

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 4th Meeting of the 2021 Calendar

August 18, 2021

Call to Order and Roll Call

The 4th meeting of the Capital Planning Advisory Board was held on Wednesday, August 18, 2021, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Adrienne Southworth, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Adrienne Southworth, Co-Chair; Representative Bobby McCool, Co-Chair; Senator Phillip Wheeler, Representative Derek Lewis; Charles Byers, Carole Henderson, Patsy Jackson, Ryan Neff, Mark Overstreet, and Katie Shepherd.

Guests: Dr. Aaron Thompson, President, Dr. Bill Payne, Vice President of Finance and Administration, and Shaun McKiernan, Director of Finance and Budget, Council on Postsecondary Education; Danny Rhoades, Executive Officer, Court Facilities Department, Administrative Office of the Courts; Katie Smith, Commissioner, Department for Financial Services, Kentucky Cabinet for Economic Development; and Billie Johnson, Executive Director, Office of State and Federal Grants, Aaron Jones, Local Government Advisor, Office of State Grants, Laura Redmon, Budget Manager, Office of Financial Management and Administration, Department for Local Government.

LRC Staff: Shawn Bowen, Korey Sallee, Jennifer Luttrell, and Ashton Thompson.

Approval of Minutes

A motion to approve the minutes of the July 26, 2021, meeting was made by Senator Wheeler, seconded by Representative McCool, and approved by voice vote.

Information Items

Ms. Bowen said one information item was included in the meeting materials in response to questions raised at the board's July 26 meeting regarding proposed capital projects for Kentucky State University.

Amended Capital Plans

The capital planning system is open for a period of ten days after the monthly board meeting. During that time, agencies may amend their capital plans as needed. Since the July 26 meeting, Northern Kentucky University added one capital project for the 2022-2024 biennium, the Expand/Renovate Regents Hall project, \$2 million private funds and

long-term funding. The University of Louisville also added one new project to the 2022-2024 biennium, the Renovate Kentucky Lions Eye Lab project, \$7 million restricted funds.

Presentation - Postsecondary Capital Project Review

As part of the capital planning process, the Council on Postsecondary Education (CPE) is responsible for the review and evaluation of capital construction and information technology (IT) projects submitted by the postsecondary institutions. Dr. Thompson, Dr. Payne, and Mr. McKiernan discussed the review process and the corresponding results.

CPE reviewed the postsecondary institutions' capital project submissions and recommended a pool funding approach be utilized to address asset preservation projects on the campuses. As such, in its 2022-2024 biennial budget request, CPE plans to request a \$700 million general fund pool for asset preservation. Postsecondary institutions would be required to have a 50 percent match, providing approximately \$1 billion in funding over the biennium.

CPE's focus represents a much more aggressive approach to funding asset preservation than in previous biennia. The rationale for this proposal is a growing inventory of facilities, infrastructure, and systems in need of asset preservation; increasing construction costs (between 3 percent and 6 percent per year); minimal state investment in asset preservation since 2008 (\$281 million in appropriations or 3.8 percent of need according to the VFA Study); and a need to renovate aging facilities and systems to reduce operating costs through greater efficiencies.

CPE staff were also asked to evaluate IT projects submitted by the institutions. An evaluation committee comprised of public and private sector IT experts reviewed 36 projects; 28 projects were identified as high value, with a total cost of \$179.9 million. In its 2022-2024 budget request, CPE plans to request \$80 million for a technology infrastructure pool.

In response to questions from Senator Southworth, Dr. Thompson replied that over the last five years, the college entrance rate in Kentucky has fallen significantly. Adult learners have either aged out or are not enrolling like they once did. The traditional age population group that are enrolling are staying longer. Retention rates are up to 80 percent at four-year institutions and extremely high at the Kentucky Community and Technical College System. The state's educational attainment rate has risen in the last five years almost eight or nine percentage points.

