

SPECIAL MEETING MINUTES
LONG-RANGE CAPITAL PLANNING COMMISSION

Sept. 15, 2016, 2:30 p.m.
Oklahoma State Capitol Building
Oklahoma City, OK, Room 419-C

A meeting notice was filed with the Secretary of State and agenda posted in accordance with the Open Meeting Act.

MEMBERS PRESENT: Cliff Branan, Branan Property Company
Jeff Davis, Partner, Acorn Growth Companies
Larry DeWitt, Executive Vice President, Farmers Exchange Bank
Kirkland Hall, CEO and Vice Chairman, Hall Capital
Jerry Winchester, President/CEO, Seventy Seven Energy

MEMBERS ABSENT: Travis Mason, Director, Commercial Oklahoma
Jeff Stava, Chief Operating Officer, Tulsa Community Foundation

GUESTS: Ben Davis, OMES CAM, Director of Planning
Justin Henry, OMES CAM, Planning
Tim Tuck, OMES CAM, Legal Division
Beverly Hicks, OMES CAM, Administration
Mark Sauchuk, OMES CAM, Director of Facilities
Melissa Milburn, OMES CAM, Director of Real Estate and Leasing Services (REALS)
Carie Carman, OMES CAM, REALS
Travis Monroe, OMES
Jordan Perdue, Bond Advisor's Office
Shawn Ashley, eCapitol

I. Call to order and confirmation of quorum. [Jeff Davis]

Chairman Davis called the meeting to order at 2:30 p.m. A roll call was taken and a quorum was established. A meeting notice was filed with the Secretary of State and an agenda posted in accordance with the Open Meeting Act.

II. Approval of minutes from the Feb. 4, 2016, Commission meeting. [Jeff Davis]

Mr. Winchester moved to approve the February meeting minutes. Mr. Hall seconded the motion, the motion passed and the following votes were recorded:

Mr. Branan – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

III. Introduction of new and current members. [Jeff Davis]

Mr. Davis introduced and welcomed Larry DeWitt, from Cherokee, Oklahoma. He was appointed by Speaker Hickman and replaced Representative Todd Holder.

IV. Nominations and election of a member to serve as chair of the Commission. [Jeff Davis]

Mr. Davis made a motion to nominate Mr. Winchester as chair. Mr. Branan seconded the motion, the motion passed and the following votes were recorded:

Mr. Branan – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

V. Consideration and possible action to approve the transfer of state-owned properties. [Melissa Milburn]

a. Eight parcels of vacant land located along Lincoln Blvd. between 29th and 38th Streets in Oklahoma City, Oklahoma County.

Mr. Davis made a motion to approve. Mr. Hall seconded the motion, the motion passed and the following votes were recorded:

Mr. Branan – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

b. Idabel Community Work Center, 2001 Industrial Parkway, Idabel, McCurtain County.

Mr. Hall made a motion to approve. Mr. Davis seconded the motion, the motion passed and the following votes were recorded:

Mr. Branan – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

c. Vacant land, Section 10, Township 16N, Range 20E, Cherokee County.

Mr. Hall made a motion to approve. Mr. Davis seconded the motion, the motion passed and the following votes were recorded:

Mr. Branan – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

d. State Capital Publishing Museum Building, Guthrie, Logan County.

Mr. Hall made known that he served on the subsidiary committee, along with other distinguished volunteers that helped with the formal process that he stands behind.

Mr. Branen – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

e. Former home for teenage mothers and children, 1329 S.W. 71st Circle, Oklahoma City, Oklahoma County.

Mr. Davis made a motion to approve. Mr. DeWitt seconded the motion, the motion passed and the following votes were recorded:

Mr. Branen – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

f. Vacant land, 3666 N. Peoria, Tulsa, Tulsa County.

Mr. Davis made a motion to approve. Mr. Branen seconded the motion, the motion passed and the following votes were recorded:

Mr. Branen – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

g. Vacant right-of-way land bordering Skyline Building, 6111 E. Skelly Dr. (6128 E. 38th St.), Tulsa, Tulsa County.

Mr. DeWitt made a motion to approve. Mr. Davis seconded the motion, the motion passed and the following votes were recorded:

Mr. Branen – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

VI. Consideration and possible action to transfer funding between approved FY 15 and FY 16 capital improvement projects for the Office of Management and Enterprise Services. [Ben Davis]

This is to redirect funding from four projects that were approved as part of the FY 2015 and FY 2016 capital budgets to fund the renovation of the former Oklahoma State Bureau of Investigation (OSBI) lab into headquarters for the Department of Veterans Affairs.

Mr. Hall made a motion to approve. Mr. Branen seconded the motion, the motion passed and the following votes were recorded:

Mr. Branen – aye; Mr. Davis – aye; Mr. DeWitt – aye; Mr. Hall – aye; Mr. Winchester – aye.

