

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**April 13, 2018**

### **Call to Order and Roll Call**

The Capital Projects and Bond Oversight Committee meeting was held on Friday, April 13, 2018, at 9:00 AM, in Room 171 of the Capitol Annex. Representative Phil Moffett, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Stan Humphries, Co-Chair; Representative Phil Moffett, Co-Chair; Senators Rick Girdler and Christian McDaniel; Representatives Larry Brown and Steven Rudy.

Guests: Ms. Janice Tomes, Deputy State Budget Director; Mr. Scott Aubrey, Director, Real Properties; Ms. Donna McNeil, Executive Director, Kentucky Infrastructure Authority; and Mr. Ryan Barrow, Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Committee Staff Administrator; Julia Wang, Legislative Analyst; and Jenny Wells Lathrem, Committee Assistant.

### **Approval of Minutes (March 20, 2018)**

A motion was made by Representative Brown to approve the minutes of the March 20, 2018 meeting. The motion was seconded by Senator Girdler and approved by voice vote.

### **Information Items**

Ms. Halloran reported four information items. The first was the advertisement notice to lease space in Hardin County for the Cabinet for Health and Family Services.

The second was the 42<sup>nd</sup> semi-annual report of the Kentucky Asset/Liability Commission (ALCo).

The third was the quarterly capital projects status reports submitted by the Administrative Office of the Courts, the Finance and Administration Cabinet (with the Commonwealth Office of Technology reporting independently), and the postsecondary institutions managing their own capital construction programs.

The fourth was the weekly debt issuance calendar compiled by the Office of Financial Management.

### **Project Report from the Finance and Administration Cabinet**

Ms. Tomes submitted a pool project with an appropriation increase for the Tourism, Arts and Heritage Cabinet's Department of Parks. The project was the Taylorsville Lake Sewer System Improvements, for which the committee approved a Kentucky Infrastructure Authority (KIA) Fund B (Infrastructure Revolving Loan Program) loan during its February 2018 meeting. House Bill 303, Part II, (4) allows state agencies to use allocations from the Kentucky Infrastructure Authority for capital projects not specifically identified in an appropriations bill and KRS 45.760(6) allows money to be added to an existing capital project. The total funded amount is \$856,000; with \$796,000 from the Kentucky Infrastructure Authority and \$60,000 from the 2016 general fund appropriation in House Bill 10. The allocations will finance the rebuild of one pump station and the demolition of a package treatment plant and two pump stations.

A motion was made by Representative Brown to approve the project, seconded by Senator Humphries, and approved by unanimous roll call vote.

### **Lease Report from the Finance and Administration Cabinet**

Mr. Aubrey reported an emergency lease for the Department of Military Affairs (DMA), Kentucky Army and Air National Guard for warehouse and operations space. The Division of Real Properties identified ten potential properties for the Special Tactics Squadron located near Standiford Field in Jefferson County, with one fulfilling DMA's requirements. The resulting lease is for 43,696 square feet at \$4.55 per square foot for a total annual cost of \$198,816.80 through June 30, 2023. No action was required.

### **Report from the Office of Financial Management**

Ms. McNeil submitted multiple Kentucky Infrastructure Authority loan requests.

The Lexington-Fayette Urban County Government (LFUCG) requested a \$31,944,188 Fund A (Clean Water State Revolving Fund Loan Program) loan increase for a total loan amount of \$67,944,188, to complete [Phase I of the West Hickman Wastewater Treatment Plant Wet Weather Storage] project, which will reduce sanitary sewer overflows for compliance with the federal Consent Decree. The loan is for 20 years with a 1.75 percent interest rate.

The LaGrange Utilities Commission requested a \$3,121,200 Fund A loan [Pump Station and Interceptor Sewer Upgrade project] for construction of a lift station and interceptor sewer upgrades, to eliminate a sanitary sewer overflow for compliance with state enforcement action. The loan is for 20 years with a 1.75 percent interest rate.

The City of Pineville requested a \$146,000 Fund A planning and design loan [Virginia Avenue and Courthouse Square Utility Replacement and Revitalization project]

to eliminate a sanitary sewer overflow for compliance with state enforcement action. The loan is for five years with a 2.75 percent interest rate.

The City of Paducah requested a \$4,610,667 Fund A loan [Paducah Pump Station #2 (6th Street) Rehabilitation project] to rehabilitate a major flood wall pump station serving downtown Paducah. The loan is for 20 years with a .5 percent interest rate.

The City of Guthrie requested a \$1,163,825 Fund B loan [Water/Sewer System Rehabilitation/Improvements project] for a sewer system evaluation survey and upgrades in both the drinking and wastewater systems. The loan is for 30 years with a .5 percent interest rate.

The Whitley County Water District requested a \$37,204 Fund F (Drinking Water State Revolving Fund Loan Program) loan increase [Water System Improvements project], for a total loan amount of \$969,704 to replace water lines. The loan is for 20 years with a .75 percent interest rate.

The Frankfort Electric and Water Plant Board requested a \$4 million Fund F loan [Water Storage Improvement project] to construct a new storage tank, replacing two leaking storage basins over 125 years old. The loan is for 20 years with a 1.75 percent interest rate.

