Commerce and it is his understanding that this item, property acquisition, would probably be their number one priority. The Fair Board would like to acquire as much property as possible adjacent within the confines of I-65, Watterson Expressway, and Crittenden Drive. He said this is the last large piece of property that will be available and will become either a part of what the Fair Board controls or sold to private investors for development.

Concerning the Cardinal Stadium renovation, Mr. Workman said the Fair Board commissioned a study in January to look at renovation both with and without baseball as a major tenant. The mayor of Louisville is interested in building a baseball stadium on the river adjacent to the waterfront project in downtown Louisville and the owners of the Louisville Redbirds baseball team have indicated they will probably relocate to that facility. If so, the Fair Board would lose them as a major tenant and the stadium renovation would be downsized to a cost of $8-10 million.

Ms. Howell noted that there are projects in the Cabinet's plan proposing additional appropriations for existing projects. She asked which of those represented additional construction on those projects as opposed to money required to complete the existing project. Bob Bender, Deputy Commissioner of Support Services for the Department of Parks, said the Whitehall HVAC project requires additional funding to be initiated, and the Rough River Boat Dock requires additional funding for completion; the project is underway, but the funds were insufficient to complete it. Secretary Latta added that costs have increased at Rough River due to serious safety factors. She said at White Hall, it is a threat to the historic nature of that building to not renew the HVAC and there is insufficient money in the current project budget.

Chairman Nesler said the next agencies to be addressed would be the Department of Military Affairs and the Department of Veterans Affairs. Ms. Ingram introduced Mary Lynn Collins, Staff Administrator for the Capital Projects and Bond Oversight Committee (CPBOC), who reviewed the "Staff Analysis and Comments" for the Department of Military Affairs.

Bob Carter, Director of Facilities for the Department, said there was a discrepancy in the dates for two of the projects: the Frankfort Armory renovation should be listed for 1998-2000 and the STARC headquarters new construction project should be listed for 2000-02.

General Larry Barker, Executive Director of the Office of State Programs, representing Adjutant General Groves, explained that an increase in the maintenance pool is needed. He said there are 51 armories throughout the state: 48 state-owned, two leased, and one federally-owned at Fort Knox. Fifty-

six percent of the armories are over 25 years old, and another 20% are over 40 years old. Overall, the Department maintains over 437 buildings, including 109 at Bluegrass Station, which are addressed by a separate maintenance pool. A maintenance pool is also proposed for the 5 state-owned aircraft for which the Department has responsibility.

In response to a question from Senator Nunnelley, Mr. Barker said the federal government has cleaned up and capped all dump sites at Bluegrass Station.

General Barker then explained that the proposed Two-way Communication System for Emergency Response for the Division of Disaster and Emergency Services would include the radio system within the Emergency Operations Center at Boone National Guard Center and the radios within the 13 area offices across the state. He said the current system is nearly obsolete and could be ineffective during a disaster. The Emergency Operations Center expansion project proposes to add a third floor to that building to alleviate overcrowding.

Finally, General Barker said the Department is in non-compliance across the state with some environmental requirements, particularly those relating to underground storage tanks, and needs a pool of funds to address these issues.

In response to Mr. True's question about potential cuts in the National Guard, General Barker said it looks like nationwide, over the next 2-3 years the Guard will lose approximately 38,000 more troops and Kentucky is fighting to keep its 7,000 authorized members. In response to a further question from Mr. True, General Barker said no new armories are planned.

Mr. True asked if the Western Kentucky and East Kentucky training sites can be used as armory locations. General Barker said the East Kentucky site really does not have anything on it. At the Western Kentucky site, there is a four-phase, $21 million federally funded project underway, of which phase one is nearly complete and the second phase will be completed in November. It could serve as a central training area for the Central United States.

In response to questions from Mr. True about leased sites, General Barker said the two leased armories are in Morehead and Maysville. He said the Department also has a leased area at Pinehill Plaza in Frankfort for storage of military records and various staff are being relocated there to alleviate overcrowding at Boone Center. The federal government does not participate in these lease costs.

Chairman Nesler thanked General Barker and introduced Jim Halvatgis, Deputy Commissioner for the Department of Veterans Affairs. Chairman Nesler

then asked Ms. Collins to review the "Staff Analysis and Comments" for the Department, which she did.

Mr. Halvatgis said in 1986, KRS 36.355 authorized the state to establish state veterans' nursing homes and these homes were exempt from any certificate of need. A 300-bed state nursing home was constructed and was completed in 1991 in Wilmore, and is presently at capacity with an extensive waiting list. He said one problem they have is people do not wish to place a relative in a veterans' nursing home that is 200-300 miles away. The state has a veteran population of 367,200, of which approximately 33% are at least 65 years old. He said the US Department of Veterans Affairs, recognizing the need, has established a program where they provide 65% of the funding and the state provides 35% to construct a nursing home. Under this program, the Kentucky Department is proposing two 120-bed nursing homes, one in Eastern Kentucky and one in Western Kentucky. Mr. Halvatgis said the 120-bed size was selected because of its efficiency of operation. He said support for this federal program has been tremendous. The cost to build one facility is approximately $13.5 million, of which $8.75 million would be in federal dollars.

He said the state share could be reduced by local participation such as donation of the land, infrastructure, or roads. He said a non-partisan committee would be established to determine the location and invitations to bid would be sent to all communities. The Department has submitted a preapplication, which notifies the US Veterans' Administration (VA) that the state is interested in building two nursing homes, but does not obligate the state to any funding. Mr. Halvatgis said the cost to operate one facility is about $5.6 million, of which an estimated $3.4 million would come from federal revenues and resident charges and the remaining $2.2 million would be state general funds.

Mr. Halvatgis also addressed the State Veterans Cemetery program. Presently the VA will pay 50% of the cost of a cemetery, but in their proposed budget, they would pay 100%. He said his Department is asking the General Assembly to pass enabling legislation in case that opportunity arises. He said three such cemeteries would meet the state's needs.

Mr. True said he is a veteran and is supportive of veterans. However, he is bothered that this approach for veterans is contrary to the trend in all other areas of health care in which people are given the ability to purchase services and go where they choose. He said Mr. Halvatgis was correct in saying people want to stay close to home so friends and family can visit them, but there is no way Kentucky can build enough nursing homes to take care of all of its veterans.

Mr. True said he realizes veterans have, and should have, a special claim on our society, but that claim has been met with the federal government in the

past and now it looks like this responsibility is being transferred to the state. He said the nursing home construction program must not be very popular because there are only 81 such homes across the entire nation. He said the facility at Wilmore is a wonderful facility and doing a good job, but there are good, long-term facilities across the state which are closer to where veterans live. He urged the Department of Veterans' Affairs to get involved with the Licensure and Regulation process and also to focus its attention on making sure the Medicaid program is not cut. He said the state should look at how to finance care and ensure adequate facilities for everyone, not just veterans.

Senator Robinson said he is a member of the General Assembly's Veterans' Affairs Committee and while Mr. True made some very valid points, information presented to the Committee indicates that providing service through the veterans homes saves tax dollars. He said by building smaller units, more can be built closer to home and serve more veterans. He asked Mr. Halvatgis to furnish the cost savings information to the Board. Senator Robinson said time is very much of the essence and if the state had done this two to four years ago, it would be much closer to building these homes.

Chairman Nesler thanked Mr. Halvatgis and said the next presentation would be by Secretary Roy Peterson of the Education, Arts and Humanities Cabinet. Ms. Ingram first reviewed the "Staff Analysis and Comments" materials.

Dr. Peterson said most of the Cabinet's projects this planning cycle relate to either preservation, maintenance, improvement, or expansion. Its top priority, the State Records Services Center, which has been a part of the plan for the last seven or eight years, has increased in cost from $6 million to about $15 million in order to meet needs for the next 20-30 years. The Center will be added to the existing Department for Libraries and Archives (DLA) facility on Coffee Tree Road and will consolidate the records that are now stored off site at two other facilities. Other top priorities of the Cabinet are KET's Channel 15 acquisition project, the Kentucky Historical Society's History Center Network Communications project, and a multiple projects pool for the Kentucky Center for the Arts.

Mr. Hintze said the goal needs to be to increase maintenance pools where they presently exist and provide them where they do not, especially where there are major facilities. He said there have been obstacles in trying to make dramatic progress, but the Capital Projects and Bonds Oversight Committee seems very supportive and he is pleased to see that agencies thus far have maintenance projects and pools at the top of their priority lists. This Board is also on the record as urging that more attention be given to maintenance.

In response to questions from Mr. True, Secretary Peterson said DLA currently leases 48,000 square feet in two off-site facilities for records storage. Jim Nelson, Commissioner of the DLA, said the cost of these leases would cover about $120,000 on the debt service of the new building. He said that is not just an issue for the Department because they store records for all of state government, of which about 50% are from the courts. This storage is funded by agency receipts; it is considerably cheaper for DLA to do it, not just from the perspective of the lease costs, but also the records management and other services that are provided.

Mr. True asked Bill Hintze if it is cheaper to lease than to build space. Mr. Hintze said the issue has been examined in some depth and there is not one answer that cuts across all situations. He said to lease space for a protracted period as the state so often does almost invariably is going to cost more. He said where there are specialized needs, often the leased space is not addressing them, so there are other unquantifiable bad effects such as deterioration of valuable records. He said in the long run the state is better off owning with some exceptions.

Mr. Nelson said the new building would increase efficiency and utilization. He also said the sites being leased now are not built to be record service centers so the records are perennially at risk; during the flood, about 1,100 cubic feet got wet. Secretary Peterson said those two facilities receive a lot of service because they store records that other agencies must access. He added the need to find ways to reduce the number of records that are kept and to use technology to allow for the storage of more information in smaller spaces are addressed by having the new space at the current library site.

Ms. Thompson asked if the hydraulic system and chiller proposed to be replaced at the Kentucky Center for the Arts (KCA) should last longer than the 14 years the Center has been operating. Charles Barnes, Senior Vice President of KCA, said a new electric system is needed due to changes in the acoustical clouds in the theater. He said the new chillers are proposed for 2000-02 so the current chillers will actually be in the facility about 20 years before they are replaced, and this is a typical life-span for such equipment.

Judge Wilhoit asked why the state needs to acquire Channel 15. Sally Hamilton, Deputy Executive Director of KET said they felt that the value of that spectrum which can only be held by a public station was extremely valuable to this state especially with digital technology coming, so that it can be split into multiple uses. Also, the KET - Louisville channel now is on the Channel 15 tower, and land and that itself is worth a million dollars.

Chairman Nesler thanked the Education, Arts, and Humanities representatives and asked Doug Robinson to address the 3 information technology (IT) items in this Cabinet that are on KIRM's prioritized list.

Mr. Robinson said the Cabinet, as a whole, submitted 9 IT items of a capital nature and all 9 were approved by KIRM. Three were included on KIRM's high value list at number 3 (DLA Internet Access in Public Libraries), number 9 (KET's KTLN Matching Request), and number 14 (KET's NTIA Matching Request).

Chairman Nesler thanked Mr. Robinson and introduced Bill Leach of the Kentucky Teachers' Retirement System (KTRS) who explained that the agency's proposed imaging system, rather than a microfiche or paper system, would give its counselor base much quicker access to records and help serve its 70,000 active and retired members much better.

Chairman Nesler thanked Mr. Leach and introduced Tom Engstrom of the Kentucky Department of Education. Ms. Ingram reviewed the "Staff Analysis and Comments" for the Department.

Mr. Hintze asked how major the code problems are in the School for the Blind food service building. Mr. Engstrom said the problems are comparable to other buildings of a similar age, but they are not being cited. The Department has been able to deal with fairly significant issues up to this point through the major maintenance fund.

Chairman Nesler thanked Mr. Engstrom and announced the Board would break for lunch and return at 1:00.

Chairman Nesler called the meeting back to order at 1:00 and announced that Commissioner Ed Roberts of the Transportation Cabinet would be representing Secretary Jim Codell.

He said Gary Cox would be presenting the Council on Higher Education's plan and recommendations but asked Ms. Ingram to first review the "Staff Analysis and Comments."

Following Ms. Ingram's presentation, Mr. Cox said that under House Bill 1 of the 1997 Special Session, the Council had been renamed the Council on Postsecondary Education (CPE); the existing membership continues until the new appointments are made. Being at the beginning of a very significant transition created an unusual situation in making recommendations to the Board because Council staff did not feel leadership or the new boards were in place and they have not finished their own staff review process. As such, they

are only recommending projects that have been recommended previously by the Council on Higher Education and which have not been constructed.

Mr. Cox emphasized that the Council is eventually going to recommend more than six projects in higher education, but at this point it is not appropriate to go beyond the current list. He said in preparing for every biennial capital request the Council employs a consulting architect. David Banks, the architect, and Sherron Jackson, CPE Director of Facilities, evaluate all of the projects proposed by the institutions. They visit the campuses, evaluate the existing facilities, and evaluate requests for new construction. Over the last four or five biennia that they had done this, it has had the impact of putting more attention on protecting the state's investment. Mr. Cox said there is $1.5 billion invested in postsecondary education facilities in Kentucky and the Council, historically, has felt very strongly about protecting that investment. The campus visits indicate that maintenance has grown in importance over the last biennium. He said he anticipates when that process is finished, they will report a larger maintenance need now than two years ago.