The meeting adjourned after this agenda item (the last action item) at 2:45 p.m. due to a member leaving that reduced attendance to less than a quorum. The rest of the agenda items are presentation and reports only. No quorum necessary.

VII. Overview of FY 18-FY 25 Capital Outlay Request. [Justin Henry]

Mr. Henry gave a report on the FY 15 capital expenditures by agencies on their capital needs. He provided information that was reported by the Central Accounting and Reporting (CAR) division in their comprehensive financial report that was generated by the Office of Management and Enterprise Services (OMES). He made known that the data provided is not the full picture of capital expenditures as defined by the Long-Range Capital Planning Commission (LRCPC). It does not include major repairs like HVAC (heating, ventilation and air conditioning) and roofing. There is a new software program OMES is attempting roll out statewide, called 'Asset Works,' that will collect better and more up-to-date information.

The data from CAR reflects a different definition of capital as mentioned earlier. By function of government you are able to see how much capital expenditures each group spent. However, it was found that regulatory services and natural resources were somewhat high and there were no capital expenditures for legal, judiciary and museums. After looking into their definition of capital, they do not include major repairs. If it does not add new capital to the state, they do not include it. Since this has been an ongoing issue, staff is trying to get a better feel of what agencies are already expending on capital so they know what the needs really are.

While the reinvestment differed between the functions of government, the overall investment rate appeared to be approximately 3.86 percent, which is above the industry standard of typically around 3 percent. Through presentation and in a report provide to the members, Mr. Henry gave a breakdown of the capital expenditures by agency in categories as to provide a better review and understanding. It did not include the areas of transportation or education as those are generally outside of the scope of the LRCPC or not typically recommended for funding. The area where the LRCPC spends most of its time is on land, construction and buildings. In the past this area was a low spending ratio to the amount of state assets. Mr. Henry emphasized that major repairs were not included and the figures provided on the chart for new construction are low numbers. Mr. Davis, Planning Director, gave an example by using the general government category that OMES is part of on the chart. He referred to Mr. Sauchuk, Facilities Director, as an attendee in the meeting who could verify on the chart where it showed \$68,000 in expenditures, when in actuality \$24,000,000 was spent in FY15 on repairs and major maintenance activities throughout the Capitol complex and other OMES-managed buildings. He is hoping over the next few years to fill that huge gap to attain better information.

The Commission offered their support, if needed, to help staff retrieve better data and information from agencies to report in a way that is easy for them to understand. Mr. Davis informed, since he has been with the Commission, staff has made policy recommendations to the plan and works through OMES to implement Asset Works. He made known that Craig Cherry, State Facilities Director, has been working to try making connections with Facilities

Management representatives in other agencies, conversing with them about their standards, standard operating procedures and working towards the development of standards for the state.

Mr. Henry spoke on the asset depreciation column and how this data has helped staff recognize that a lot of the agencies have high depreciation levels. In total, the state's capital assets have depreciated from a value of over \$21,000,000,000 to just above \$11,000,000,000, which is 48 percent depreciated.

Mr. Henry gave an overview of the new project request for the capital improvements plan. In total, 924 appeals were received for over \$5,300,000,000. Of those, 645 were higher education, for a total of \$4,900,000,000, making up 93 percent of the amount. The other 279 agency appeals, on which the Commission directs staff to focus, totaled \$300,097,000. This year's new project request is for 11 more projects at \$1,200,000,000 more than the previous fiscal year.

When looking at costs, the finding is that some agencies seem to cluster most of their request in year one. Some of it seems to be related to the fact that while many agencies have been able to find ways to address their cheaper needs out of their operating budgets, some of the larger projects, like replacement of facilities, have been waiting on funding for several years. During the time the conditions of those facilities have continued to deteriorate raising the urgency of replacement. The several agencies largest needs are now the highest priority. In the last two budget cycles, most agencies have taken cuts to their operating budgets, making them even less able to pay the high cost of facility replacements. Staff proposes to phase out requests so they are more evenly spread over the eight-year period and also to adjust some cost estimates for inflation due to the fact that construction cost has gone up.

Mr. Davis said the approach they are looking at to help agencies manage their facilities better is with sources like Asset Works, which retrieves data through a process that establishes benchmarks and standards that allow everyone to be on the same page. He made known that there will also need to be some commitment from the agencies to spend a percentage of their budget on their buildings every year, which is currently not happening across the board. It's hard for staff to know definitively what has happened because there are no clear numbers. He pointed out that staff's mission is to take care of buildings, which is not a mission in most agencies. This has a lot to do with how buildings are approached through facilities management.

