

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 3rd Meeting of the 2019 Calendar

September 9, 2019

Call to Order and Roll Call

The 3rd meeting of the Capital Planning Advisory Board was held on Monday, September 9, 2019, at 1:00 PM, in Room 154 of the Capitol Annex. Senator Stan Humphries, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Stan Humphries, Co-Chair; Representative John Blanton, Co-Chair; Senator Whitney Westerfield, Representative Derek Lewis; Laurie Dudgeon, Carole Henderson, John Hodgson, William Landrum, Mark Overstreet, and Katie Shepherd.

Guests: Greg Harkenrider, Deputy Executive Director, Governor's Office for Economic Analysis, J. Michael Jones, Deputy Executive Director, Governor's Office for Policy Research, and Kevin Cardwell and Janice Tomes, Deputy State Budget Directors, Office of State Budget Director; Dr. Aaron Thompson, President, Dr. William Payne, Vice President for Finance and Administration, Shaun McKiernan, Director of Budget and Finance, and Ron Carson, Senior Fellow for Policy Development, Council on Postsecondary Education; Carole Henderson, Budget Director, and Danny Rhoades, Executive Officer of Court Facilities, Administrative Office of the Courts; Regina Stivers, Deputy Cabinet Secretary, and Chris Reece, Executive Director, Office of Finance, Tourism, Arts, and Heritage Cabinet; and Charles Harman, Director of Budget and Finance, Department of Education.

LRC Staff: Shawn Bowen, Julia Wang, and Jennifer Luttrell.

Approval of Minutes

A motion to approve the minutes of the July 8, 2019 meeting was made by Representative Lewis, seconded by Senator Westerfield, and approved by voice vote.

Presentation - Kentucky Financial Outlook Report

An in-depth analysis of the current and projected debt position of the commonwealth was included in members' binders. The report addressed factors that were included in the Consensus Forecasting Group's report that was delivered to all three branches of government earlier this year; the actual revenue compared to the enacted estimates of the general, road, tobacco, and the budget reserve trust funds; and the

estimated fiscal impacts of legislative changes. Mr. Harkenrider, Mr. Cardwell, Mr. Jones, and Ms. Tomes prepared and presented the report for the board.

In response to a question from Senator Humphries, Mr. Cardwell stated that House Bill 200, the 2018-2020 Executive Budget, Part VII, directed that FY 2019 general fund surplus receipts of \$70 million be appropriated to the Kentucky Teachers' Retirement System Medical Insurance Fund, and the remaining amount of surplus (\$60.1 million), be applied to the Kentucky Retirement System Nonhazardous Unfunded Pension Liability Fund. Mr. Cardwell confirmed that the surplus funds were appropriated and distributed as required in the current budget.

In response to comments from Senator Humphries regarding declining tobacco fund revenues, Mr. Jones said revenues from the Master Settlement Agreement with the cigarette companies have declined due to the decrease in cigarette consumption and the increased use of vaping products. He noted that the cigarette tax was raised, but consumers are purchasing less tobacco products due to the tax increase.

In response to a question from Senator Humphries, Mr. Harkenrider stated that in the past, to generate additional road fund dollars, taxes were raised. He said the Mileage-Based Transportation Funding Task Force is studying the possibility of transitioning to a mileage-based fuels tax to replace the current system of taxing highway use through motor vehicle gallons sold fuels tax.

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. In its report to the board, CPE provided background information about the campuses, the enrollment growth, and research activity between 1999 and 2018.

In its 2020-2022 biennial budget request, CPE plans to request a \$400 million general fund pool for asset preservation. Postsecondary institutions would be required to have a 50 percent match, providing a total of \$600 million in funding over the biennium. Each institution's pool will be supported by a list of projects in priority order. CPE will not make a request for general fund-supported bonds for new and expanded spaces or IT in 2020-2022. 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 (up 17 percent between 2007 and 2013, based on VFA estimates); minimal state investment in asset preservation since 2007 (\$262 million in appropriations or 3.6 percent of need); and a need to renovate aging facilities and systems to reduce operating costs through greater efficiencies.

CPE staff was asked to evaluate IT projects submitted by the institutions. Forty-two projects were submitted addressing network infrastructure and instructional and administrative system needs; nine projects were identified as high value, with a total cost of \$549.8 million (three UK Healthcare projects totaling \$520.0 million and six campus projects totaling \$29.8 million). These restricted fund projects address security, firewalls, and other upgrades.

In response to a question from Senator Humphries regarding the difference in the postsecondary institutions' capital plans and CPE's capital plan, Dr. Thompson stated that the institutions presented their overall needs, which included plans for new construction, and CPE is presenting what it considers to be the best way to meet each university's critical needs, which does not include new construction. Dr. Payne explained that some of the institutions, in their capital plan, identified new construction projects as their highest priority. CPE had numerous meetings with the institutions about its plan for an asset preservation pool, and they understand that the number one priority needs to be renovation and renewal of existing facilities, rather than new construction.

Senator Humphries raised concerns regarding the equitable distribution of asset preservation pool funds to the institutions. He questioned whether the smaller regional institutions will be able to achieve the required 50 percent match. Dr. Thompson said the distribution of the funds is based on the total need of the campus, and there will be an inherit inequity based on that process. He said he would be happy to discuss with the institutions ways to ensure the pool funds are distributed in an equitable manner. Dr. Thompson acknowledged that the smaller regional institutions may face more of a challenge in generating the required match, and in recognition of that fact, CPE has changed the matching requirement from 100 percent (in 2017) to 50 percent match.

