MINUTES OF THE
CAPITAL PROJECTS AND BOND
OVERSIGHT COMMITTEE

May 21, 1997

The Capital Projects and Bond Oversight Committee met on Wednesday, May 21, 1997, at 10:30 AM, in Room 113 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Tom Buford, Bob Leeper, and Denny Nunnelley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Bill Hintze, Roger Burge, Governor's Office for Policy and Management; Armond Russ, Jim Abbott, Finance and Administration Cabinet; Ernie Tacoque, Department of Education; Tom Howard, Kim Blitch, Bart Hardin, Office of Financial Management and Economic Analysis; Ken Walker, Council on Higher Education; Glenn Mitchell, Transportation Cabinet; General Larry Barker and Hubert Payton, Department for Military Affairs; Ronn Padgett, Division of Disaster and Emergency Services; Ken Clevidence and Mary Allen, University of Kentucky; Roger Peterman, Peck, Shafer, & WIliams; David Bratcher, Economic Development Cabinet; Jerry Keller, Health Alliance of Greater Cincinnati; Lee Myros, Seasongood & Mayer; Woodford County High School Wrestling Team; Jack Affeldt, Kim Burch, Karen Crabtree, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Esther Robison, and Shawn Bowen.

Representative Wayne made a motion to approve the minutes as submitted of the April 15, 1997, meeting. The motion was seconded by Representative Marcotte and approved by unanimous voice vote.

Chairman Damron announced that the Committee's secretary, Esther Robison, has been promoted to serve as a committee assistant and he introduced the

Management, and Mr. Ronn Padgett, Director of the Division of Disaster and Emergency Services, presented the report. Mr. Hintze stressed that the damage assessments are not final, and the amount of money to be expended has yet to be finalized.

Mr. Hintze said flood damage costs involved four focus areas:

1. **Public Assistance and Infrastructure Programs.** These programs sustained approximately $60 million in damage and costs are to be split 75% federal and 25% non-federal. The non-federal share is to be further split 13% by local government and 12% by the state. Mr. Hintze reported that the state does not have a direct state appropriation of this magnitude to meet this kind of need, and must use the Budget Reserve Trust Fund or general fund surplus to address this as a necessary government expense.

2. **Hazard Mitigation Programs, also referred to as buyout programs.** The $20 million cost of these programs will be split: $15 million federal, $2.4 million state, and $2.6 million local.

3. **Individual Assistance Programs, with individual grants.** These programs are estimated to cost $25 million. The federal share, as preliminarily identified, is $18.75 million and the state share is $6.25 million. Disaster housing assistance, included in this category, is estimated to cost $3.75 million and the federal government will pay $3 million and the state will pay $750,000.

4. **Calling out of the National Guard.** Costs related to the National Guard are funded as a necessary government expense from general fund surplus. This program is eligible for 75% federal reimbursement; however, reimbursement may take some time, possibly years, and only after the program has been fully audited. Activating the National Guard cost the state $4 million. In addition, costs incurred by Disaster and Emergency Services and other state agencies, principally related to overtime, total $500,000.

Mr. Hintze reported that the overall flood damage estimate is $113,250,000. The Federal portion of this figure is $81,750,000; the state portion is $21,100,000; and the local portion is $10,400,000. Noting the burden the $10.4 million represents to the local communities, some of which were not in good economic shape prior to the flood, Mr.

Chairman Damron asked Mr. Hintze if any kind of action from the Appropriation and Revenue Committee will be necessary before the $21 million is taken out of the Budget Reserve Trust Fund. Mr. Hintze said that no further action would be necessary, because of special language added in the Military Affairs section of the Appropriations Bill during the 1996 Session. The language allows the state to use the Budget Reserve Trust Fund for such a natural disaster. Mr. Hintze assured Chairman Damron that they would report to the Committee as funds were expended from the Budget Reserve Trust Fund. He said activation of the National Guard has been treated as a necessary government expense and bills are being paid with general fund surplus. Once the state gets a fuller accounting of all expenses incurred in relation to the flood, and determines what the federal government will pay, the Budget Reserve Trust Fund will be used to cover flood-related costs.