The City of Louisa requested a \$834,430 Fund F loan [Downtown Water Rehab project] to replace and upgrade water lines. The loan is for 20 years with a .5 percent interest rate.

In response to several questions from Senator McDaniel regarding LFUCG's loan increase, Ms. McNeil said that LFUCG decided to use loan proceeds rather than cash as originally planned to complete Phase I since KIA funding was available. LFUCG can borrow from KIA at a lower interest rate than accessing the capital markets directly and as LFUCG's sewer system debt is AA-rated, its borrowing helps maintain the credit quality of KIA's loan portfolio, one of the contributing factors to the AAA rating for KIA's leverage debt. \$35 million to complete Phase I of the project was listed in the [2018 Clean Water State Revolving Fund] Intended Use Plan (IUP) and LFUCG was invited to apply for a \$11 million loan. For four previous KIA loans, LFUCG will not need \$20.9 million of the requested loan amounts due to lower than expected bids and other cost saving measures. Upon close out of those four previous loans, June for three of the loans and December for the fourth, loan repayments will begin.

KIA will apply the \$20.9 million balance to the requested loan increase. With the \$11 million dollars, Phase I of the project will be fully funded.

McNeil said that LFUCG will pay 1.75 percent interest rather than the 2.75 percent standard rate as the project is for Consent Decree compliance.

Ms. McNeil stated that for this year's [Clean Water State Revolving Fund] funding cycle, seven systems serving a population of 3,300 or below plan to borrow 29 percent of available funds and three systems serving a population between 3,300 and 10,000 plan to borrow 19 percent of available funds. Although the loan for this project was 20 percent of available funds, KIA factors needs of smaller entities when reviewing annual IUPs, which include the project priority list set by the Division of Water (DOW).

A motion was made by Senator Girdler to roll the KIA loans into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Senator Girdler to approve the KIA loans, seconded by Representative Brown, and approved by unanimous roll call vote.

Mr. Barrow submitted two new State Property and Buildings Commission bond issues. The first was the State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 118 for the Kentucky River Authority (KRA). The original budget language included both Dam 10 and the lock; however the KRA Board voted to reconstruct Dam 10 only. Bids to reconstruct Dam 10 were consistent with the approximately \$28.2 million to be issued. The annual debt service of about \$2 million will be paid with a Tier II rate increase effective July 1, 2018; from \$.13 per 1,000 gallons to \$.22 per 1,000 gallons, adding \$.36 per month to the average customer bill. The repair of Dam 10 will provide an essential service by protecting Winchester's water supply.

The second was the State Property and Buildings Commission Revenue Bonds, Project No. 119 and Agency Fund Revenue Refunding Bonds Project No. 120. Project No. 119, a general fund transaction, will finance \$300 million of projects authorized in prior appropriations bills. Project No. 120 is an agency fund revenue refunding in three series, with projected savings of about \$1.4 million, for DMA. The negotiated transaction with Citigroup is estimated to price at about 3.86 percent.

In response to several questions from Senator McDaniel regarding Project No. 118, Mr. Barrow said that the lock is not being repaired because it would give recreational access to only a small portion of the river as the adjacent locks are not functional. Most of the locks on the Kentucky River are owned by the commonwealth, with the few remaining to be transferred to the state by the U.S. Army Corp of Engineers.

A motion was made by Representative Brown to roll the two bond transactions into one roll call vote, seconded by Senator Humphries, and approved by voice vote.

A motion was made by Senator McDaniel to approve the two bond transactions, seconded by Representative Rudy, and approved by unanimous roll call vote.

Mr. Barrow reported two previously approved transactions. The first was the Kentucky Housing Corporation (KHC) Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Winterwood HPW Portfolio), Series 2018. OFM verified that there wasn't any language in the documents obligating the commonwealth financially. The transaction, which financed properties in several locations, sold in February with net proceeds of \$9.3 million. No action was required.

The second was the Kentucky Infrastructure Authority (KIA) Wastewater and Drinking Water Revolving Fund Revenue Bonds, Series 2018A. The \$60 million issued to finance KIA loans priced in mid-March at 2.9 percent. No action was required.

Mr. Barrow submitted four school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for new projects in the Bourbon County, Carroll County, Estill County, and Fayette County school districts. The amount to be issued for the new projects is just above \$41 million with slightly over 20 percent, approximately \$8.3 million, SFCC debt service participation. No tax increases were necessary to finance those projects.

A motion was made by Representative Brown to roll the school district school bond issues into one roll call vote, seconded by Senator Girdler, and approved by voice vote.

A motion was made by Senator McDaniel to approve the school district school bond issues, seconded by Representative Rudy, and approved by unanimous roll call vote.

**New School District Bond Issues with 100 Percent Locally-Funded Debt Service**

Ms. Halloran reported three local school bond issues with 100% local debt service support for roofing projects in the Erlanger-Elsmere Independent (Kenton County) and Estill County school districts and energy improvements in the Franklin County school district. No tax increases were necessary to finance those projects.

With there being no further business the meeting adjourned at 9:22 a.m.