Responding to a question from Senator Southworth, Dr. Thompson said for the last two biennia, CPE's capital budget request included a request for an asset preservation pool. While the need for new construction still exists, the Council's focus continues to be the preservation of existing postsecondary facilities. There may be at least two or three universities that request new construction projects in their 2022-2024 budget request, and

for those institutions, a strong rationale must be given as to why the need for new construction exists.

In response to a question from Senator Southworth, Dr. Payne said if CPE receives authorization in the budget for an asset preservation pool, the funds would be allocated to the institutions based upon recommended funding levels in the Vanderweil Facilities Advisors (VFA) Study, which was completed in 2007 and updated in 2013. CPE is planning to allocate state funds among institutions based on each institution's share of system total asset preservation need as determined by VFA. Each institution will have the flexibility to use their pool of funding for any asset preservation projects included in the enacted biennial budget. Institutions will be able to fund their highest priority projects or multiple smaller critical campus projects.

Senator Wheeler asked who is responsible for monitoring the expenditures for construction and equipping of new dormitories. He noted that some of these facilities have luxurious accommodations. Dr. Thompson agreed that some of the new dormitories being constructed today are luxurious, but those facilities are constructed without state general funds. Universities use public-private-partnerships to construct and furnish the residence halls. Dr. Thompson stated that the money requested from the state will not be used to construct residence halls.

In response to a question from Representative Lewis regarding postsecondary institutions' long-term plans for cyber security, Dr. Thompson replied that CPE has approved several new cutting edge programs focused on cyber security this past year.

Review of Agency Capital Plans

The Capital Planning Advisory Board received testimony regarding four state agency capital plans: the Council on Postsecondary Education, the Economic Development Cabinet, the Kentucky Court of Justice, and the Department for Local Government. The testimony included discussion of capital construction, information technology, and equipment needs for the period 2022-2028.

Council on Postsecondary Education

Dr. Thompson, Dr. Payne, and Mr. McKiernan gave a brief overview of the CPE capital plan. For the 2022-2024 biennium, CPE identified projects totaling \$3 million general funds, with \$2 million allocated for the College to Career Pathways Portal project and \$1 million for the Upgrade Kentucky Regional Optical Network (KyRON) project.

In response to questions from Senator Southworth, Dr. Thompson said a law was passed in 2010 that allows for the seamless transfer of credits between the two-year programs and the four-year universities. The law has worked well, and if there is an issue that cannot be resolved regarding the transfer of credits, the CPE President will make the final decision. The law does not include the provision of transfer of credits between four-

year institutions, and the transfer process is not as seamless, but with the current law in place, those issues may be resolved.

In response to a question from Representative McCool, Dr. Thompson said the placement of KentuckyWired hubs on university campuses reduced infrastructure costs, especially during the Covid-19 pandemic when the digital divide was even wider than thought. Internet access was provided, but the capacity was not; upload and download speeds were inadequate. CPE has included in its current capital plan the Upgrade Kentucky Regional Optical Network Infrastructure project (\$1 million GF). This project will include the purchase of networking equipment to help improve upload and download speeds for postsecondary institutions.

Kentucky Court of Justice

Mr. Rhoades and Mr. Byers provided a brief overview of the Kentucky Court of Justice capital plan. For the six-year period, the Court of Justice's capital plan included nine court facility construction and/or renovation/addition projects, totaling \$154,050,000 long-term bonds. For the court facility projects, amounts are appropriated from the general fund for use allowance payments that support the debt service for local bonds issued to construct the projects.

In response to a question from Senator Wheeler, Mr. Byers said it is a challenge to provide the maximum amount of bandwidth needed for video conferencing and zoom capabilities in certain court facilities. These applications are bandwidth intensive; technology is limited by the carriers available in the area. He explained that audio/video recording serves as the official record of the court, and interrupted technology compromises the integrity of the official record. AOC consistently evaluates different carriers to determine the best way to provide the needed technology.