Because of House Bill 1, which will place the Kentucky Tech facilities under the auspices of the CPE, Mr. Banks and Mr. Jackson are also visiting the Kentucky Tech facilities. Mr. Cox said he could not tell the Board how the Council would address this because by law the transition for Kentucky Tech will not be made until July 1, 1998, but there is already a tremendous amount of work going on in making that transition. He said the CPE can ask for advice from anyone it chooses, so he has recommended that the Council work with the new Kentucky Community and Technical College System to begin the process of getting advice and working together on capital projects.

Mr. Cox said there were also six trust funds set up by the new legislation. One is the Physical Facilities Trust Fund, which is fundamentally there for emergencies or contingencies. CPE will be making a recommendation about how the Physical Facilities Trust Fund should fit into the capital process. House Bill 1 requires CPE to set out the procedures for accessing that trust fund as well. He said this is, in many ways, consistent with the approach of having pool funds for maintenance and other campus projects which has been used in the past.

Mr. Cox said a technology review is also underway; a survey to be completed in September will assess the current status of technology at each institution including the communications capability, computing systems, customer services, information resources sharing, training and support, and distance learning capabilities. Mr. Cox said in House Bill 1 it is clear that there is a commitment to technology, particularly the development of a virtual university or the delivery of instruction through distance learning technologies.

Mr. Cox then referenced the recommendations submitted in his letter dated July 1 which was included in the members' notebooks. The facilities maintenance, technology, and government mandates pool has been recommended before. A pool of $50 million would provide funds for institutions to be matched on a dollar for dollar basis. Several items would be eligible for funding because different institutions have addressed those issues in different ways. Eastern Kentucky University (EKU), for example, has focused on maintenance, and by doing that, had not made a priority of technology. Thus by providing some flexibility, an institution that has done a good job on maintenance is not penalized.

The Council's second recommendation encourages CPAB to develop a recommendation that the institutions utilize the energy management opportunities available under KRS 56.774. The Council has been working on energy management issues for over a decade and there are substantial savings available from taking this approach. The Council's other recommendation is to support the use of joint facilities. Finally, when a new facility is approved, Mr. Cox said the Council would like the Board to consider requiring institutions to establish a way to ensure that those facilities will be maintained.

He then reviewed the specific projects the Council had recommended. These were the Northern Kentucky University (NKU) Natural Science Building, the Mechanical Engineering Building at the University of Kentucky (UK), the Breckinridge Hall renovation at Morehead State University (MoSU), the Kentucky State University (KSU) student center renovation, the Murray State University (MuSU) Carr-Cutchin facility renovation, and the EKU student services classroom building.

In response to questions from Chairman Nesler, Mr. Jackson said when he and Mr. Banks visit the campuses they look at the condition of the facilities, usually with an individual from the institution who points out the critical needs of the buildings. They look at the improvements that have been made in the buildings as well. Background information that is available in preparation for the visits includes the institution's maintenance plan, which is annually-updated by physical plant staff. Mr. Jackson said when they get to the institution, they first discuss the capital plan, or the capital request, then discuss activities that are going on inside each of the buildings. He said they also walk through newly-renovated facilities to see how well the renovation was done, and any newly-constructed facilities to see the layout of the space and to compare what was actually constructed with the request when it came through the Council and was approved by the General Assembly.

Chairman Nesler asked Mr. Cox what response the Council gives the institutions when they ask for a new building if they have not adequately

maintained their facilities based on Mr. Banks' report. Mr. Cox said the Council uses this information in the review and recommendation process. Fifteen years ago the conventional wisdom was that you were more likely to get a new building than a major maintenance project; now this is not true. He credited the Board and the General Assembly for developing a process that calls for capital planning and a more rational look at facilities. Mr. Cox said one of the reasons for requiring a match to access the $50 million maintenance pool is to encourage institutions to use some of their own funds for maintenance.

Ms. Ingram said the Board recommended in the 1992-98 plan that the Council and the Board institute a periodic campus facilities condition audit. She said as Mr. Banks and Mr. Jackson visit facilities this year, they are also doing a "condition of facilities" report as a part of that process.

Mr. Hintze commented that Mr. Cox indicated that this list of seven projects is very preliminary but even this short list totals $165 million, so it is short in number but large in cost. He said there is some very explicit language in House Bill 1 stating that the capital processes of the state are unaltered, and must be adhered to, but there are changes in House Bill 1 that affect all of these processes. The Board's timetable requires review of all capital plans now, but the university plans will inevitably change as the new boards and agendas are established. Additionally, operation of the Physical Facilities Trust Fund and the Strategic Technology Incentive Plan have not yet been clarified.

Mr. Cox said it is important for the CPE to stay in close contact with the Board because the CPE is directed to develop the guidelines for these funds.

Chairman Nesler said the next presentation would be by Barbara Burch, Interim President of WKU, via video conferencing. Ms. Ingram reviewed the "Staff Analysis and Comments" for WKU.

Mr. Cox noted that one of the new funds created in House Bill 1 is a Regional University Excellence Trust Fund; regional universities will identify areas where they want to be excellent and nationally known and those will have implications for the Board because some proposed projects will reflect these areas of emphasis.

President Burch thanked the Board for allowing their presentation to take place by videoconferencing. She said WKU is very proud of its accomplishments in the area of technology, and they feel they are well positioned to meet the challenges that are included in House Bill 1. She said WKU is completely networked with computer access; all faculty members and most staff have computers. Video networking includes Western Cable, a University-owned and operated cable system serving all 18 residence halls, and a campus-wide system that connects all classrooms and labs. There is

also a 14-site interactive video system, through which WKU provides courses and video-conferencing to sites at six cities outside of Bowling Green. She said distance learning is very important for WKU in their region where educational attainment lags behind the state average.

President Burch stated that 86% of Western's facilities are at least 25 years old, which is the highest percentage of any university in the system. WKU has contracted with the Marriott Corporation for management services for its physical plant. This contract includes the requirement of providing the University with a five-year deferred maintenance plan, which is in place. Excluding auxiliary facilities, the maintenance plan on WKU's campus has a cost which exceeds $28 million. She said not all of these needs have to be addressed immediately, but will need to be funded over the next two bienniums. She said WKU's capital plan includes its highest priority maintenance projects and a limited number of critical renovation projects and new facility requests. She reviewed three of these projects: the Commonwealth Center for Instructional Technology, the Journalism Building, and renovation of the Glasgow campus.

The Center for Instructional Technology would serve as a laboratory for testing and modeling innovative and effective applications of instructional technology usable by everyone throughout the state. It would also provide state-of-the-art electronic classrooms, distance learning classrooms, faculty and student computer labs, and appropriate housing for WKU's central computing services.

President Burch said Western's journalism programs clearly meet higher education reform's call for programs of distinction. WKU needs to combine these programs under one roof in a facility that is ADA-accessible, has reliable power and heating and cooling, and state-of-the-art classrooms and laboratories. She said it may be possible that the Center for Instructional Technology and the Journalism facility could be combined because of the growing incorporation of computing technology in the teaching of journalism and photojournalism. WKU anticipates submitting a revised plan by mid-August of this year and amending its biennial budget request to reflect that combination.

President Burch said the Glasgow campus houses a significant portion of Western's extended campus program, with nearly 1,000 students being served in that community. The campus includes three buildings built in 1926 and two buildings built in 1962. None of the buildings have central air conditioning and most need adjustments to meet ADA requirements. It would be extremely difficult for WKU to continue to meet the needs of this community without some improvements in present facilities and the Glasgow community is working

closely with Western to make the need better understood and to see if there are alternatives which would minimize the cost to the state.

Chairman Nesler thanked the representatives from WKU and said the next presentation would be by Dr. John Shumaker, President of the University of Louisville (UL). Ms. Ingram reviewed the "Staff Analysis and Comments" for UL.

Dr. Schumaker said UL's proposed six-year capital plan reflects very strongly the University's attempt to fulfill its recently clarified mission as a major metropolitan university and one of two research universities in the Commonwealth. He said the capital projects and equipment items which they have presented tie directly to their strategic plan and, beyond that, to the goals specified in the Kentucky Postsecondary Education Improvement Act of 1997. He said each requested item reflects UL's focused and strategic emphasis on enhancing educational quality, improving research in targeted and specific areas, and expanding the use of instructional technology in promoting overall institutional effectiveness.

Dr. Schumaker said UL has a number of facilities that are over 20 years old and require greater and more expensive renovation; nearly 70% of all of UL's facilities were built before 1975. He stated that acquiring additional land for expanding the Belknap and Health Science Center campuses is becoming increasingly difficult because of residential and commercial constraints, so future expansion will have to look at creative uses of existing space and building "up" instead of building "out."

He said UL's first priority is the Research Building on the Belknap Campus because such space is limited and critically insufficient to meet current and future needs. Dr. Schumaker said in order for UL to fulfill its mission as a preeminent metropolitan research university, this facility is needed as a companion to the Health Sciences Research Center downtown; facilities that will attract and retain the best researchers are significant for the economic development of the community.

He then discussed other priorities, including the renovation of the Reynolds Building; a new residence hall and west utilities; making the Shelby Campus a center for entrepreneurship, training, and business development; construction of an early childhood education and research center; and more modern and updated equipment.

Dr. Schumaker also said there is a statewide need to develop a unified approach to fund maintenance and that he likes the pool approach very much, although not necessarily a 1:1 match. He suggested a formula which bases the allocation to a campus on the amount and age of its space.

In response to questions from Representative Brandstetter, Dr. Schumaker said UL's research and development budget was about $33 million two years ago and within 10 years it will be $80 million. Representative Brandstetter said UL's program is very aggressive and has good local support. He is pleased that the state is recognizing that research and development is paramount to improving the higher education program in Kentucky and hopes Kentucky can continue to follow through with this.

In response to a further question from Representative Brandstetter, Dr. Shumaker said a number of people at the University have had discussions about the concept of a research corridor between Lexington and Louisville. He said the increase from $33 million to $80 million in research and development is only in grants and contracts. Another important item is the philanthropic and private support that a good research university can attract. UL's endowment at the beginning of this year was about $233 million and could increase to $750 million over 10 years. He said the $28 million Health Services Research Building was funded 50% from the state and 50% from private sources; it will pay for itself over a very short period of time, in terms of the money it helps UL attract from other agencies and other sources. He thinks this will be the kind of arrangement seen more and more at research universities over the next decade.

In response to questions from Mr. True, Dr. Schumaker said he thinks UL's campus is one of the better maintained of the campuses where he has served because over the years, there has been a concern about investing in maintenance as a way to protect the investment and to avoid more complex problems. He said the campus is in good shape, although there are areas of concern.

Chairman Nesler thanked Dr. Schumaker and said Dr. Ronald Eaglin of Morehead State University (MoSU) would make the next presentation. Ms. Ingram reviewed the "Staff Analysis and Comments" for MoSU.

Dr. Eaglin said most of MoSU's buildings were built from 1928-1930. In 1965, most of those buildings had gone through their first phase of renovation and almost all had new systems installed, including air conditioning. He said now, 30 years later, they need a second renovation, particularly Breckinridge Hall, which has been in MoSU's capital plan for many years. Dr. Eaglin said MoSU is faced with a dilemma because they have not wanted to waste money if a major renovation will soon be undertaken. They have done maintenance on the building, but the need for major renovation is now very critical - the energy system is outdated, the building cannot be wired, and it does not meet ADA requirements. Breckinridge Hall has a long-term strategic mission within the

institution which will fall within its programs of excellence and within the long-range planning of the institution.

Dr. Eaglin said MoSU has defined itself as trying to stay between 8,800 and 9,000 students, and its physical plant is adequate to serve that population. The main need will not be expansion, but renovations to provide modern classrooms, etc. President Eaglin also complimented UKCCS Chancellor Ben Carr for his leadership on the facility being constructed for the joint use of MoSU and Prestonsburg Community College.

Chairman Nesler thanked the representatives from MoSU and said Ed Carter would be making the presentation for the UK University System (UKUS) and Hospital (UKH). Ms. Ingram reviewed the "Staff Analysis and Comments" for UKUS and UKH.

Mr. Carter said the capital plans before the Board for the University System and the Hospital are a result of a comprehensive capital planning process that is guided by the strategic plan priorities of ensuring that the University's land, buildings, and equipment are utilized effectively, that they are improved, and that they are managed in an environmentally conscious manner. He said the University continues to have needs in the areas of life safety, environmental health, and handicapped access - many of which result from government regulations. During the current biennium, UKUS was appropriated state funds of about $6.6 million for life safety needs, which are currently being utilized for fume hoods, fire safety projects, renovation for safety deficiencies in laboratories, and indoor air quality projects. Mr. Carter said the University continues to fund life safety projects from agency funds as they become available for that purpose. Included in the plan is $11.4 million in the 1998-2000 biennium for a life safety project pool, including $2.4 million for handicapped access projects, and $9.3 million in the 2000-2002 biennium; these pool amounts are backed up by detailed project lists. Mr. Carter said given the budget constraints of the 1990's, UKUS has not been able to keep up with its deferred maintenance needs but continues to use agency funds for this purpose to the extent possible; a one-time infusion of help from the state would be of great assistance. The plan has a $9.3 million deferred maintenance project pool in 1998-2000 and an additional $6.1 million pool in 2000-02.