Mr. Davis informed last year of how the Commission provided direction to staff in developing last year's Capital Improvements Plan, and was looking for feedback from this body to see if they would like staff to stay on the same course or make adjustments. Last year in the request for prioritization, the Commission advised to exclude higher education request from consideration for funding through the Maintenance of State Buildings Revolving Fund (MSBRF), because higher education has the ability to pursue their own funding mechanisms and issue their own bonds through the bond advisor. They have a little more flexibility than other agencies in addressing their capital needs. They are also advised to prioritize critical maintenance in health and safety projects over other types of request. They are then advised to develop a list of limited types of projects that could be recommended for a bond issue, in which staff accomplished. The Commission advised staff to stay on the same course as last year and spoke to the benefit of consistency.

In 2015, staff came up with some basic criteria for what would be considered for a bond recommendation in the plan. Staff recommends projects must meet the three requirements listed below:

- Current conditions pose a danger to the lives and safety of Oklahomans,
- The projects have reached a point where imminent failure is probable, if not likely; and
- Failure of the capital asset would result in significant economic hardships for the state.

The top recommendation for last year was the Public Health Lab. If it fails, it is going to cost the state \$8,000,000 and a year to outsource those services. Work would have to go to an out-of-state facility and would decrease our opportunity to address many newborn critical illnesses that happen in the first week of life. Mr. Davis recommended a subcommittee meeting in October where staff will put together a list of what they think would work and receive feedback and discussion.

Mr. Davis made the members aware of the larger requests received for this year:

- The Public Health Lab - \$49,000,000.
- Mental Health - \$16,000,000 to construct the Tulsa Center for Behavioral Health.
- Housing unit, Joseph Parks - \$17,000,000.

Another request is for parking garage repair the Department of Environmental Quality (DEQ) located in downtown OKC, where huge chunks of concrete are falling from the ceiling and cars are being crushed. It's nearing the point of possible close down and not usable anymore.

In the policy recommendations, staff has had similar recommendations for the last two years to establish the Capital Improvements Plan as the sole process for attaining capital funding. There are some projects that do not go through the capital planning process, such as the Capitol renovation. There is more control over determining which projects are a priority if they all have to be scrutinized under the same set of rules. Even though an agency might be able to afford to pay for their own project, they still should be scrutinized to see if it makes sense to be constructed or the money should be directed to a higher priority issue.

Mr. Davis recommended the establishment of statewide performance measures for state facilities operations and maintenance. The facilities director is currently working with agencies on this, as well as establishing a consistent and adequate appropriation for recapitalization. The goal is to commit the legislature to consistent funding of the capital budget every year in order to be able to strategize projects and phase them out. It is difficult to phase out a \$20,000,000 project over three years when there is no surety in funding for years two and three. You do not want to spend phase one funds and not be able to finish the project. Report only.

VIII. Update on the progress of FY 2015 and FY 2016 capital project implementation. [Ben Davis]

Mr. Davis gave an update of previously approved capital projects. In FY 2015, the Commission approved \$29,500,000 in projects that were approved by the legislature with full funding for the

budget. Of the 100 projects, 38 have been completed. Twenty-one had funds moved to other projects that were approved by the Commission. There are 41 that are still in the process of being completed; and quite a few that are approaching completion within the next few months.

In FY 2016, the Commission recommended and approved \$34,900,000 in projects, and was approved by the legislature, but was not granted an appropriation that year, so they were able to only fund 53.7 percent, which was 21 projects. To date, one has been fully completed. The Commission approved the transfer of funding for two projects to other projects, and the other 18 are still in process.

In FY 2017, the Commission approved \$36,600,000 which was also approved by the legislature. No appropriation was provided. However, they were able to fund .4 percent of the money to the Asset Works software approved by the Commission in the FY 2015 plan. No projects to date are being funded. It is hoped that as funds are received from the sale of properties through Real Estate and Leasing Services, they will be able to move towards the implementation of some of the projects. There is currently approx. \$147,000 that is unallocated to a project in the fund. They are currently waiting on some of the sales to finalize so there will be enough money to tackle some of the higher priority projects on the FY 2017 list.

The Assets Works software is an integrated workplace management system that takes all the functions of Capital Assets Management (CAM) and consolidates them into one software to help with sharing data and in turn make better decisions. It is a web-based software available to all agencies. The Facilities Management group currently inputs the state's entire portfolio into the system. When finished, staff will be able to tag all the projects that come through Construction and Properties to the building and start tracking when a project, such as a roof, was implemented and when it is time for replacement. It can then determine what the capital budget would likely be in future years. It will identify all the state properties from the Real Estate and Leasing Services group. At the end of the month and through the rest of the year, contractors will be interviewing staff to determine the logistics on how to structure the software. Report only.

IX. Brief on site visits to the Oklahoma State Penitentiary, Mack Alford Correctional Center and Central Oklahoma Juvenile Center. [Ben Davis]

Mr. Davis gave a brief overview on the site visits of the three facilities that are in dire need of attention. Report only.

X. Updates and Discussion. [Ben Davis] None.

XI. Adjournment.

There being no further business, Mr. Davis made a motion to adjourn. Mr. Hall seconded the motion. Motion carried. The meeting adjourned at 2:57 p.m.