Chairman Damron asked Mr. Hintze if legislative authorization would be necessary if the state wanted to assist local governments in meeting their federal match. Mr. Hintze replied that, in his judgment, legislative authorization would be necessary.

In response to a question from Representative Wayne as to whether the buyout program discussed earlier was the same buyout program proposed by the Metropolitan Sewer District (MSD) in Jefferson County, Mr. Padgett indicated it was. MSD, with the City of Louisville and Jefferson County, has prepared an application to the state for a buyout program for neighborhoods in the Great Pond area.

Representative Wayne asked what the timetable was for the buyout program. Mr. Padgett responded the timetable will be determined by the individual project. A state team will be meeting soon to decide upon the most fundable projects. He added that they know there are not sufficient state and federal moneys to fund all 50 applications they have received.

Chairman Damron asked if the MSD proposal was included in the $10 million estimate given earlier of the local match moneys to be required for federal assistance. Mr. Hintze indicated that it was. Chairman Damron then asked if it was reasonable to assume that while local governments may need assistance in meeting the local match requirement, they will be able to come up with some of the match on their own and their need for additional financial assistance is more likely to be $2 to $4 million rather than the entire $10 million. Mr. Hintze and Mr. Padgett said Chairman Damron's analysis

Chairman Damron introduced Mr. Armond Russ, Commissioner, Department for Facilities Management, and Mr. Jim Abbott, Director, Division of Real Properties. Commissioner Russ reported that damage to state-owned buildings during the March flood was minimal. The only state-owned building affected was the Bush Building. He then identified buildings leased by the state and affected by the March flood:

1. Workforce Development Cabinet - Georgetown, Kentucky, 4,152 square foot office building. This property was completely destroyed by flood water from the Elkhorn Creek.

2. Cabinet for Families and Children - Falmouth, Kentucky, 3,299 square foot office building. Flood water from the Licking River reached a depth of approximately two feet inside of the building.

3. Revenue Cabinet - Falmouth, Kentucky. Free space in the County Courthouse made available to the Property Valuation Administrator (PVA) was vacated due to the flooding.

4. Cabinet for Families and Children - Smithland, Kentucky, 2,656 square foot office building. The agency was instructed to vacate the premises by local authorities due to potential flooding. Flood water did not breach the flood wall, the building sustained no damage, and the agency has moved back in.

5. Revenue Cabinet - Cynthiana. PVA's free space in the County Courthouse was vacated due to the flooding, and staff were relocated to an office trailer.

6. Frankfort Offices:

a. Fort Boone Plaza (Ash Building) - Natural Resources and Environmental Protection Cabinet. Furnishings, including computers and copiers, were moved out, but the building did not flood. Claims are being filed with FEMA and the Department of Insurance seeking reimbursement for preventive action taken.

b. 100 and 200 Fair Oaks - Flood waters covered the office parking lots, but office furnishings did not sustain any damage.

c. Leestown Distillery Warehouse - Transportation, Natural Resources, and the

Chairman Damron asked if any monetary estimates had been made relative to personnel costs relating to the flooding. Mr. Armond said he did not have any estimates but noted that in Frankfort, there were approximately 100 people off at the Bush Building for about a week; approximately 300 people in the Ash Building were off for three days; 1,000 employees in the distillery complex were off three days; 1,000 employees in the State Office Building were off for one day; and 1,000 employees in the Capital Plaza Tower were off for one day. He then noted that there were also employees affected in Cynthiana and Falmouth, although much fewer in number.

Chairman Damron asked if the state has any written policy or administrative regulations about leasing property in a flood plain. Commissioner Russ said state statute does not require a written policy. Mr. Jim Abbott, Director, Division of Real Properties, responded that they do have an internal policy that requires state inspectors to ask potential lessors if their property is located in a flood plain. If it is, the Division of Engineering will further investigate and analyze the probability of water damage at the location. Mr. Abbott stated that even though this is not required by law, it is a matter of prudent judgment and has been done for years.

Chairman Damron asked if the agency had ever turned down property because it is was in a flood plain. Mr. Abbott said the Department had turned down such property. He said of the 750 buildings that the state leases, 18 of them are in a flood plain and in most cases, the reason is that the community the user agency is serving is in a flood plain. As an example, he indicated that the state recently sought new property to lease in the Falmouth area because of damage suffered to rented property in the March flood. All five proposals received are located in the flood plain.