Mr. Carter said the Mechanical Engineering Building, the Aging/Allied Health Building, and the Agricultural Plant Science Building continue to be the system's highest priorities for new construction. He said all three projects support the goal as set forth in House Bill 1 of making the University of Kentucky one of the top 20 research universities in the United States. Other new construction or major renovation projects in both biennia for which state support is requested would also be supportive of that research and graduate mission. A number of projects are proposed to be funded with agency funds.

Mr. Carter said a particular emphasis of the UKUS plan is the research equipment replacement program; it is essential that the University be able to periodically replace the research equipment and acquire new equipment to support and advance its extensive research program. Since the research equipment bond issue, approved in 1986-88, grants and contracts have increased significantly and are now over $115 million. In 1991-92 UK was ranked 72 among all research universities and in 1994-95 had moved up to number 66; it was ranked 45 among the public research universities.

Mr. Carter said the capital plan for the Hospital includes a number of projects in each biennium for improvement of the hospital operations, renovation projects for existing facilities, life safety projects, parking projects, utility projects, and equipment items which will help keep the University teaching hospital a state-of-the-art facility.

In response to a question from Mr. True, Mr. Carter said UKUS is doing a lot of deferred maintenance that does not appear in the plan because it is funded out of the operating budget and fund balances. He said the requested deferred maintenance pool (priority #142) is a request to "catch up." He said the low priority number is not representative of the priority which UKUS considers it operationally, but it is the priority in relation to the equipment and the other things that are proposed. It is priority number 7 for state funding.

Ms. Ingram next reviewed the "Staff Analysis and Comments" for the University of Kentucky Community College System (UKCCS) plan. Dr. Ben Carr then gave the UKCCS presentation.

Dr. Carr said the Community College System is in a transition phase and this is the last biennium the Board will see the University of Kentucky presenting this plan. In the next biennium, the Kentucky Community and Technical College System (KCTCS) will represent both the community colleges and the technical school system. He added that, in this transition phase, the UKCCS plan will go through the University process, but the transition team also plans to send it to the KCTCS Board for review, possible modification, and approval prior to it becoming a biennial budget request.

Dr. Carr said the only project ahead of deferred maintenance, life safety, and ADA, is phase II of the Hazard building. He also discussed the need for expansion or a second campus for Lexington Community College due to its continued growth.

He said the plan is being amended to move priority number 14, the Madisonville Science Technology Classroom Building, up to priority number 5, due to a $1 million gift that will expire if the project is not authorized by July 1, 1998.

Dr. Carr said the Community College System is in its 35th year at some locations where extension centers existed before community colleges were created. There are some problems associated with roof replacements at some of the older campuses and many of the buildings are not handicapped accessible and need to be upgraded to meet the current codes. He said there are not many maintenance problems on the newer campuses.

Because several campuses have never been completed, there are several new buildings on the UKCCS list in each plan. Additionally, many campuses are growing and need more space and facilities.

Chairman Nesler thanked Dr. Carr and said the next presentation would be from Northern Kentucky University (NKU). Ms. Ingram reviewed the Staff Analysis and Comments" for NKU.

Paul Gaston, Academic Provost and Interim President, said he wanted to emphasize that the new building request he is addressing rests securely on a long standing commitment to campus maintenance. In 1996, the General Assembly authorized $1.5 million for the design of a Sciences Learning Center at NKU. He said the need has become critical due to health and safety issues that continue to emerge in a facility not initially designed for science education. Students continue to find classes closed to them because of a lack of laboratories and promising young faculty members must cope with frustrating limits in facilities and space. Mr. Gaston said he wanted to emphasize three points: 1) the Sciences Center should be built now; 2) an investment in sciences education in Northern Kentucky will support the education, health, and welfare of the Commonwealth as a whole; and 3) to realize the maximum benefit without escalating its costs, the Science Learning Center should be constructed as one coherent project in one phase, at one time.

Mr. Gaston introduced Joe Wind, Director of Communications for the Corporex Corporation. Mr. Wind said he was present on behalf of the Covington Business Council (CBC), a 200 member organization and a member of the Northern Kentucky Capital Consensus Committee. He said the CBC has found that NKU's need for a Natural Science Center is important to the upper eight counties of Kentucky and critical at this time. He said this project would be a good investment because the new and expanding businesses in the area need science-educated people in order to be successful.

Carla Chance, Vice-President for Administration, also discussed two other projects in NKU's plan: land acquisition and the chiller replacement project which may be addressed through third-party financing. She noted that a list has been distributed to the Board identifying 20 maintenance projects undertaken in the past 2 years via private gifts, privitization, or institutional funds.

Representative Brandstetter said he has toured the current "alleged" science building. He said the Board should forget about multi-phasing the project because it costs 5 1/2% a year to borrow the money to do the project at one time, but 10% a year, at least, to do a multi-phase project. Mr. Hintze said the administration recognizes the desirability of constructing the new Science Building as quickly as possible and, if the funds are available, that will be the preferred approach.

Chairman Nesler thanked the presenters and said Murray State University (MuSU) would be the next presentation. Ms. Ingram reviewed the "Staff Analysis and Comments" for MuSU, then introduced Provost James Booth.

Dr. Booth said the buildings on the MuSU campus are aging - energy efficiency is being lost due to antiquated equipment, deteriorating plumbing and wiring are creating potential hazards, and none of the buildings meet ADA or environmental standards. Thus throughout their six-year plan are requests for HVAC systems, life safety improvements, and energy conservation measures.

Dr. Booth said two major forces create the needs reflected in MuSU's plan: identifiable shifts in the distribution of student enrollment into programs that reflect the business and industry needs of the west Kentucky region and the requirements and expectations in the areas of housing and dining by both parents and students. Housing two students in a crowded room and providing group bathrooms is no longer acceptable to today's student or parent. The alternative is to let them move into private housing which Dr. Booth said would be acceptable except that it would be negating a major part of the complete educational process.

He said MuSU's plan will be amended to make two changes: the Carmen Pavilion project will be moved form 2000-02 to 1998-2000, and a conference center for the Center of Excellence for Reservoir Research at the Hancock Biological Center will be included for 1998-2000. He introduced Tom Denton, Vice-President for Finance and Administrative Services and Dr. Dewey Yates, Director of Facilities Management.

Dr. Yates briefly described four projects in MuSU's plan: the Carr Health Building renovation, the Blackburn Science facility renovation, the Carmen Animal Health Technology Center renovation, and the facility for the Hancock Biological Center. He said there were a number of housing needs on Murray's campus which would be addressed by constructing new dorms and demolishing others that are 35-40 years old.

Dr. Yates also said Murray has approximately $14 million of deferred maintenance, which is an increase of $2 million since the last plan. He said it will continue to increase until they can properly fund and complete some of the

deferred maintenance projects, including 16 roof projects, 10 electrical distribution projects, 31 mechanical system projects, various door and window replacements, painting, and general miscellaneous items. The other items listed in the plan are government mandates such as life safety, ADA compliance, asbestos abatement, and CFC phase-out.

Mr. Hintze said that GOPM is engaging in a very constructive and ongoing dialogue with the university about options for advancing the dormitory needs, including the possibility of a built-to-suit approach.

Chairman Nesler said the next presentation would be by Kentucky State University (KSU). Ms. Ingram presented an overview of the "Staff Analysis and Comments" for KSU.

Dr. Mary L. Smith, President of KSU, said their capital plan and master plan both relate directly to KSU's strategic plan, Visions 2000. She said there are two categories of requests in KSU's plan: deferred maintenance and new facility requests. She mentioned specifically the Student Center renovation/addition, the Betty White Health Center addition, and the Bradford Hall addition. She also noted the following new facility requests: an Education Technology Center, a Teaching Center, and a Center of Excellence for the Study of Kentucky African-Americans.

Carson Smith, KSU's Executive Director for Budget and Planning, discussed the Technology Center, which he said is quite innovative to the University and similar to the Center for Instructional Technology proposed by WKU.

Mr. Woody Baldwin, Director of the Physical Plant, said the Student Center has been well maintained, but the HVAC systems and piping have reached far beyond their life cycle. He said there are also roof problems and other problems common to a 30-year old building. He said the high cost of the expansion is due to having to address fire codes and utilities in a very compact space.

In response to Mr. True's question, Mr. Smith said there are parallels between the Educational Technology Center and the proposed Teaching Center. One is discipline-specific and it speaks to the mission that KSU has in preparing teachers and administrators. He said the Educational Technology Center is principally a collection of technology-related activities that are both administrative, instructional, and broad based in terms of the disciplines they would serve. The Teaching Center is discipline-specific. The only significant difference would be the amount and number of classrooms that the Teaching Center has that are not included in the Technology Center.

In response to a question from Mr. True, Mr. Hintze said GOPM has not held discussions with KSU about built to suit as an option for its dormitories because its projects are proposed as renovation rather than new construction. He added that state general fund or bond support, as proposed by KSU, is not usually considered for student housing. Mr. Hintze also noted that other areas in which a built-to-suit appraoch has been proposed are Juvenile Justice, Corrections, and various other cabinets.

Mr. Smith said KSU is willing to continue having central bay rest rooms and lavatory facilities and two to a room because of the number of dormitories and the desire for cost effectiveness. Mr. Smith said that due to renovations undertaken 10-15 years ago, with state funds, KSU's dorms are probably not in the same condition as are those at MuSU. Mr. Walker explained that using state funds for student housing at KSU was the result of a specific commitment in the state's Desegregation Plan.

Chairman Nesler thanked KSU's representatives and said Eastern Kentucky University (EKU) was next on the agenda. Ms. Ingram reviewed the "Staff Analysis and Comments" for EKU. She then introduced Jim Clark, Budget Director at EKU. He was accompanied by Dan Cherry, Justice Cabinet Secretary; Commissioner Ralph Kelly, Department of Juvenile Justice; Commissioner John Bizzack of the Department of Criminal Justice Training; Bill Abney, of the EKU Development Office; and Truett Richardson, Dean of the EKU College of Law Enforcement.

Mr. Clark said EKU's capital plan results from its facilities master plan and internal planning process. He said the University's first priority is the Student Services Building to enable "one-stop shopping" for students for registration, financial aid, etc. He also said EKU has had a long history of excellence in justice and law enforcement programs and three projects reflect this emphasis: the Bureau of Training Housing/ Educational Complex, the Juvenile Justice Academy, and the Fire Science Academy.

Mr. Walker said the second priority on the EKU list is residence hall renovation, proposed as a state bond-funded project; state funding of such a project has only been done in the one case at KSU relating to the state's Desegregation Plan, which was noted earlier. Mr. Clark said dormitories are probably the biggest maintenance problem a University has. He said ideally, you would demolish them and start over because the current space configuration is not what students want and they could not afford to pay the price increases required to do the needed renovations. Mr. Clark said he had always subscribed to the concept that state money should not be used in these projects, but has decided it might be a good investment because while on campus, the students are under some sort of control.

Mr. True said the UKCCS is proposing $15 million for a community college at Corbin/London and asked if this related in any way to EKU's proposed Corbin center. Mr. Clark said Corbin is one of EKU's most successful centers and so a permanent facility is being proposed. EKU is concerned that if another facility was built in London, it would have a negative affect on the Corbin Center. Mr. Walker noted the UKCCS has a program in leased space in London, but nothing in Corbin. Mr. True said he hoped some sort of joint arrangement would be explored before spending $25 million on two different locations. Senator Robinson pointed out that EKU and UKCCS offer different levels of courses. Mr. Clark said the Corbin center offers a broader range of programs, from associate degree through a graduate degree, while the community college would have a two-year program offering.

Mr. Walker reminded members of the CPE recommendation encouraging the joint use of facilities among community colleges, post secondary schools, and universities where more than one institution is providing educational services in the same locale.

Chairman Nesler noted that new construction, at 62%, was a higher percentage in EKU's plan than in any other institution's plan and also EKU's major maintenance/ renovation/alteration percentage is the lowest of any of the other institutions. Mr. Clark said EKU has put a priority on maintenance and has funded a lot of it with institutional funds.

Mr. Isaacs asked if the proposed housing facility for the Department of Criminal Justice Training is in the same proximity as the training facility. Secretary Cherry said the new facility would be the cap piece to that nationally recognized facility and looks toward anticipated future growth. John Bizzack said the Stratton Building, which houses EKU's College of Law Enforcement and Fire Sciences and Local Safety, and the Funderburk Building, which houses the criminal justice training program, sit adjacent to each other and are connected by a walkway and a tunnel; the new facility, as projected, would sit either across the parking lot or next to these buildings. In response to a question from Mr. Isaacs, Mr. Clark said the new facility for the Department of Juvenile Justice would also be part of this complex.