In regard to the Leslie County Court Facility project planned for the first biennium, Representative Lewis said the new facility is needed, and he thanked the Administrative Office of the Courts for being attentive to the needs of Leslie County citizens.

In response to questions from Senator Southworth, Mr. Rhoades said the building program for Leslie County requires a certain amount of square footage for courtrooms and circuit clerk, drug court, pre-trial, and court designated worker offices. They have looked at ways to reduce square footage. The 24,000 square feet proposed for this judicial facility includes space for all court functions; the design reduces the size of the courtrooms, not substantially, but with technology improvements, the courtroom can function with the reduced square footage. Based on the assessment, the amount of space currently occupied in Leslie County is inadequate. Mr. Rhoades said the new facility is consistent with the projected 50 percent growth pattern. There is space for security cueing, security monitoring, holding cells throughout the facility for each courtroom, and three circulation patterns for separating the public, court staff, and prisoners.

In response to additional questions from Senator Southworth, Mr. Rhoades said the county will own the court facility. Bonds are sold locally and payments are spread out over 20 years. The total project cost is \$15,005,000 local bonds, and the general fund use allowance payments that supports the debt service for the local bonds is \$1,241,600. The local bond issuance does not count towards the county's bonding capacity; the bonds are backed by the authorization of the judicial budget.

In response to a question from Senator Southworth, Mr. Rhoades responded that as remote access increases, there will be adjustments moving forward to more hybrid proceedings with fewer spectators, but with litigants, attorneys, judges, and clerk staff in the courtroom. Provisions are being made in a lot of the conference rooms to include large monitors and video capability to handle virtual court proceedings. At this time, there have been no adjustments related to the possibility of all virtual proceedings.

Kentucky Cabinet for Economic Development

Katie Smith, Commissioner, Department for Financial Services, gave a brief overview of the cabinet's capital plan. For the six-year period, the capital plan included three proposed projects totaling \$180,000,000. Funds are being requested to finance three grant/loan programs administered by the cabinet: the High-Tech Construction/Investment Pool, the Economic Development Fund Program, and the Kentucky Economic Development Finance Authority (KEDFA).

In response to questions from Senator Southworth, Ms. Smith said as of June 2021, the remaining balance available for projects is \$19 million. The KEDFA loan program is not as popular as the grant programs. Currently, there are about 20 KEDFA loans outstanding with a value of about \$12 million. The loan proceeds are returned to the program to be used for additional loans. The disbursement of grant funds are performance based, and contingent upon the companies meeting the required objectives included in the grant agreement.

Department for Local Government

Aaron Jones, Local Government Advisor, Office of State Grants, gave an overview of the department's capital plan. For the six-year period, the capital plan included three Flood Control Matching Fund projects totaling \$18,000,000.

Mr. Jones confirmed to Senator Southworth that the department has \$6 million in bond funds and is requesting \$6 million in general funds for the next three biennia.

Board Discussion of Planning Issues

As part of the capital planning process, board members select projects they would like to see highlighted in a separate section of the capital plan for funding consideration by the General Assembly. The project selections encompass state general fund projects for the

2022-2024 biennium. Ms. Bowen said three worksheets, containing projects in the categories of new construction; construction to protect investment in plant (maintenance and renovation construction); and information technology, will be e-mailed to members after the meeting. Instructions and a link to the project descriptions will also be provided. Members, if they choose to participate in this portion of the planning process, are to identify up to 15 projects in each category and return to the board's staff no later than September 22 in order for staff to have them ready for the last meeting on October 13.

Senator Southworth said the next meeting will convene on September 15. The meeting will include an open discussion amongst members of their potential project recommendations.

Adjournment

The next meeting is scheduled for Wednesday, September 15, 2021, in Room 169 Annex starting at 1:00 p.m. There being no further business, the meeting was adjourned at 3:54 p.m.