Chairman Damron encouraged the Department to adopt a written policy regarding renting property in a flood plain.

Chairman Damron asked about the status of the covered bridges. Mr. Padgett responded that the Switzer Bridge in Frankfort is eligible for FEMA assistance. Inspections and methods of reconstruction will be discussed soon. Mr. Padgett said he was not aware of any damage to the state's other covered bridges, but said if there was damage, those bridges should also be eligible for FEMA assistance.

Senator Nunnelley asked about other state facilities, such as state parks and the fish hatchery that may have sustained damage from the flood. Mr. Hintze responded that the fish hatchery ponds did get washed out and the stock was lost, but damage to

In response to a question from Senator Nunnelley, Commissioner Russ reported that the flood had not caused any significant delays in ongoing capital projects.

Representative Marcotte asked how costs associated with this flood compared with other natural disasters over the last five or six years. Mr. Hintze responded that everything pales by comparison to this disaster. Typical costs for disasters run $2 million dollars annually. He noted that in the case of the March flood, however, 100 of the 120 counties in Kentucky were affected and declared eligible for federal assistance.

Next, Mr. Ken Clevidence, Director of the Capital Construction Division, University of Kentucky, presented a report on the expansion of the Center for Academic and Tutorial Services (CATS) in Memorial Coliseum. He indicated that the University of Kentucky is requesting approval to increase the project's scope by an additional $600,000 in order to accept the project's low bid of $1,936,000 submitted by Burchfield and Thomas.

[This project was originally approved in August of 1995 for a total scope of $1 million. In May of 1996, the Committee approved a request to increase the scope of work for the project to $2 million. The total project scope will be $2.6 million, which is a 160% increase over the original scope authorized for this unbudgeted project in August of 1995. The project remains 100% privately funded.]

In response to a question by Representative Wayne, Mr. Clevidence indicated that the program serves all student athletes. Representative Wayne asked what percentage of student athletes served by the CATS program are women. Mr. Clevidence responded that he did not know, but would find out and report back to the Committee.

Representative Wayne asked if the University of Kentucky provides similar services to students with learning disabilities. Mr. Clevidence said such assistance is provided in several different buildings throughout the campus and specialized training is offered to special needs students.

Chairman Damron stated that all of the funds contributed for this increase in scope are private; and, in line with Committee policy, before a scope increase with private funding can be approved, the requesting school must have a letter certifying private commitments. Mr. Clevidence assured the Committee that the University has

cost to renovate and expand Memorial Coliseum would be cost prohibitive. He said those conclusions will be detailed in the report.

Senator Nunnelley made a motion to approve the $600,000 increase in scope for the CATS Expansion Program. The motion was seconded by Representative Graham and passed by unanimous voice vote.

Next on the agenda were leasehold reports and leasehold modifications. Mr. Jim Abbott, Director, Division of Real Properties, reported on these agenda items.

1. **PR-3764 - Public Advocacy -** Mr. Abbott reported amortization of leasehold improvements for lease contract PR-3764, which provides the Department of Public Advocacy with 26,454 square feet of office space at 100 Fair Oaks Lane in Frankfort. The Department of Public Advocacy requested the construction of two additional offices in the library of the leased property due to the agency's expanded mission to represent juveniles in detention centers. The lessor, Leestown Partners Ltd, submitted two bids for the work--$8,852 from Foster and Associates and $8,337 from Hughes Construction, Inc. When the Division of Real Properties advised that these costs were too high, Public Advocacy was able to get the Hughes bid lowered to $6,601. The $6,601 will be amortized over the remainder of the lease term (through June 30, 1999) and this will add approximately 11¢ per square foot onto the annual cost of the lease.

2. **PR-3748 - KY Higher Education Assistance Authority (KHEAA) -** Mr. Abbott reported amortization of leasehold improvements for lease contract PR-3748, which provides 36,829 square feet of office space at the Ramsey Building on US 127 South in Frankfort. KHEAA requested that storage space be converted into office space for four new staff members. KHEAA recommended acceptance of the low bids received on various aspects of the modification process which came to a total of $1,947.78. The cost will be amortized over the remaining term of the lease, through June 30, 1998. Annual cost of the lease will increase approximately 5¢ per square foot.