Mr. Hintze said one of the things that makes EKU's list look bigger for new construction is that $40 million is comprised of Justice-related buildings and the Fire and Rescue Training Academy. He said the funding for these may be provided from the Kentucky Law Enforcement Program Foundation Fund and a smaller firefighters' fund that supports the existing local law enforcement training program and the existing professional and volunteer firefighter training program; revenues for these funds come from the surcharge on property and casualty insurance premiums. In response to a question from Senator

Nunnelley, Mr. Hintze said even after this surcharge funds several programs, not less than $8 million annually is returned to the General Fund.

Chairman Nesler asked Doug Robinson to comment on the higher education information technology projects. Mr. Robinson said there were 115 capital information technology items submitted. KIRM looked at the implications of House Bill 1 for postsecondary education and targeted 3 areas of concern: network infrastructure, distance learning, and satellite communications. KIRM's recommendations are for the technology initiatives needed to support the concept of the virtual university. He also said KIRM fully supports the Education Technology Center proposed at KSU and the Commonwealth Center for Instructional Technology at WKU because training to use the instructional technology is critical.

Chairman Nesler introduced Secretary Jim Codell and Glenn Mitchell of the Transportation Cabinet.

Secretary Codell said the Transportation Cabinet is responsible for approximately 30,000 miles of roads throughout the Commonwealth, and has buildings in all 120 counties. The Cabinet owns just under 1,000 buildings representing approximately 3 million square feet. These include offices, shops, salt domes for snow removal, maintenance facilities, maintenance sheds, vending shelters, and paint sheds. There are approximately two dozen smaller leased buildings that encompass about 100,000 square feet.

Mr. Mitchell said the Cabinet's currently authorized projects are pretty much on track, the only exception being two maintenance facilities, for which reauthorization is proposed, and the Bowling Green District Office. They had originally planned to renovate the Bowling Green District Office, but it appears the building is beyond renovation. He said they plan to ask for a change in scope and additional funding to construct a new building. In response to a question from Senator Nunnelley, Mr. Mitchell said the new building would be on the same site; geo-technical investigations indicate the site is stable enough if concrete piles are used.

Mr. Mitchell noted that one of the Cabinet's major priorities is an EMPOWER Kentucky project - redesign of the Automated Vehicle Identification System (AVIS). This is the system used in county clerks' offices for the renewal of automobile registration and payment of taxes. This is a $14 million project, of which $8 million is proposed from Road Funds; General Fund dollars are proposed for the remainder because this system does generate General Fund revenues through property taxes.

Mr. Mitchell said the most noteworthy project is a major new office building for the Transportation Cabinet, a 320,000 square foot facility to be

constructed on state property at an approximate cost of $40 million. It would be acquired through a lease-purchase, with the payments being approximately $4 million per year. Mr. Mitchell said this would replace the space the Cabinet currently occupies in the State Office Building and a few other sites scattered around Frankfort. He said the Cabinet needs to vacate the State Office Building to allow the already authorized asbestos abatement/renovation project to proceed. This would allow for a much less expensive renovation process and would create a building which could be used to house other agencies as other major buildings are renovated.

Mr. Mitchell discussed the Cabinet's maintenance and repair projects pools as well as pools to address environmental problems. In the area of new construction, the Cabinet plans to replace 14 maintenance facilities, build an addition on the Pikeville District Office, replace the Louisville District Office Building, and construct a few smaller buildings. He said there are also some equipment needs.

Ms. Howell said the Finance and Administration Cabinet has been working with Transportation in developing the proposal for a new office building. She said this meets the needs of the Transportation Cabinet and the needs of the Finance Cabinet in terms of being able to empty out the State Office Building so it can be renovated. There is not 300,000 square feet of empty space anywhere in Franklin County available for rent to house employees while the building is being renovated.

Mr. True asked if the AVIS System has the potential to monitor compliance with the compulsory insurance laws. Mr. Mitchell said he is sure that it does. Replying to a question from Senator Nunnelley, Mr. Mitchell said the goal was not to build the system bigger for other uses, but just to satisfy the needs that it is serving today. However, a client-server environment is being considered which would allow clerks to carry out more functions than under the current mainframe system.

Mr. Hintze said the Cabinet's new office building would address a number of problems that have been addressed in previous CPAB plans. He said the Board has recommended that the state consider constructing from state funds a major new office building for agency consolidation and improvement of management. He said this is that plan downsized somewhat and solving several other problems. Twice the General Assembly and twice this Board has endorsed the renovation of the New State Office Building, which was constructed in the early 1950's. The Cabinet has a stand alone need for a new Transportation Office Building, and the state has a stand alone need to renovate the State Office Building and to solve some health problems that are associated with it. Major renovations of the Capital Plaza Tower, the Human Resources Building, and the Capitol Building will also be needed in the near

future. He said the state must have a place to relocate the employees when it undertakes such a major project. Mr. Hintze commended this proposal to the Board for study, saying it is something that has been thought about for a number of years and is being crystallized now through the cooperation of the Transportation Cabinet and the Finance Cabinet.

Mr. True said this would still not replace the need for a new state office building as it would not provide any extra space for 15-18 years while the State Office Building houses employees relocated to allow for other renovation projects. Ms. Howell said it is true that there will be no additional space but using the State Office Building as a staging building provides 300,000 square feet less that the state would need to lease otherwise. She said this is not intended to be the total solution, as will be indicated in the Finance Cabinet space plan to be presented on Friday.

Secretary Codell said the new building will also replace a 30,000 square foot building next to the State Office Building, now owned and occupied by the Transportation Cabinet; two leased facilities on Teton Trail; and the Railroad Commission's office. In response to questions from Chairman Nesler, Secretary Codell said the Department of Corrections occupies one floor of the State Office Building, and they also must be relocated during the renovation.

Ms. Thompson said that as a circuit court clerk, she is concerned with the licensing problems clerks are having, particularly identity theft, and the clerks have been working hard to raise the awareness of Transportation Cabinet officials about the problems. She said she is concerned that one way to address the problems, a digitized license, is only number 15 on the Cabinet's priority rankings. She is also concerned that the KVIS project, which is replacing the AVIS, does not propose to revamp the whole system rather than have the digitized license as a separate item with a lower priority. Mr. Mitchell said he knows the circuit court clerks are very interested in that project. Mr. Isaacs said the question he thought was being asked is why these are two separate items. Mr. Mitchell said he supposed for the same reasons they did not look at the other systems that are hung on to that system. He said he was not aware that those two systems communicate with each other in any way. Ms. Thompson said the systems are very un-user friendly and constantly go down in her county.

Mr. Mitchell said the Cabinet's drivers' license people say the same thing and he hopes the rebuild of the AVIS system will improve the dependability of the existing drivers' license system. He said there are people in the Cabinet advocating for the clerks' position.

Mr. Roberts said there was a 4 hour meeting yesterday on digitized licensing in Transportation. Ms. Thompson asked if any clerks were present at

the meeting. Mr. Mitchell said he apologized if there were not; anything the Cabinet can do to make the clerks' job easier will make the Cabinet's job easier as well.

Chairman Nesler said the meeting was in recess until 9:00 a.m. the following morning.

Chairman Nesler called the meeting to order at 9:00 a.m. He said he would entertain a motion to approve the minutes of the June 6, 1997 meeting. Senator Robinson moved that the minutes be approved as distributed. Mr. Karibo seconded the motion, which passed by voice vote.

Chairman Nesler said the first presentation of the day would be by Secretary James Bickford of the Natural Resources and Environmental Protection Cabinet (NREPC). Ms. Ingram reviewed the "Staff Analysis and Comments" for the Cabinet.

Secretary Bickford introduced Melanie Bailey, Budget Officer for the NREPC, and Hugh Archer, Executive Director of the Kentucky River Authority (KRA). Secretary Bickford said he first wanted to talk about the Cabinet's EMPOWER Kentucky project to provide an electronic process to improve efficiency in issuing permits for surface mining and other areas. He said NREPC started a little bit earlier than the rest of EMPOWER Kentucky to get some things going in surface mining. They received $500,000 from EMPOWER Kentucky, and with that, and some money from the federal Office of Surface Mining, have made the ownership and control portion of the surface mining permitting electronic. Customers are very pleased with the new system and the Cabinet wants to expand this technology into other areas.

He then discussed the need to consolidate the Cabinet's Frankfort offices. He said it would be more efficient to have related programs in the same area. Five of the Cabinet's locations are the flood plain, including the Ash Building. He said during the March 1997 floods, staff spent many hours sandbagging around that building, and barely kept the water out. He said there is now a problem with people complaining about respiratory problems because water came up through cracks in the foundation or in the concrete floor and carpets became wet and moldy.

Secretary Bickford also discussed the state-owed dam repair program. There are 62 state-owned dams in the state which are inspected by the Division of Water, and 9 of them have been identified as needing repairs or renovations to correct serious deficiencies. He said proposed funding will ensure that high hazard dams are top priority. He then asked Mr. Archer to discuss the KRA.

Mr. Archer said the KRA's primary mission is to maintain water supply resources in central Kentucky. Research done with the Water Resources Institute has indicated there will be a 9.7 billion gallon water supply deficit by the year 2020 that needs to be addressed. KRA has eliminated over 4 billion gallons of that deficit by installing release valves on dams 11-14 and by earlier repairs to dam 10.

Mr. Archer then reviewed the proposed $3.55 million project that will allow KRA to install release valves or improve the lock doors' valves, a combination which will allow KRA to move the water throughout the system to Frankfort. This will drop the water deficit to 3.9 billion gallons. The second capital project would add moveable crest gates, which will allow KRA to store water in the existing pools. The timing and undertaking of these projects is interdependent with decisions to be made by the Public Service Commission (PSC) on proposals to bring treated water from Louisville to Lexington by pipeline.

Mr. Hintze asked when KRA would know which approach PSC will recommend. Mr. Archer said it would be six months, which is 2-3 years ahead of the planned crest gate construction; that project would be redundant with the pipeline.

Secretary Bickford said he had also been asked to address a previous Board recommendation for the use of shared equipment at the central laboratory. He said it is easy to say that all of the equipment should be shared. However, they have not been able to do very much consolidation or sharing; the different users are looking for different things when they analyze materials so the equipment must be calibrated differently.

Ms. Thompson commented that the NREPC report was very thorough and easy to read and understand. Secretary Bickford said Ms. Bailey was responsible for the report and had done an excellent job.

In response to a question by Chairman Nesler, Ms. Bailey said there are between 70,000 and 80,000 square feet in the five buildings in the flood plain. Secretary Bickford added that this is an old shopping center, and air circulation in the buildings is a major problem. Mr. Hintze said the state moved into the Ash Building after the record 1978 flood, when the private shopping center and businesses moved out.

Chairman Nesler thanked Secretary Bickford and said the Department of Facilities Management would give a report on the long-range plan for housing state agencies in the Frankfort area. Ms. Ingram gave a brief overview and introduced Secretary McCarty, Secretary of the Finance and Administration Cabinet, and Armond Russ, Commissioner of the Department for Facilities Management.

Secretary McCarty said the General Assembly asked the Finance and Administration Cabinet to develop a master plan for the utilization of space in Franklin County. This has been completed. Secretary McCarty introduced Art Wegfahrt of Fantus Consulting, an outside firm hired to review the Cabinet's internal study and to make a presentation to the Board.

Mr. Wegfahrt said Fantus Consulting has been in existence since 1919 and specializes in location and facility rationalization and consulting. In reviewing the property utilization study that the Finance and Administration Cabinet had done, the objective was to review the data that had been collected by the Department for Facilities Management, examine the facilities management practices that are already in place or presently being considered, identify the most cost-effective facility delivery method, and recommend additional techniques that would be helpful in future facility planning for the state.

Mr. Wegfahrt said this was accomplished in five steps: a due diligence of methodology, a situational analysis, benchmarking, a cost analysis of delivery methodology, and recommendations. In the situational analysis of what currently exists, Fantus utilized information from the Department for Facilities Management and on-site visits. Findings of the analysis reveal the following regarding Franklin County: 1) there are approximately 135 facilities that are either leased or owned by the state; 2) there are 30 agencies employing over 12,000 people, and occupying approximately 5 million square feet of space; 3) there is nearly 750,000 square feet of monument space, which is space unoccupied by people but part of the physical inventory, for example, the Civic Center and the Capitol Rotunda; 4) 2/3 of the total space is owned and 1/3 is leased; and 5) only 1/3 of the facilities are over 30,000 square feet.

Mr. Wegfahrt said Fantus came to the following conclusions during this process: 1) there is a fragmentation of the various departments within the Commonwealth, 2) there are inherent inefficiencies in the building designs, 3) there are outdated systems in place, 4) major renovations are necessary, and 5) there are no alternative housing options to be used during renovations.