Review of Agency Capital Plans

The Capital Planning Advisory Board received testimony regarding four state agency capital plans: Council on Postsecondary Education, Kentucky Court of Justice, Tourism, Arts, and Heritage Cabinet, and the Department of Education. The testimony included discussion of capital construction, information technology, and equipment needs for the period 2020-2026.

Council on Postsecondary Education

Dr. Thompson, Dr. Payne, and Mr. McKiernan gave a brief overview of the CPE capital plan. For 2020-2022, 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.

Kentucky Court of Justice

Ms. Henderson and Mr. Rhoades provided a brief overview of the Kentucky Court of Justice capital plan. For the 2020-2022 biennium, the capital request will include \$8 million general funds to support local bonds totaling \$81,560,000, and for the 2022-2024 biennium, \$11 million general funds to support \$116,595,000 local bonds. Amounts appropriated from the general fund are for use allowance payments that support the debt service for local bonds issued to construct the project. The Court of Justice capital plan includes three new court facilities for Butler, Clinton, and Owsley counties, and the renovation of two court facilities in the counties of Crittenden and Jessamine in the first biennium and three new court facilities for Barren, Scott, and Woodford counties, and the renovation of one court facility in Spencer County in the second biennium.

In response to a question from Senator Humphries regarding the elimination of state debt associated with the court facility construction projects, Ms. Henderson said the state can anticipate a total savings of about \$4.4 million once the local bonds for court facility construction are retired. Six bond issues are currently being paid off, which will generate \$1.4 million in savings in FY 2023, and 12 bonds will be retired in FY 2023, which will generate savings of about \$3 million in for FY 2024. She explained that although the debt is coming off the state debt rolls, the Court of Justice must still pay the counties four percent of the original capital construction costs, even when there is no more debt on the building. These costs are in addition to the operating costs AOC pays the counties to operate these buildings.

In response to a question from Senator Humphries, Mr. Rhoades said before a decision is made to build a new facility or renovate an existing facility, a certified architect is hired to perform an independent feasibility study on the needs of the community and the Court of Justice, and whether those needs can best be met through the construction of a new freestanding facility or through an addition/renovation to an existing facility.

In response to questions from Senator Westerfield, Mr. Rhoades said the location for the new Butler County Judicial Center (Agency Priority #1, \$11,860,000 local bonds) has not yet been determined. If the project is authorized by the General Assembly, a local project development board will be established to determine the building type, location, the architect, and general contractor. Once the schematic design of the building is determined, the program requirements will be reviewed by the Court Facilities Standards Committee. He further explained that the need for a new judicial center is decided by factors such as county population growth, condition of the existing facility, and the court caseload. Ms. Dudgeon stated that the need to build in Butler, Crittenden, and Jessamine counties has only increased, as expressed almost daily by the circuit clerks, since the original request in the 2018-20 budget.

Tourism, Arts, and Heritage Cabinet (TAHC)

Ms. Stivers and Mr. Reece presented the cabinet's needs which focused mainly on asset preservation. The following agencies within the cabinet submitted capital plans:

Department of Fish and Wildlife Resources, Department of Parks, Kentucky Center for the Arts, Kentucky Heritage Council, Kentucky Horse Park, Secretary's Office, and the State Fair Board. The first five projects proposed for the first biennium (2020-2022) are maintenance pools for facilities maintained by various TAHC agencies. The first four are the Department of Parks, the Kentucky State Fair Board, the Kentucky Horse Park, and the Kentucky Center for the Performing Arts. The fifth, maintenance pool for the Office of the Secretary, is intended to address two crucial needs: 1) provide adequate funds to maintain the aging facilities at several of the smaller agencies in the cabinet; and 2) fund statewide replacement of deteriorating highway and building signage used to promote the state's various tourism-related activities.

The cabinet's six-year capital plan has a total dollar value of \$546.4 million from all fund sources and includes 16 new maintenance and/or renovation projects with a general fund dollar value of \$37 million. The general fund request for the 2020-2022 biennium comprises 67 projects totaling just under \$221 million, a reduction of \$54 million from the 2018-2020 plan and \$94 million from the 2016-2018 plan. This reduction in capital needs comes from the General Assembly's support over the past four years, as well as efforts by agencies to better define projects and find alternative funding solutions. The cabinet continues to look for public-private partnership opportunities to share the capital costs with the private sector or local stakeholders by identifying and promoting shared economic growth opportunities. There were no questions.

Department of Education

Mr. Harman presented the department's needs. For the six-year period, the department's capital plan included 12 proposed projects totaling \$59,500,000. Maintenance, repairs, replacement, and renovation continue to be a significant part of the facility side of the 2020-2026 capital plan. Priorities for facilities at the Kentucky School for the Blind, Kentucky School for the Deaf, and the FFA Leadership Training Center are further identified in the plan as items necessary to correct health, safety, security, and ADA concerns that if not addressed could cause a disruption in the operations at these locations.

In response to a question from Senator Humphries, Mr. Harman replied that the FFA Leadership Training Center generates about \$35-\$40,000 of revenue annually for the commonwealth.

Board Discussion of Planning Issues

As part of the capital planning process, board members recommend individual projects they think should be funded by the General Assembly in the upcoming biennial budget. Ms. Bowen said three spreadsheets, containing projects in the categories of new construction, construction to protect investment in plant (maintenance and renovation), and information technology, will be e-mailed to members after the meeting. Members are to identify up to 15 projects in each category and return to the board's staff no later than September 24.

Adjournment

The next meeting is scheduled for Tuesday, October 22, 2019, in Room 171 Annex starting at 1:00 PM. There being no further business, the meeting was adjourned at 2:59 p.m.