3. **PR-3882 - Revenue Cabinet -** Mr. Abbott reported on recent action taken by his agency relating to amortization of improvements made for lease contract PR-3882 which provides the Revenue Cabinet with 211,485 square feet of space at 200 Fair Oaks Lane, Building 2, in Frankfort. The Revenue Cabinet requested 11 different improvements be made to the property, including installation of new electric and computer outlets and installation of HVAC. Two bids were received for each of the 11

computer equipment and does not represent a benefit to the lessor. He estimated that if a new tenant came in, at least 50% of the renovations would be gutted and modifications would be made to accommodate the new user.

In response to another question from Chairman Damron, Mr. Abbott identified the primary owners of the property at PR-3748, the West Frankfort Office Complex, as Rodney Ratliff and James Ramsey. He also said that the primary owners of the other two leases, PR-3764 and PR-3882 at Fair Oaks, are Robert Baranaskas, Michael Liber, and Gary Thompson.

Mr. Abbott then reported three state leases with square foot modifications.

1. **PR-1013 - Russell County (Cabinet for Families and Children)** - An increase of 1,577 square feet for a total of 5,081, to provide additional space for an increase in staff and programs.

2. **PR-1679 - Floyd County (Department of Mines and Minerals)** - An increase of 1,316 square feet for a total of 5,516, to provide additional space for an increase in staff and a second classroom to accommodate additional training sessions.

3. **PR-3165 - Graves County - (Cabinet for Families and Children)** - An increase of 628 square feet for a total of 15,548, to provide a new conference room and additional storage space for program needs.

Chairman Damron noted that lease modifications of less than $50,000 are to be reported to the Committee within 30 days of execution, but do not require committee approval.

Mr. David Bratcher, Economic Development Cabinet, presented a bond activity report. A grant of $500,000 is proposed for the City of Danville to assist in the purchase of equipment to lease to Matsushita Appliance Corporation. Matsushita is relocating its microwave production operation from Franklin Park, Illinois, to Danville, Kentucky, where it already has a facility for the manufacture of vacuum cleaners and small appliances.

The City of Danville will use the grant to purchase equipment to lease to Matsushita for a period of 20 years. The equipment will be leased for $1 per year. The total relocation project cost is $16,000,000. The city of Danville is contributing

Chairman Damron asked if this company will be up and going by December 1997 with such a short timeline, and if it will compete with any other businesses in the area. Mr. Bratcher reported that after a visit he made to the plant, he was sure they would be up and running by December. He was not aware of any other company in Kentucky with which Matsushita will compete.

Representative Wayne said he supported this project, but wanted to raise several issues to consider in the future. He questioned the state's continued emphasis on manufacturing and also questioned why this project was being funded in a community that has lower unemployment than the state overall. He pointed out that there are pockets in this state that are much more in need than Danville for a project like the one before the Committee. He said at some point there needs to be a review of what the state is doing in terms of economic development initiatives and why.

Senator Nunnelley moved for approval of the economic development grant to the City of Danville. The motion was seconded by Senator Leeper and passed by unanimous voice vote.

Mr. Tom Howard of the Office of Financial Management and Economic Analysis (OFMEA) was present to report new bond issues. First reported were Kentucky Economic Development Finance Authority (KEDFA) Hospital Facilities Revenue Bonds for St. Luke Hospital, Inc., Series 1997 C & D. The issue includes refunding of three outstanding issues and provides new money for a variety of hospital facilities. The refunding will encompass the 1989 Series A & B and the 1991 Series A Bonds for St. Luke Hospital. The proposed date of sale is May 29, 1997. The interest rate will be variable and is expected initially to be 4.25%. The bonds are callable at any time, and it will be a negotiated sale. The principle amount to be refunded is $91,745,000, and the net proceeds are $95,000,000. The underwriters are Merrill Lynch & Co.; Seasongood & Mayer; and Conners & Co.; bond counsel is Peck, Shaffer & Williams; underwriter counsel is Maynard, Cooper & Gale; the trustee is Star Bank; and the liquidity provider is Credit Suisse First Boston. Mr. Howard said that Mr. Jerry Keller, CFO, Health Alliance of Greater Cincinnati, Mr. Lee Myros, Seasongood, & Mayer**,** and Mr. Roger Peterman, Bond Counsel, from Peck, Schaffer, and Williams, were available if members had questions.