In doing the benchmarking, Fantus tried to find other state capitals that are similar to Frankfort by examining fiscal and tax policies, demographics, local economy, and the real estate market. Some states were also included due to their proximity. Twenty states were identified for comparison; not all responded to all questions on the survey. Thirteen of the 18 states who responded have established facility planning standards. Thirteen of 17 responding occupy 30% or more leased space. Fifteen of 19 responding review and adjust their space needs regularly.

Only 4 of 12 responding have a two years or less term limit on leases. Mr. Wegfahrt said due to restrictions, such as short-term leases, that are legislated into the actual leasing of space in Franklin County, there are very few developers. Even though 1.3 million square feet of space is leased, these are controlled by only a few developers. Mr. Wegfahrt said these restrictions are not common, but do give the Commonwealth flexibility.

In comparing to the benchmarks, they were impressed that Kentucky covers the facility planning scope - from as-built drawings, to planning, to looking at lease obligations, to having a lease management system. He also said Kentucky is a trendsetter in researching costs. Mr. Wegfahrt said flexibility is essential to accommodate growth. State government cannot easily project how much space it will need because it has to respond more to a public need or policies as opposed to a correlative like the growth in the state demographics. Mr. Wegfahrt said Frankfort and Kentucky are unique in the overwhelming presence of the state on the local commercial real estate market. No other state government that Fantus found had such an overwhelming presence and utilization of the overall market as Frankfort does.

In looking at cost analyses, Fantus categorized the various spaces into three types: existing facilities that do not need major renovation; existing facilities that need modification; and facilities for which the state may wish to explore alternative occupancy strategies, such as the Ash Building. Fantus then looked at the cost of leasing versus owning. They used a 20-year analysis with three different scenarios: continue leasing the space currently leased, build a new building and lease it from a for-profit developer, or build to own. The build and lease from a private developer option had a $15 million higher cost than the build to own option over a 20-year analysis because the developer must build in a profit and property tax costs.

Mr. Wegfahrt said Fantus looked at the current analysis and made some recommendations for future planning. The first is to establish some performance and design criteria for mechanicals, amount of monument space, etc.; identofy a facility for temporarily housing personnel while large buildings are being renovated in order to reduce renovation costs; and retain some leased space to allow for flexibility, probably about 750,000 square feet. Mr. Wegfahrt also said the state should develop a capital improvements program, including budget forecasts. This will enable the state to maintain facilities and react quickly to changes in technology and equipment.

In response to a question from Mr. True, Mr. Wegfahrt said of the approximately 5.8 million square feet on the rolls that the state owns or leases, 750,000 square feet is monument space. Ms. Thompson requested a copy of the Fantus report, which Secretary McCarty said he would be happy to make available as soon as it is finalized.

Secretary McCarty thanked Mr. Wegfahrt and the Fantus organization. He said the question of own versus lease versus build-to-suit has always been an issue, and he wanted to ensure that someone who had a much broader and deeper understanding of other state capitals could review the state's methodology and give their recommendations. Secretary McCarty said the Fantus report reaffirmed the position he has had that the state should own the facilities used for its core operations. It is important to build quality space where employees can deliver needed services to the citizens. He said the approach taken toward building this space should be flexible and ultimately depends on market conditions. Secretary McCarty said the Ash building was a perfect example of trying to solve a long-term problem with a short-term solution, and having this solution become a long-term problem in itself.

Secretary McCarty said that in dealing with the already authorized renovation of the State Office Building, it became apparent that trying to complete the project with people in the building would create a number of problems. It would require staging, alternative energy systems, and alternative rental space. The cost of the renovation, with Transportation Cabinet personnel in place, is probably in excess of $35 million.

Secretary McCarty contacted Secretary Codell. They determined the state could solve several problems by providing permanent space for the Transportation Cabinet and that it would be cost-effective. The state does not need to eliminate all leased space, because that would eliminate flexibility. There should be an amount of rental space for those operations that are not core and that are subject to expansion or contraction. In response to a question from Secretary McCarty, Mr. Wegfahrt said he was not aware how much of the state's leased space was warehouse space. Secretary McCarty said the EMPOWER Kentucky initiative is evaluating and trying to reduce the amount of warehouse space.

Senator Robinson said one problem the state has is it must try to use existing buildings and remodel them if necessary. He said he does not feel there are enough existing buildings of a desired size in a desired location of the right quality and the right design. Secretary McCarty agreed, and said that statutorily and due to external pressures, the state has to take the lowest first cost.

In response to a further question from Senator Robinson, Secretary McCarty said to alleviate the problem, the state should move forward with the proposed new Transportation Building to allow for renovation of the existing State Office Building and later building renovations. He said the Finance and Administration Cabinet also continues to include in its plan a major office facility for state government. Secretary McCarty has commissioned a study to look at two 40-acre pieces of property owned by the state to determine the most

advantageous location for a new building. Secretary McCarty said it is important to move quickly on the Transportation Building to begin the process that will reduce the amount of leased square footage in Franklin County and consolidate agencies in a planned manner over a period of time.

Chairman Nesler asked whether Transportation's need for a new building or NREPC's need to consolidate and get out of the flood plain is more critical. Secretary McCarty said both are important and after the land planner finishes that study, the Cabinet would be back before the Board with an amendment to its plan which will probably reduce the size of the proposed new state office building and hopefully address needs of the NREPC. The Cabinet hopes to solve problems of both the Transportation Cabinet and NREPC in the next two biennia. Ms. Howell said the proposed new state office building is currently priority 42, but will probably be moved to a higher priority in the amendment.

In response to questions from Representative Brandstetter, Mr. Wegfahrt said he did not know how many of the states Fantus reviewed had a building authority that acts as a landlord; it is usually an in-house department that sets and oversees standards. Representative Brandstetter said the percentage of leased space has gone up in the state, from the low 20's to about 27%. He said the state might be getting out of the normal range of what has historically been state-owned versus leased and must keep these things within some semblance of reason. Secretary McCarty said he found it interesting that the average amount of leased space reported by the states in the Fantus review was 30%. The newspapers report that the state continues to lease from private developers at an unusually high rate, but actually Kentucky is below the average in this regard. He added this does not necessarily mean leasing makes good business sense and the state should own the buildings in which its core operations are located.

Representative Brandstetter said if the Capital was located in a large market with more office space available, the state would have greater flexibility. He said it is fine to look at other states and say Kentucky might be below the national average, but the state still needs to maintain an acceptable range. He supports the idea of building new facilities in a campus-like environment rather than building one massive building.

Representative Brandstetter noted the attendance of the Chairman of the House Appropriations and Revenue Committee, the Capital Projects and Bond Oversight Committee, and the Personal Services Contract Committee, as well as numerous other representatives and senators at this meeting - which, he said, had not occurred previously. Representative Brandstetter said the July 18, 1997 Lexington Herald-Leader reported that the General Assembly has ignored this Board's recommendations over the years. He hoped if the media was present they would note that in the 1996 session of the General Assembly, the

Governor's recommendations closely followed the Board's recommendations. Also, with the constitutional change to the opportunity for a two term governor, there is a much better chance of what is planned being implemented.

In response to a question from Ms. Thompson, Secretary McCarty said efforts will be made to ensure that any new building is constructed in an efficient manner and takes into account the needs of its occupants.

In response to questions from Judge White, Secretary McCarty said there are just a few state office buildings located outside Frankfort, for example, the Lottery Corporation Headquarters. Each agency must decide where they can best serve the citizens of the state; the Finance and Administration Cabinet then tries to find the most efficient and cost-effective building available based on the agency's specifications. Mr. Hintze noted that the most recent major building project, the Centralized Laboratory was open to being sited other than in Frankfort.

In response to a question from Mr. True, Mr. Wegfahrt said Kentucky's space utilization standards compare very favorably to those of other states. Mr. Russ said any new space or renovated space must adhere to these standards.

Mr. Wegfahrt also said that although Fantus did tour the Libraries and Archives facility, they did not examine the adequacy of the archives storage space. Mr. Hintze said if the Board's effectiveness was determined by its ability to get a new state office building constructed, then it has not done well. He said this is the most difficult issue that the Board has confronted and the Board has recommended this project from its inception. However, the Board has never made a recommendation that was founded on such an extensive study. Mr. Hintze also noted that the state has made some dramatic progress in agency consolidation, particularly in the case of the Revenue Cabinet.

In response to a question from Senator Nunnelley, Secretary McCarty said the Commonwealth makes a payment in lieu of taxes to Franklin County and the City of Frankfort to address the revenue lost from state owned buildings. This is not based on a particular formula and is an issue the state must be sensitive to in the future.

Chairman Nesler next introduced Representative Marshall Long, former Chairman of the Board, to make a few comments. Representative Long said he heartedly endorsed the efforts of Secretary McCarty and the Finance and Administration Cabinet's plan. He said when the Board was formed several years ago, the General Assembly was not responsive to the Board's recommendations, but now it is very interested in the Board's activities. He said state government needs to address the housing of state employees in Frankfort and he hopes the Board will follow the recommendations proposed by Secretary

McCarty. In reference to Senator Nunnelley's earlier question concerning state payments to local government, Representative Long said state employees pay a payroll tax and most communities are much more dependent on payroll tax than property tax.

Chairman Nesler asked Ms. Ingram to review the "Staff Analysis and Comments" for the remainder of the Finance and Administration Cabinet, which she did.

Secretary McCarty said the Cabinet's approach in determining the amounts proposed for maintenance is based on its commitment to a safe and quality work environment for state employees and the fact that the state's infrastructure is getting older. He reviewed proposed renovations of the Health Services Building and the Capitol.

Mr. True noted that, in the past, the Board had spent a lot of time on energy conservation issues and asked the status of implementing energy conservation legislation that had been passed by the General Assembly. Secretary McCarty said no funding was provided, so while the Cabinet has done some preliminary work, additional funds are needed and proposed.

In response to an additional question from Mr. True, Secretary McCarty said there is no state policy regarding the use of automated telephone answering systems in state government.

Responding to a question from Mr. Hintze about amounts proposed for KIA Fund E, which had not been funded in recent years, Executive Director of OFMEA Don Mullis said Fund E, the Solid Waste Fund, is a joint program with NREPC and the amount in the Finance and Administration Cabinet's capital plan reflects NREPC's expectations for demand.

Mr. Hintze asked Secretary McCarty for his perspective on the 800 Mhz project. Secretary McCarty said the solution to the problem of quality sound communication systems from a life safety perspective is a high priority. The Cabinet is committed to ensuring communications from a life safety perspective, but it must be affordable. They are currently examining alternatives that may reduce the cost.

Secretary McCarty added that the Kentucky Higher Education Assistance Authority (KHEAA) is proposing a new facility to reduce leased space. It would probably be built from agency funds through a lease/purchase arrangement.

Chairman Nesler thanked Secretary McCarty and said other agencies affiliated with the Finance and Administration Cabinet will make their presentations. He asked Ms. Ingram to review the "Staff Analysis and

Comments" for the School Facilities Construction Commission (SFCC), which she did.

Dr. Robert Tarvin, Director of the SFCC, said SFCC's proposal for reauthorization of funds is important because when schools receive an offer for assistance, they have four years in which to use it. Dr. Tarvin said the agency's funding proposals are based on unmet needs and the Department of Education - which identifies the amount - has worked hard to refine its figures in recent years. He then reviewed information presented to the Board in a handout based on a recent study by the Department of Education, which reviewed the condition of all 1,234 buildings that are occupied by the state's schools. Dr. Tarvin said there are 121 facilities in poor condition which need immediate attention at a cost of approximately $600 million; SFCC's proposed funding is $100 million for 1998-2000.

In response to a question from Ms. Howell, Dr. Tarvin said SFCC should be able to benefit these 121 schools based on its funding formula. He added that the unmet need is expected to decrease for the first time due to the "growth tax" enacted in 1994.

Chairman Nesler thanked Dr. Tarvin and asked Ms. Ingram to review the "Staff Analysis and Comments" for the Kentucky Higher Education Student Loan Corporation (KHESLC) capital plan, which she did.

Roger Tharp, President and CEO of KHESLC, said his agency's only request was an upgrade to its automated call management system used to service its student loan portfolio; the current system is 5 years old and is no longer supported by the vendor. It has not yet been, but will be, submitted to KIRM for review.

Senator Nunnelley asked how much the student loan program falls short of meeting student demand each year. Mr. Tharp said the demand is being met through a combination of the money KHESLC provides and through private bank lending.

Chairman Nesler thanked Mr. Tharp and asked Ms. Ingram to review the "Staff Analysis and Comments" for the capital plan of the Kentucky Higher Education Assistance Authority (KHEAA). Ms. Ingram then introduced Londa Wolanin, CEO for KHEAA.

Ms. Wolanin said KHEAA is proposing a 75,000 square foot office building needed due to the growth of the agency. This would replace current leased space. Ms. Howell said the Finance and Administration Cabinet has encouraged KHEAA to submit this proposal, which will require no state general funds. Ms.

Howell said the building should be constructed because it involves only agency funds and replaces leased space.