[The Commonwealth serves as a "conduit" for KEDFA bond issues. The Commonwealth issues the bonds at a tax-exempt rate for the benefiting institutions, in

Senator Nunnelley moved for approval of the new bond issue. The motion was seconded by Representative Graham and passed by unanimous voice vote.

Next, Mr. Howard reported on the new bond issue for Murray State University Housing and Dining System Revenue Bonds, Series M. This issue was previously approved by the Committee on February 14, 1996. The gross proceeds are expected to be $865,000 and will be used to renovate Winslow Hall Cafeteria. The proposed date of sale is June 1997; the expected net interest rate is 5.69%; and the length of term is 20 years. Gross debt service amount is expected to be $1.4 million; average annual debt service is expected to be approximately $74,020. The first call date is September 1, 2007, and the bond sale will be competitive. Mr. Howard reported that Peck, Shaffer & Williams is serving as bond counsel; the financial advisor is J.J.B. Hilliard, W.L. Lyons; and the trustee is PNC Bank, Louisville.

The next issue was the approval letter for the Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, 1997 Series M. These bonds were issued in the amount of $6,625,000 for the purpose of refunding the Western Kentucky University Consolidated Educational Buildings Revenue Bonds Series I. The sale date was March 20, 1997. The bonds were sold on a competitive basis, the total interest cost is 5.14%, and the present value savings are $277,319. The bonds are non-callable and not subject to redemption prior to maturity. The bond counsel for this issue was Peck, Shaffer & Williams; the financial advisor was J.J.B. Hilliard, W.L. Lyons, Inc.; the purchaser was J.J.B. Hilliard, W.L. Lyons, Inc.; and the trustee is Bowling Green Bank and Trust Company.

Mr. Howard next discussed the Kentucky Infrastructure Authority Governmental Agencies Program Bond Anticipation Notes, 1997 Series A. The gross proceeds are $5,200,000 and will be used for interim construction financing of Fund C Governmental Agencies Program water and sewer projects. After projects are completed, financing will be converted to long-term securities. The sale date was April 23, 1997. The sale was negotiated and Merrill Lynch & Company served as underwriter; Brown, Todd & Heyburn served as underwriter's counsel; Peck, Shaffer & Williams served as bond counsel; and the trustee is PNC Bank, Kentucky. The issue has a variable interest rate recalculated weekly with the initial rate being 4.25%. The maturity date is June 30, 1998, and the notes are subject to redemption without penalty on any interest payment date.

Facilities Construction Commission (SFCC) participation in annual debt service payments for the following school districts:

a. Boone County - with gross proceeds of $8,350,000, to construct a new elementary school. Annual SFCC debt service participation is $120,260 and locally-funded debt service is $494,275. A 5¢ growth tax has been levied.

b. Carroll County - with gross proceeds of $3,835,000, to build an addition to the middle school. Annual SFCC debt service participation is $44,200 and locally-funded debt service is $295,800.

c. Franklin County - with gross proceeds of $3,385,000, to renovate the high school. Annual SFCC debt service participation is $80,000 and locally-funded debt service is $230,000.

d. Gallatin County - with gross proceeds of $1,440,000, to be used for the construction of a high school. Annual SFCC debt service participation is $42,000 and locally-funded debt service participation is $87,000.

e. Larue County - with gross proceeds of $1,200,000 to renovate the middle school. Annual SFCC debt service participation is $59,180 and locally-funded debt service participation is $47,547.

f. Lewis County - with gross proceeds of $365,300 for a refunding of 1988 bonds. Annual SFCC debt service participation is $7,003 and locally-funded debt service participation is $37,218.

g. Menifee County - with gross proceeds of $1,020,000 to complete additions at the high school. Annual SFCC debt service participation is $14,584 and locally-funded debt service participation is $71,182.

h. Pike County - with gross proceeds of $3,550,000 to complete additions at the elementary school. Annual SFCC debt service participation is $82,947 and locally-funded debt service participation is $211,295.