In response to questions from members, Ms. Wolanin said the agency has been in its current location since 1981; it currently has 37,000 square feet of office space and 2,700 of storage space, with an estimated additional 17,000 square feet being needed in the near future.

Senator Nunnelley asked if it was justified to go from $400,000 in rent to a $10 million new building. Ms. Wolanin said these are restricted agency funds, and a portion are federally restricted funds which can be used for housing guaranteed student loan activities but not for making loans to students. She said students loans are made by private lenders, with KHEAA as a guarantor. These accounts are then reinsured through the federal government. Senator Nunnelley asked if the state would save money through the construction of this building. Ms. Wolanin said the state would be protecting some federal funds that otherwise may be lost.

Ms. Howell said KHEAA has oversized the proposed building to allow for expected future growth. Until the extra space is needed, it would be leased to other agencies, and this income would partially offset the debt service. She said the Finance and Administration Cabinet feels constructing this building would be more beneficial over time than continuing to lease space.

Chairman Nesler asked Ms. Ingram to review the "Staff Analysis and Comments" for the Kentucky Housing Corporation. Ms. Ingram reported that the Corporation's plan contained only a status report of its new building currently under construction; there were no representatives from this agency at the meeting. Chairman Nesler then asked for the overview of the capital plan for the Kentucky Lottery Corporation (KLC). Ms. Ingram reviewed the "Staff Analysis and Comments", then introduced Howard Kline, Senior Vice-President of Finance and Administration at the KLC.

Mr. Kline introduced Greg Shade, KLC's Director of Software Development, then said renovation of KLC's building in downtown Louisville is progressing and they expect to be occupying it in mid-September or early October. Currently the lottery spends about $60,000 a month on rent for three separate facilities, and this building will allow for the consolidation of those facilities and improve efficiency. He also noted that KLC is proposing authorization of $24 million to purchase, if necessary or desired by the KLC, its on-line gaming system. That is an option that exists within the current contract with the G-Tech Corporation.

Ms. Ingram said two years ago there was some confusion as to whether KLC was required to submit an information resources plan, and said the Chairman may wish to ask Doug Robinson to comment on the current situation.

Mr. Robinson said the KLC has submitted their second biennial information resources plan to KIRM, which approved all their capital items. KLC is doing a number of innovative things in which KIRM is interested in watching, including having developed the only data warehousing project operating in state government. Mr. Robinson commended KLC on its good working relationship with KIRM.

Chairman Nesler said the next item on the agenda was the Workforce Development Cabinet. He asked Ms. Ingram to review the "Staff Analysis and Comments" for the Cabinet's capital plan, which she did.

Ms. Sandy Gubser, Executive Director of the Cabinet's Office for Policy and Budget and Mr. Gary Cloyd, Assistant Director for Facilities were present to represent the Cabinet. Ms. Gubser said she wished to emphasize that the Workforce Development Cabinet considers the plan preliminary in light of the postsecondary education reforms. She said the Cabinet places maintenance of the vocational/technical schools as a very high priority. It also places an emphasis on the equipment needed to keep up with changing technology. The special session authorized $3 million to be used for equipment for the vo-tech schools. However, the Cabinet has identified $15 million of equipment needs so further appropriations are needed.

In response to a question from Mr. True, Ms. Gubser said the Simplified Access Intake and Assessment System, which is an EMPOWER Kentucky initiative, is conceptualized and in its preliminary stages; $500,000 has been funded to date. The Cabinet has received federal grants in recent years to install "one-stop" locations for services, which overlaps into the simplified system. In response to a further question from Mr. True as to whether the technology centers could become "one-stop" locations for their regions, Ms. Gubser said it is possible. The top priority is how best to serve clients, followed by cost effectiveness for the state. Issues involved include the acquisition of technology and relocating/realigning facilities and staff.

Chairman Nesler thanked Ms. Gubser and Mr. Cloyd and asked Ms. Ingram to review the "Staff Analysis and Comments" for the Economic Development Cabinet, which she did.

Jerry Frantz, Commissioner of Administration and Support for the Cabinet, was accompanied by Lori Flannery, Commissioner of Financial Incentives, and David Bratcher, Director of Grants Programs. Mr. Frantz said the Cabinet's proposal for $20 million of bonding authority each biennium is consistent with past plans. Representative Brandstetter asked if the Cabinet rented or owned the building where they are located. Mr. Frantz said the state owns it. Mr. Bratcher said the Cabinet's Offices are in the Capital Plaza Tower, two branch locations and a few regional offices.

Chairman Nesler asked Ms. Collins to review the "Staff Analysis and Comments" for the agencies of the Public Protection and Regulation Cabinet. Ms. Collins addressed the Department of Insurance, the Department of Alcoholic Beverage Control, the Department of Financial Institutions, the Department of Mines and Minerals, and the Department of Public Advocacy (DPA), all of whom were reporting only new or expanded leases.

Regarding the DPA's proposal for space to house additional full-time public defenders, Judge White said he is adamantly opposed to a statewide public defender system because it is not in the best interest of the clients they serve or the taxpayers of the Commonwealth. He said a very detailed study needs to be made before a statewide public defender system is instituted. Judge Wilhoit said he is also opposed to it. Ms. Clary said DPA has decided to stop using private attorneys and use in-house staff only to do appellate work, which will cause great delays in the Supreme Court and Court of Appeals.

Ms. Collins then reviewed the "Staff Analysis and Comments" for the capital plan of the Public Service Commission.

Mr. Hintze said the building being constructed for the PSC will have a cost overrun, although the amount has not been determined. He said there will be some essential infrastructure needed at the site which has been selected near the Central Laboratory, not only for that building, but for any future developments at that site.

Chairman Nesler said the Board could now review some agencies in the Government Operations section of the notebooks. Ms. Collins reviewed the "Staff Analysis and Comments" for the Auditor of Public Accounts, the Board of Hairdressers and Cosmetologists, the Board of Medical Licensure, the Board of Optometric Examiners, and the Kentucky Retirement System. All reported only new or expanded leases or the status of projects with authorization in the 1996-98 biennium.

Chairman Nesler said the Board would break for lunch until 12:30.

At Chairman Nesler's request, Vice-Chairman Hintze called the meeting back to order at 12:30 and asked Paul Isaacs, Director of the Administrative Office of the Courts (AOC), to proceed with the Judiciary Branch presentation.

Mr. Isaacs said in the last session, the General Assembly authorized $193 million in new court projects. As a part of that appropriation, the General Assembly required that the projects meet the standards established by the National Center for State Courts, particularly in terms of planning for future needs. He said this has been a great help but has also created some problems

because it is a new procedure. One thing that has become apparent is the lack of flexibility under the current system for addressing cost overruns. This is the reason for Judicial's first priority, a contingency fund to provide for cost overruns of up to 15%. Mr. Isaacs said the Judicial Branch would suggest language in the Appropriations Act to require that the cost overrun be approved by the Court Facilities Standards Committee and be reviewed by the Capital Projects and Bond Oversight Committee.

Other high priorities in the Judicial Branch plan include a Jefferson County Court Technology Improvement project, which would be funded from a new court technology fee and an automated statewide database for the Court Designated Worker program, which is a part of implementing juvenile justice reforms (House Bill 117) from the 1996 Session.

Mr. Isaacs noted that there are several major construction and renovation projects proposed in Bell, Christian, Boone, Henderson, Marshall, Lyon, and McCreary Counties. Multiple projects pools - which involve projects where the use allowance payment is under $200,000 annually - would address needs in Allen, Bourbon, Casey, Elliott, Hickman, Menifee, and Webster counties. Mr. Isaacs also discussed the Kenton County project, which was funded in the 1996-98 budget for $26.4 million; the Judicial Branch is asking for an additional $4.5 million for Phase II. This project was planned before National Center for State Courts (NCSC) involvement and was subsequently determined to be inadequate, based on NCSC review, as initially designed. After NCSC reviewed the project, the size increased from 58,000 square feet to 75,000 square feet.

Representative Brandstetter asked why there is a need for a 15% contingency fund. Mr. Isaacs said on some of the existing projects the designs had to be altered after NCSC review, which increased project scopes. Also, due to the extended time period between planning and construction on these court projects, inflation can affect the cost. In response to a further question from Representative Brandstetter, Mr. Isaacs said prevailing wage may have increased costs in some areas, although it is difficult to determine to what extent.

Mr. True asked how Mr. Isaacs would judge the condition of court facilities statewide. Mr. Isaacs said after the current projects are completed, around the year 2002, most major population areas will have new, modern court facilities. He said there will still be some major needs throughout the state, and some of these problems exist in areas where there is an insufficient tax base for local officials to do preplanning and hire architects to develop renovation programs. He said the next budget cycle would probably include a funding mechanism to assist these local governments.

In response to further questions from Mr. True, Mr. Isaacs said there is no authorization to advance money to local governments who do not have the necessary funds to initiate a court project. Nick Schwendeman, General Manager of the Facilities Unit of AOC, said, including NCSC involvement, $10,000-$20,000 per project would be required.

Mr. True asked if the General Assembly could develop some sort of funding mechanism for this purpose. Mr. Hintze said this could be done. It has never been proposed because these court facility needs have been addressed in a limited fashion in the past. However, he noted that, with increased attention to court projects, they are beginning to have problems similar to what happens with Executive Branch projects. Mr. Hintze said the General Assembly could enact some form of contingency account similar to that used by the Executive Branch.

Mr. True said the Board should make a formal recommendation that a planning fund for the Judicial Branch be established. Representative Brandstetter said a 50/50 match requirement would make local governments less likely to use this fund frivolously. Mr. Isaacs agreed that it would not require a large amount of money, but issues concerning administration, etc., need to be addressed.

Senator Nunnelley said he was concerned that providing planning money in this manner for the Judicial Branch would lead to calls for the same type of arrangement for other state grants. He said in the past, architectural firms fronted many of the expenses to develop a package to apply for the projects, not knowing if these projects would be funded. Senator Nunnelley said a pool might create abuse and many more projects than are needed might be submitted. Mr. Isaacs agreed with this concern, and said that is one reason the proposal should be examined closely.

Representative Brandstetter said the problems surfacing with some of the current projects in terms of cost overruns can be attributed to poor planning. The reasoning behind his suggestion that this fund be on a matching basis is so county judges are not persuaded to spend the money on a frivolous project.

Mr. Hintze said in the past, unlike the Executive Branch requests, there was not a clear understanding of the assumptions that undergirded the project costs for Judicial Branch requests. He said he hopes that for the next biennium, budget instructions will require all requests to start with a common set of assumptions so that, if necessary, it will be easier to deal with adjustments in the interim.

Senator Nunnelley said he would rather see the state appropriate $200,000-$300,000 to AOC and have them add qualified people to their staff to

work with the local governments in determining the feasibility of proposed projects, and then determine if a pool of funds for planning purposes is really needed. Mr. True said it was his understanding that AOC could initiate the process by determining which counties need improvements in their court facilities; then funds would be allocated from the planning pool. Mr. Isaacs said this should be a cooperative effort and that AOC does need more assistance.

Mr. Hintze then asked Mr. Isaacs to discuss the Jefferson County Technology Improvement project, particularly the source of funds. Mr. Isaacs said the source of funding for this project is a technology fee adopted by the Supreme Court pursuant to its statutory authority to set filing fees. The increase in filing fees is estimated to produce $1.4 million, which was designated by the Court to be used for technology needs. A study by the Jefferson County Court System determined that their technology should be enhanced to provide some case management ability. By using this technology in the state's highest volume court, AOC will be able to determine if this technology will be useful throughout the state.

Chairman Nesler thanked Mr. Isaacs and Mr. Schwendeman and said the next presentation would be made by the Justice Cabinet. He asked Ms. Ingram to review the "Staff Analysis and Comments" for the Cabinet's capital plan, which she did. Ms. Ingram then introduced Daniel Cherry, Secretary of the Justice Cabinet.

Secretary Cherry introduced Commissioner Doug Sapp with the Department of Corrections, Commissioner Ralph Kelly of the Department of Juvenile Justice, Commissioner Gary Rose of the Kentucky State Police, and Commissioner John Bizzack from the Department of Criminal Justice Training.

Secretary Cherry said the Justice Cabinet takes its responsibility for the creation of a safe, secure environment for all citizens very seriously. He noted that yesterday Governor Patton created a Criminal Justice Response Team to examine the entire criminal justice system to make it more efficient and responsive. Secretary Cherry gave a brief overview of each of the Department's needs, then asked each Commissioner to review their top priorities.

Commissioner Sapp of the Department of Corrections said the top priority for his Department is miscellaneous maintenance. The average age of the 12 existing penal institutions is 48 years, Eddyville is the oldest at 113 years old and Green River is the newest at three years old. The Miscellaneous Maintenance Account addresses all areas at those facilities including internal roads and infrastructure needs, with much of the work performed by inmates with in-house supervision. This has been very successful, both in quality of

work and monetary efficiency. The Department has identified $5.5 million in needs for the 12 facilities, plus added funds for unforeseen emergencies.

Commissioner Sapp said the Department's other concern lies in the area of inmate population. Projections show the inmate prison population, over the next six years, will increase by over 1,000 each year, creating the need for 6,500 additional beds. This need is reflected in the request for a new 1,790-bed medium security facility, a 200-bed dorm addition at Blackburn, and Phase I of a 3-phase project at the KCIW, which will address the growing female inmate population and allow the segregation of different custody levels. These projects represent less than 50% of the expected population growth. A portion of the remainder will be addressed through the increased use of local prisons to house Class D felons. Approximately 1,900 Class D felons are currently housed in local jails. Commissioner Sapp said over 20% of the projected growth will be handled through alternative sentencing and "enhanced supervision" outside the state prisons. This will involve low-risk offenders who would be addressed through increased supervision by additional staff and electronic monitoring, as well as treatment for substance abuse.

Commissioner Rose of the Kentucky State Police discussed his Department's Facility Security Redesign project. This concept began as an EMPOWER Kentucky initiative in July 1996. The Facilities Security Section of the Kentucky State Police provides security at 40 separate sites located within the Frankfort area, with an authorized staff of 77 employees. The primary objective of Facilities Security is to provide security for state employees, citizens visiting and conducting business within state-owned and/or leased buildings, and the protection of the property itself. In order to ensure that all facilities receive adequate protection, three levels of security are proposed: patrol service only, on-site security during business hours, and full-time security. It is projected that 20 positions will be eliminated through attrition when this project is implemented; there are currently 15 vacant positions. The security system will cost $441,923; with savings of $211,767 being realized the first year after implementation. The savings will increase to $711,928 in the fifth year, with total savings over a 5-year period of $2,527,485.

The Department's second priority is the replacement of its radio system. The current system was installed in 1978; parts and support are no longer available and the system is obsolete. Commissioner Rose said the most critical problem with the existing system is the lack of radio coverage. There are currently "dead-spots" affecting areas served by 5 Posts, and 11 new tower sites are needed reduce or eliminate these problem areas. The approximate cost to renovate the current radio system is $20,082,000.

Commissioner Rose also discussed the Kentucky Integrated Criminal Apprehension Program (ICAP), and the replacement of the Kentucky State

Police Post at LaGrange, which is the Department's oldest and smallest post. The ICAP System is a network designed to collect, sort, and store criminal offense and arrest information. A storm in March 1997 caused the system to crash resulting in irreparable damage.

Secretary Cherry said he realizes the Board is very interested in the idea of shared equipment at the Central Lab but, from KSP's perspective, this idea is not feasible due to security issues.

Commissioner Kelly said the primary focus of the Department for Juvenile Justice is the maintenance of existing facilities. An increase in the maintenance fund is needed to maintain 19 different programs, some of which are in multiple buildings. The Department is also proposing the expansion of 8 juvenile centers, which will provide 125 additional beds over the next 3-4 years for juveniles committed to the Department. This is a more cost-effective approach than constructing new facilities. Commissioner Kelly said the Department will also place an emphasis on preventive service programs to decrease the number of juvenile offenders who need placement in treatment centers.

Commissioner Kelly also discussed several additional projects, including the construction of six 48-bed juvenile detention centers, replacement of two aging treatment facilities in Jefferson County (Cardinal and Johnson-Breckinridge), and the construction of an 80-bed boot camp facility.

Commissioner John Bizzack of the Department for Criminal Justice Training said the Department trains over 9,000 criminal justice officials each year. By the end of 1998, an additional 1,500-1,800 officials per year will be trained. When this increase occurs, the training program will expand from a 10-week, 400 hour basic-training program to a 14-week, 560 hour or possibly a 16-week program. This will extend housing requirements by several weeks. There is also an extensive criminal justice executive development course being developed. The Department is working with EKU on a grant that will make Kentucky one of 30 regional, community-oriented policing institutes in the nation. These programs will add to the need for expanded housing.

In response to questions from Board members, Commissioner Sapp said the current prison population is approximately 13,500, which does not include the Class D felons currently housed in county jails. He said the expected increase of 1,000 inmates per year is attributable to several factors: more admissions than releases, fewer prisoners receiving parole, and a longer average length of stay. He said the Criminal Justice Response Team recently established by Governor Patton will look at these issues. Commissioner Sapp said, of the approximately 1,000 additional prisoners per year, 40% will be minimum security and 60% medium security and above. The Department is proposing a lease-purchase arrangement for a 1,790-bed medium security

prison, which would spread the cost over a number of years. The Department of Corrections would operate the facility. Commissioner Sapp said his Department is fairly satisfied with privatization of the minimum security institutions, although it requires a great deal of supervision and frequent communication with vendors. The Department will continue to employ privatization as one of its overall strategies, but will probably not expand this program due to the success in housing Class D felons in local jails. This approach provides revenue for the counties in two ways: the per diem payments and community service performed by the inmates which helps with the operation of local government. Over the next six years, the Department hopes to increase the numbers of prisoners housed in county jails by 1,550.

Mr. True asked if these prisoners were provided with rehabilitative services while in the county jails. Commissioner Sapp said the counties have been able to obtain adult education and treatment programs through local sources or field treatment staff.

In response to additional questions from Mr. True, Commissioner Kelly said the Department for Juvenile Justice plans to have a privately-operated secure facility constructed to replace the Central Kentucky Treatment Center. The Department would like to do this as a lease-purchase arrangement, with the state having the option to allow the vendor to continue to operate the facility or have the state take over operations. Commissioner Kelly said the proposal in EKU's plan for a $9.6 million Juvenile Justice training academy would address needs for staff training that were cited in the Consent Decree. It could also be utilized for others in the state that are involved in Juvenile Justice. The Department has already instituted a pre-service training academy for line staff.

Mr. Roberts asked the reasoning behind reducing security at state buildings. Commissioner Rose said an in-depth study has been performed, and it has been determined that technology can replace some on-site officers. Mr. Roberts said he is concerned that reduced security may lead to a citizen or employee being injured. Secretary Cherry said the current system focuses on protecting things rather than people. The new proposal will be a combination of electronic measures and on-site patrols, which will upgrade security.

Senator Nunnelley asked Commissioner Rose if the "dead spots" experienced by KSP's current radio system have been a problem since it was installed in 1978. Commissioner Rose said they have and that the current system has never worked as effectively as it should have. Some officers have been given pagers so they can be contacted while out of radio range. Secretary Cherry said the most recent development that makes this project more urgent is the inability to obtain parts and service to keep the current system functional. Senator Nunnelley said the problem is not the power of the radio system in

these dead spots but rather the location of towers and asked how implementing the 800 Mhz system would alleviate this problem. Commissioner Rose said the 800 Mhz system would include new towers.

In response to a question from Mr. Karibo, Commissioner Rose said the proposed system would renovate and enhance the current system and will replace radio consoles, mobile radios, base stations, test equipment, and include new tower sites. Mr. Isaacs said this system has been a problem for some time. Such equipment generally is expected to last 8 years and this system is 20 years old. Mr. Isaacs said this type of proposal has not been presented in the last two biennial budget requests because it was assumed the KSP's problems would be addressed with the 800 Mhz system.

Judge White said he appreciates the job Secretary Cherry and Commissioner Sapp do in maintaining the prison system. According to current projections, in 12 years the state will need 25,000 beds to handle the expanding prison population. He said the Class D program has been very successful. However, local jails are going to have to start turning away Class D prisoners to house local prisoners. In his opinion, the General Assembly will need to debate the drug issue and look at all options available to the state in that area. Judge White said the percentage of the growth in prison population related to crack cocaine is enormous, and the state is doing nothing about the problem due to monetary constraints. Judge White said the state cannot treat and cure all prisoners, but must treat and cure some to keep them from repeatedly returning to prison. He said the number of juvenile detainees will quadruple, and they must also be housed.

In response to questions from Representative Brandstetter, Commissioner Sapp said the county jails are full. The state pays $25 for each adult prisoner housed in a county facility. Commissioner Kelly said the state must pay whatever county jailers demand for the housing of juveniles. Commissioner Sapp said housing adult prisoners in county jails is a cost-effective approach.

Mr. Hintze said the Department of Corrections has five facilities at least 50 years old and 2 that are 100 or more years old and they need large amounts of maintenance. He also said the Departments of Corrections and Juvenile Justice have proposals for using privatization to acquire new facilities. These proposals are not reflected here but if funded completely by the state, they would add over $100 million dollars to the Cabinet's capital plan.

In response to questions from Chairman Nesler, Commissioner Rose said KSP is authorized to have 1,000 troopers and it currently has 937 sworn officers. KSP is planning to have a school this fall to train 60 new officers at a cost of $1 million for the 22 week session. The entry level pay for a new trooper is $24,600. Chairman Nesler said it is a disgrace to spend this much money to

train new troopers, start them out at a low salary, and have them go to another police department and make much more money.

Secretary Cherry said he appreciated Chairman Nesler's comments and added that this is also a problem in Corrections and Juvenile Justice. The entry level pay for a Corrections Officer is approximately $16,000 per year. Secretary Cherry said the low starting salary has contributed to the staffing problems of these Departments, particularly Juvenile Justice. Such shortages limit the number of beds that can be utilized and make the working environment more dangerous. Commissioners Kelly and Sapp have agreed to jointly fund a recruiting effort to enhance public awareness of employment opportunities within their Departments.

Commissioner Rose said he appreciated the efforts of Governor Patton and the Legislature, who approved a $3,000 across-the-board pay raise for state troopers in the last session. He said the Jefferson County Police Department starts it officers at $30,000 per year, and he feels the state should be able to do this as well.

In response to a question from Ms. Clary, Commissioner Kelly said the decision to use an RFP to acquire a replacement maximum security juvenile facility is to avoid the long time it takes to construct a new facility through the state process. Commissioner Kelly said privatization is a much quicker approach and he hopes to have a facility in operation in one year. Ms. Clary said she had not been aware that private companies were operating maximum security juvenile facilities and that this is a dramatic change in philosophy. Commissioner Kelly said normally the state tries to care for the juvenile population itself, but this would mean waiting for up to four years for a new facility to open. He said Maryland has turned to privatization, with good results.

Mr. Isaacs said he is very concerned about the legality of a private company operating a maximum security facility, because in Kentucky no arrest powers or law enforcement authority is given to a private company. He is concerned that a private company could not legally keep a juvenile from leaving. Commissioner Kelly said his staff does not have peace officer status either. Mr. Isaacs said Correctional Officers do have this status, and he is concerned about turning these types of juveniles over to a private company. He said it may be appropriate to allow a private company to build the facility, but the state should operate it. Mr. Isaacs said the public may have concerns about the most serious juvenile offenders being in a facility with people who have no authority to stop them and that this is a serious issue which needs to be carefully considered. Commissioner Kelly said he has been advised by legal staff that this is not an issue. Secretary Cherry said they will examine the matter further.

Chairman Nesler asked Commissioner Kelly if he was concerned that by the time the juvenile facilities are built, they will be deemed unsuitable due to some legal issue. Commissioner Kelly said he thinks they will still be suitable, but the process is very lengthy, as in the instance of the Breathitt County detention facility.

Mr. Hintze said the facility was approved in 1990 for $1 million to be located in Rowan County. The community did not want the facility, and it was also underfunded. In 1994, it was relocated to Breathitt County and the scope increased to address site problems. Two facilities were authorized by the 1996 General Assembly to be located in northern and western Kentucky, but were not funded until contingent funds became available July 1, 1996. There was then a process of determining which community and which specific site in each area would be selected. Mr. Hintze said it then takes six months, by law, to select the architect to begin work on the design. By the time a site was selected and a design team put in place, a year had already passed. Mr. Hintze noted that statutory changes made to safeguard certain aspects of the process have had the effect of elongating it, and this is frustrating to individuals who work to get projects authorized. He said this is something that may need to be examined.

Chairman Nesler thanked Secretary Cherry and the Commissioners. He said the plan for the Cabinet for Families and Children would be reviewed next. He asked Ms. Ingram to review the "Staff Analysis and Comments" for the Cabinet's plan. Ms. Ingram noted that the Worker's Information System (TWIST), previously authorized for the Cabinet, is being used in all child welfare cases and new referrals. but the Cabinet is proposing additional funding to lower the worker:PC ratio. Ms. Ingram also noted the Cabinet's proposals related to the EMPOWER KENTUCKY Simplified Access project. Representatives of the Cabinet were present to respond to members' questions, but there were none.

Chairman Nesler asked Ms. Ingram to review the "Staff Analysis and Comments" for the Cabinet for Health Services. Ms. Ingram said the Cabinet's plan includes the psychiatric hospitals as well as various facilities for the mentally retarded. Ms. Ingram said the largest project in the Cabinet's plan is construction of a new Western State Hospital, which the Board has recommended in the past. Representatives of the Cabinet were present to respond to members' questions, but there were none.

Chairman Nesler next asked Ms. Ingram to review the "Staff Analysis and Comments" for the Revenue Cabinet's capital plan, which she did. In response to a request from Representative Brandstetter, Revenue Cabinet Secretary Margaret Handmaker explained the need for the Mail Sorter/Slicer equipment item to assist with the Cabinet's processing of checks.