In response to a question from Representative Marcotte, Mr. Howard said there would not be a new tax related to the Boone County bond since the nickel tax was

The next group of bond issues were the bonds issued under the Kentucky Interlocal School Transportation Program (KISTA) Small Issuer's Loan Program. KISTA is creating a $40 million loan pool by administering the issuance of 10 separate securities issuances, each for $4 million. The bonds are being issued under the names of school districts selected by the Board of Directors of KISTA, but the issuing school districts do not assume any liability for the repayment of the bonds unless and until they borrow funds from the pool that is created by the bond sales. All public school districts are eligible to borrow from the loan pool, subject to credit approval and appropriate Department of Education and School Facilities Construction Commission (SFCC) regulations.

Mr. Howard reported on the first four of the eight small loans to be considered by the Committee:

a. Hancock County - with gross proceeds of $154,000 for the construction of classroom additions to the high school and to complete additions at the elementary school. Annual SFCC debt service participation is $12,755 (100% state).

b. Providence Independent - with gross proceeds of $540,000 to complete additions and renovations at the elementary school. Annual SFCC debt service participation is $17,711, and locally-funded debt service participation is $29,921.

c. Muhlenberg County - with gross proceeds of $766,000 to construct classroom additions at an elementary school. Annual SFCC debt service participation is $63,500 (100% state).

d. Williamstown Independent - with gross proceeds of $455,000 to construct additions and make renovations to the high school. Annual SFCC debt service participation is $9,287, and locally-funded debt service participation is $28,800.

Vice-Chairman Leeper said the first four bond issues would require action by the Committee because they include SFCC funding.

Representative Wayne made a motion to approve the four bond issues for Hancock County, Providence Independent, Muhlenberg County, and Williamstown Independent. The motion was seconded by Representative Graham, and passed by voice vote. Chairman Damron abstained from the vote.

f. Bardstown Independent - with gross proceeds of $685,000 to construct a student center at the high school. Locally-funded debt service participation is $64,265.

g. Danville Independent - with gross proceeds of $148,000 to repair and resurface the track at the high school. Locally-funded debt service participation is $14,485.

h. Williamstown Independent - with gross proceeds of $98,000 to purchase bleachers for the high school and for the elementary school. Locally-funded debt service participation is $9,365.

Ms. Collins reported that all bond disclosure information was submitted as required, and no action was required by the Committee. She then reviewed five other school district bond issues and notes, with 100% local debt service support and no SFCC debt service participation:

a. Montgomery County - with gross proceeds of $415,000 to purchase and equip a farm.

b. McCracken County - with gross proceeds of $1,900,000 to construct and renovate the high school and the middle school.

c. Somerset Independent - with gross proceeds of $1,860,000 to construct and renovate the high school.

d. Jefferson County - with gross proceeds of $25,000,000 for tax and revenue anticipation notes.

e. Kentucky School Boards Association - with gross proceeds of $25,000,000 for tax and revenue anticipation notes.

Vice-Chairman Leeper said that no action was required on these bond issues.

Chairman Damron said the Debt Issuance Calendar was included for the Committee's review and it did not require any action.

Next, Mr. Hintze and Commissioner Russ reported on four projects approved through the Finance and Administration Cabinet, three of which needed Committee

was $550,000. The Department of Parks determined that an additional 11% ($60,000) will enable them to accept the low bid, provide for a 5% project contingency, and provide for required furnishings and equipment.

With there being no questions from the Committee, Senator Leeper made the motion to approve the additional $60,000 allocation from the capital construction and equipment purchase contingency account. The motion was seconded by Representative Graham, and approved by unanimous voice vote.

The next two projects were both for the Kentucky Higher Education Assistance Authority (KHEAA) and are to be funded from KHEAA's federally Restricted Defaulted Loan Claims Reserve Fund. Both projects were part of several operating improvements included in a $1.8 million Restricted Funds appropriation increase requested of the Interim Joint Committee on Appropriations and Revenue on April 24, 1997. That Committee approved KHEAA's request, subject to the approval of the Capital Projects and Bond Oversight Committee on those components which meet the definition of capital purchases.