Chairman Nesler then asked Ms. Collins to review the "Staff Analysis and Comments" for the Personnel Cabinet's capital plan. She noted that the plan reported only the status of EMPOWER Kentucky funding allocated this biennium, and proposed no new projects.

Chairman Nesler next called on Jim Devers, Director of Administration for the Treasurer's Office, for comments about that agency's capital plan.

Mr. Devers gave a brief outline of the duties and responsibilities of the Treasurer's Office and said the Treasury is proposing to purchase and install a new computer system to replace the system purchased in 1990. The new system is necessary to better communicate electronically with the rest of state government and to improve efficiency within the Treasurer's Office.

Chairman Nesler thanked Mr. Devers and asked Ms. Collins for an overview of the Department of Agriculture capital plan. She noted that the only proposed project related to the EMPOWER Kentucky Simplified Regulatory Services initiative. There being no questions, Chairman Nesler asked for an overview of the Department of Local Government's capital plan, which Ms. Collins provided.

Tom Graham, Deputy Commissioner of the Department of Local Government (DLG), introduced Jim Reynolds, Budget Director, and Mike Hale, the Flood Control Fund Manager. Mr. Graham said the Flood Control Matching Fund is a program designed to assist local governments by providing funds to reduce damage from flooding. He gave an overview of the program, including how projects are selected, reviewed, and funded. He noted that local communities often do not have funds to provide the required match so DLG tries to help through this program.

In response to questions from Mr. True, Mr. Hale said there is not a definitive amount of funding needed statewide. He said most projects will fall into a 95-5 federal/non-federal match category, although some projects are a 65-35 match. The federal money is dependent on the efforts of Kentucky's Congressional Delegation to obtain funding and the DLG tries to match it.

Mr. Hintze said DLG has been able to complete a number of projects with the 95-5 match, all in Eastern Kentucky. However, the state does not have a program to assist communities with flood damage relief as was needed after the March floods. He said this is the first presentation of such a proposal from DLG, and it would be a significant policy change requiring General Assembly support and the major funding increase which is proposed here. The flood mitigation programs work on a 75% federal - 12% state - 13% local ratio, and

many communities are unable to fund their share. At this time, the state is trying to obtain additional federal money to use as the local match.

Chairman Nesler said the next item on the agenda was the Labor Cabinet, represented by Deputy Secretary Mike Sparrow. He asked Ms. Collins to review the "Staff Analysis and Comments.".

In response to a question from Senator Nunnelley, Mr. Sparrow said the Labor Cabinet has a large number of Workers' Compensation files. To better manage this filing system, the Cabinet sought and received funding to begin an electronic imaging project. Three phases of the project have been completed at a cost of approximately $2 million. The system is currently used in the Department of Workers' Claims to manage their entire filing system. The Cabinet now wishes to expand it into six other programs within the Cabinet. This will enable another 100,000 files to be absorbed into the electronic imaging system. The Cabinet also has a need to make these files available electronically to its seven regional offices.

Chairman Nesler thanked Mr. Sparrow and introduced Don Mills, Director of the Public Service Commission (PSC).

Mr. Mills said the 1996 General Assembly authorized the construction of a $5.4 million, 50,000 square foot building to house the PSC. It appears that there will be a significant cost overrun on the project. The site has been selected and an architect is designing the building. PSC hopes to sell the bonds and accept bids in six months, with construction beginning next spring. The final decision on how to address the overrun will be made when the amount has been determined. Mr. Hintze said GOPM is working with the PSC and the Finance and Administration Cabinet to determine the amount of the cost overrun and the proper course of action.

Mr. Roberts asked how much property the state owns near the Central Laboratory. Mr. Hintze said at that location, the state owns at least 25 acres and probably much closer to 40 acres. The acreage adjacent to the Libraries and Archives Building is the state's other large tract of developable property. Ms. Howell said they are considering the Libraries and Archives site for the proposed Transportation Building.

In response to a question from Mr. Karibo, Mr. Hintze said there are some projects that are completed under the authorized scope, but there is no requirement that these be reported. For example, the Central Laboratory was authorized for $43.5 million and was completed for about $3 million less. Mr. Isaacs said the use allowance for the Jefferson County Courthouse will also be less than the authorized amount.

Chairman Nesler thanked Mr. Mills.

Chairman Nesler said the Board filed an amended administrative regulation with the LRC Administrative Regulations Subcommittee a few months ago, and asked Ms. Ingram to review the status of that regulation.

Ms. Ingram said in its last capital plan, the Board recommended some statutory changes related to its operation. This legislation did not pass and the Board acted soon after the session to update its administrative regulations. Since that time, CPAB staff has been contacted by the staff of the Administrative Regulations Review Subcommittee. There is some question about whether, as a Board of the General Assembly, CPAB needs to have administrative regulations. Also, the amended regulation, as currently proposed, would still be out-dated due to references to the Council on Higher Education and some changes that may take place with KIRM. Ms. Ingram recommended that the Board take action to withdraw the administrative regulation for the time being. The motion made by Senator Nunnelley to withdraw the regulation was seconded by Mr. Hintze. There were no objections.

Mr Walker said CHE (now CPE) thought this was very good legislation, and he urged the Board to propose the legislation in the 1998 session of the General Assembly. Chairman Nesler said the Board could discuss this at its next meeting.

Chairman Nesler said he would like the Board to discuss how it wishes to proceed now that they have heard from all of the agencies and universities. Mr. Walker said Simplified Access was discussed in presentations from the Workforce Development Cabinet, the Cabinet for Families and Children, and the Cabinet for Health Services, but there was no mention of coordination between the three Cabinets. He said if the Board approved the Simplified Access project, he would also like to see a statement of encouragement that these Cabinet's work together in this area. Ms. Ingram said, in relation to EMPOWER Kentucky projects involving multiple cabinets, KIRM reviewed and recommended them to the Board as single projects.

Mr. Hintze and Chairman Nesler thanked staff for their efforts in preparing the meeting materials. Ms. Ingram said Kim Burch and Joe Pinczewski-Lee, who are Committee Staff Associates with LRC, also assisted in preparing for the meeting over the past few months.

Chairman Nesler asked Ms. Ingram to review the timeframe under which the Board is operating. Ms. Ingram said the report is due November 1, so to allow for production time, the majority of the Board's work should be completed by mid-October.

Judge White said in past reports, the Board has prioritized projects in two different ways, by groups and by a numbered list. He said the Board should try to meet the needs of the General Assembly in preparing its report.

Chairman Nesler said he was a bit uncomfortable in the last planning process with trying to rank priorities by number because it is very difficult to determine which should be priority number one, number two, etc. He said the Board may wish to choose the top 10 or 20 projects and present them as a group.

Mr. Karibo asked how many of the projects the Board recommended in the last process were funded. Mr. Hintze said a high percentage were funded. He said some notable, high-cost projects were not funded, but the Board had a very high success rate in terms of identifying priorities and then getting action on them in both the Executive Budget and in the appropriations bill enacted by the General Assembly.

Mr. True asked if Ms. Ingram could send members a form requesting a top 20 list of projects from each. He said this would give the Board a starting point when it meets in August.

Relative to new office buildings, Chairman Nesler said he is concerned the Transportation Cabinet is located in a building that, although it has some problems, is structurally sound, while NREPC is widely scattered and in flood-prone buildings. Chairman Nesler said he would have difficulty choosing between the two for construction of a new facility.

Mr. Karibo said each member will have favorites and biases but the only way the state is going to be able to begin the process of renovating Frankfort's major office buildings, is to first get the employees out of the New State Office Building. He said his top selection would be to get the Transportation Building constructed as soon as possible, then start renovating other buildings and consolidating agencies.

Ms. Howell asked if equipment items were included in the Board's rankings in the past. Ms. Ingram said they were and these items were usually information technology systems. She said the Board has generally only dealt with projects proposed for funding from state bond funds or general funds.

Chairman Nesler said he is concerned about state employees and the environment in which they work, but he is also concerned about spending $30-$40 million on a building when it may be better to spend those funds to benefit more Kentuckians. He suggested possibly selecting a few priorities and pooling others, but said it is the Board's decision as to how to proceed.

Mr. True said he saw no problem with having 10 or 15 projects in a high priority group. He said it was important to send some sort of listing back to Ms. Ingram for her to compile before the next meeting. Chairman Nesler asked if Mr. True meant that members should simply write down a personal top 20 list. Mr. True said this was correct; he felt it would help provide a starting point for Board members at the next meeting.

Judge White said there is a more varied mix of project types and funding sources than the Board has seen in previous plans and that projects like the KHEAA building and the Transportation building should be high priorities because they involve no state funds. He said knowing the funding source when choosing priorities could make a difference in the Board's recommendations.

Mr. Hintze said the agencies are more interested in identifying needs than specifying fund sources. GOPM and the General Assembly will be more concerned with fund sources. Mr. Hintze said miscellaneous maintenance pools tend to be financed from the general fund, while major maintenance, renovations, and new construction tend to be funded from bond funds. Exclusive of road bonds, the state's use of bonds reached a high of $848 million in the 1990-92 budget and a low of $150 million in the 1996-98 budget. Realistically, the Board should look at a list totaling several hundred million dollars of legitimate projects, given the state's historic ability and willingness to pay. This Board needs to be looking at the identification of needs and priorities and not unduly limit itself to too small a set of projects or too small a dollar amount. The Board does not have to make the final list, that is the responsibility of the General Assembly.

In response to a question from Mr. True, Mr. Hintze said the Board should have some categories of projects that it sees as a higher priority. In the past, the Board has placed a high priority on maintenance. He said priorities are very important to the General Assembly and Governor, but it is very difficult to distinguish, for example, between number 19 and number 25. Judge White said former chairman Representative Mike Bowling favored a prioritized list, while Ms. Clary said other chairmen have favored a less specific approach. She said the Board should make its recommendations in the format the General Assembly and Governor find most useful.

Chairman Nesler said he wished to discuss maintenance on the universities. He said he spends a great deal of time around Murray State University and that the University does a poor job of maintaining its facilities. He said it may be more beneficial for these institutions to use their own funds for maintenance instead of depending on state funds. Chairman Nesler said it is wrong for institutions to allow their buildings to fall into such disrepair; there should be a better way to make agencies and universities care for their current

assets. In reference to the dormitories at Murray, he said it is ridiculous to have to demolish a 30-year-old building and start over.

Mr. True said he has witnessed the same problem in the Parks' system; that is, maintenance being deferred because a major renovation was anticipated. He said this is happening throughout state government.

Senator Nunnelley said the average rental cost for office space in Frankfort is $7.35 per square foot, while building the space costs approximately $10 per square foot. If the state leases property, it can make the owner maintain the facilities, while the state has a tendency to poorly maintain its own facilities. So leasing may be a better approach. In addition, as buildings age, roof, HVAC, boilers or chillers, and other major repairs or replacements must be made. The state pays the building off in 20-25 years, then may at the same time be forced to bond a renovation project to bring the facility back into good repair. Senator Nunnelley said this is happening with the Capital Plaza Tower.

Senator Nunnelley said there are several proposals and he senses the Board is interested in building new facilities. He said he would like to go slowly, perhaps build one and see how that works. If things go well, another could be built in a few years. He said the Transportation Building may not involve state funds, but the road funds proposed to fund it could be used to build roads and bridges. He said the state currently has a lower percentage of leased space than the average for other states as reported to the Board by the Fantus Corporation, and is not in as bad a situation relative to leasing as news media reports would suggest.

Chairman Nesler said he favors ownership of buildings. He said it is especially ridiculous to lease warehouse space when the state could easily own these facilities.

Ms. Thompson said there was discussion at a previous meeting concerning the possibility of having the retirement systems construct buildings as an investment. She asked if this was still a possibility. Chairman Nesler said the retirement systems did not appear to be interested in this and felt they could receive a higher return on investments in other areas. Mr. Isaacs said the Kentucky Employees' Retirement System owns the building in which it is housed and this has not been a very successful venture.

Chairman Nesler said he would like to have some understanding of the direction the Board wished to take. Mr. Hintze said in developing their lists of 20 projects, it would be easier if the Board concentrates on general funds and bond funds. He said this is still a large list involving hundreds of projects.

Ms. Howell said it may be beneficial to do as was suggested and make a list of 20 projects and maybe a second 20 before the next meeting. Mr. Walker agreed. Judge White asked if, in the last planning process, the Board grouped the maintenance projects as one priority. Ms. Ingram said all maintenance became the top priority.

Chairman Nesler said it sounded as if the Board wanted to develop a personal list of 20 projects for staff to compile before the next meeting. He asked Ms. Ingram to send members a form for this purpose. It was also decided that maintenance pools would not be included in the lists but will be identified again as the Board's top priority.

Mr. True said Representative Nesler does a good job as Chairman, and Chairman Nesler said he appreciated the work of the Board.

Ms. Clary moved for adjournment. Mr. Isaacs seconded the motion, and the meeting adjourned at 4:30 p.m.