Mr. Hintze said the Finance and Administration Cabinet was requesting approval for the acquisition of an unbudgeted major item of equipment, a PBX System, for the Kentucky Higher Education Assistance Authority (KHEAA). This equipment item, estimated to cost $238,800, is one of three components of a Computer-Telephony Integration System that will upgrade the existing single-line phone system. Currently the agency uses over 250 single lines for voice and data transmission. This new system will significantly improve KHEAA's communication capability, reduce line and maintenance costs, and increase efficiencies in the default aversion and debt collection areas.

In response to a question from Chairman Damron, Mr. Hintze said that funds being used for the project, Defaulted Loan Claims Reserve Fund, cannot be used for scholarships for students.

Senator Nunnelley made a motion to approve the request from Finance and Administration for the acquisition of a PBX System for the KHEAA. The motion was seconded by Representative Marcotte, and passed by unanimous voice vote.

The Finance and Administration Cabinet also requested approval for the

KHEAA has found that students and families who are unfamiliar with the post secondary and financial aid application procedures need more hands-on assistance. The vehicle will offer an additional method to reach and serve students who may not be responsive to traditional dissemination methods, and would support counselors in their efforts to advise students and families.

Senator Nunnelley made a motion to approve the request from Finance and Administration for the acquisition of the specially-equipped vehicle for outreach activities for the KHEAA. The motion was seconded by Representative Graham, and passed by unanimous voice vote.

Next, Mr. Hintze discussed the Transportation Cabinet-Bowling Green district office building renovation.

In 1994, the General Assembly appropriated $1.4 million in road funds to renovate and correct structural problems, relating to settling, in the existing office facility. The 1994 authorization was based on an evaluation that indicated that the settling could be halted and the structure stabilized. A more detailed evaluation has been completed that concludes that it is not economically feasible to salvage the existing building.

The Finance and Administration Cabinet is reporting steps now being taken to change this project from one of renovation to new construction. Finance has authorized the Transportation Cabinet to expend $399,000 from the authorized project's account to begin the design phase for a new building. Under this latest plan, the existing facility would be demolished, and the new building would be built on the same site.

Before making a decision to proceed with a new building, Transportation officials considered and rejected three alternatives:

1. Use federal funds to convert and renovate a historical building;
2. Renovate former retail space now owned by Western Kentucky University;
3. Lease space from the private sector.

Chairman Damron asked if the design phase would cost more than $400,000. Mr. Hintze deferred the question to Commissioner Russ, who said that the design

Representative Wayne asked why it would cost so much to design the building. Commissioner Russ responded that this was just the authorization, and he expected the design work to cost less than $400,000. Also, he noted geotechnical work is required in this case prior to design.

Representative Wayne asked about the estimated cost for design. Mr. Hintze responded that a budget had not been established yet. Mr. Glenn Mitchell, Executive Director of the Transportation Cabinet's Office of Policy and Budget, said engineers in the Division for Facilities Management had given him a very preliminary estimate for design costs of 7% of the construction cost of the building, which in this case, would be under $250,000.

Senator Buford made the motion to amend the amount authorized for the design of the building from $399,000 to $275,000. The motion was seconded by Representative Wayne.

Chairman Damron asked if there was any discussion on the motion. Senator Nunnelley questioned whether $275,000 was an adequate amount, given the need for the geotechnical work.

Commissioner Russ said that until they do the geotechnical work and have an architect prepare estimates, they will not have a clear idea of what the costs for design will be.

Chairman Damron said the Transportation Cabinet could spend up to $399,000 on design for a project without coming before the Committee since it would not be defined as a capital project if the cost is under $400,000. Mr. Hintze said legally that was true, but he assured the Committee that they are willing to establish a lower threshold and keep the Committee updated on the progress.

Senator Buford asked how old the building was. In response, Commissioner Russ stated that the building was at least 30 years old. Senator Buford suggested Transportation should find a new building site. Based on pictures of the structure passed out to Committee members, he said it appeared that asbestos flooring and asbestos pipes may be present, and it may not be a prudent use of funds to proceed with plans to rebuild on that site.

Chairman Damron said as the special session continues to move forward, there could be budget issues that affect capital projects, and he asked staff to keep him and the Committee informed.

Chairman Damron adjourned the meeting at 11:45 a.m.