

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

June 19, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, June 19, 2018, at 1:00 PM, in Room 169 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; Senators Julian M. Carroll and Christian McDaniel; Representatives Larry Brown, Steven Rudy, and Diane St. Onge.

Guests: Ms. Janice Tomes, Deputy State Budget Director; Mr. Scott Aubrey, Director, Real Properties; Ms. Donna McNeil, Executive Director, Kentucky Infrastructure; Mr. Ryan Barrow, Executive Director, Office of Financial Management; Mr. Ryan Green, Executive Director, Budget and Financial Planning, Eastern Kentucky University; Mr. Chris Brumett, Director of Asset Management, Kentucky Community and Technical College System; Ms. Katie Smith, Commissioner, Department for Financial Services, Cabinet for Economic Development; and Colonel Steven King, Kentucky National Guard Construction and Facility Management Officer, Department of Military Affairs.

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

Introduction of New House Members

Senator Humphries welcomed two new House committee members: Representatives Horlander and St. Onge.

Election of House Co-Chair

Representative Rudy nominated Representative Brown for the position of House Co-Chair. The motion was seconded by Representative St. Onge. Representative Rudy moved that motions cease and that Representative Brown be elected by acclamation. The motion was seconded by Representative St. Onge and approved by voice vote.

Approval of Minutes (April 13, 2018)

A motion was made by Representative Rudy to approve the minutes of the April 13, 2018 meeting. The motion was seconded by Representative Brown and approved by voice vote.

Correspondence Items

Ms. Halloran reported on correspondence regarding the cancellation of the May 2018 meeting. The executed transactions, submitted by the Finance and Administration Cabinet for the May meeting, were included in the packets. No action was required.

Information Items

Ms. Halloran reported two information items. The first was the Office of the Auditor of Public Accounts' statutorily required reports certifying procedural compliance for the procurement of bond counsel, financial advisory, and underwriting services. The second was the advertisement notice for the procurement of leased space, to be occupied by the Cabinet for Health and Family Services, in Graves County. No action was required.

Project Report from the Postsecondary Institutions

Mr. Green submitted a \$1.1 million appropriation increase in other (private) funds for Eastern Kentucky University's (EKU) Construct Student Life Facilities project, authorized in HB 303 with \$90 million in agency bonds and \$3 million in other (private funds).

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

Lease Report from the Postsecondary Institutions

Mr. Brumett reported two lease renewals. The first, PR-0007, was for the Jefferson Community and Technical College's (JCTC) administrative offices in downtown Louisville. The total annual cost is \$458,774, including 100 parking spaces. The cost per square foot is \$7.52, approximately \$5 less than the county average.

The second, PR-00296, was for a portion of Maysville Community and Technical College's classroom and office space at the Rowan Campus in Morehead. The total annual cost is \$277,553. The cost per square foot is \$5.08 and the county average is around \$11 per square foot.

A motion was made by Representative Rudy to roll the two lease renewals into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Senator Carroll to approve the lease renewals, seconded by Representative Rudy, and approved by unanimous roll call vote.

Project Report from the Finance and Administration Cabinet

Ms. Tomes reported a \$2,347,200 Fees-in-Lieu-Of (FILO) Mitigation Pool project for the Department of Fish and Wildlife Resources, Rich Wildlife Management Area (WMA) Red Oak Creek, Owen County. The Red Oak Creek property is adjacent to the eastern section of the Dr. James R. Rich WMA. This project, funded solely from the Kentucky Wetland and Stream Mitigation Fund pursuant to KRS 150.255, will restore and protect 12,475 linear feet of stream in the Lower Kentucky River Service Area. No action was required.

Ms. Tomes next submitted a \$425,054 appropriation increase, \$318,791 federal funds and \$106,264 restricted funds, revising the total project scope to \$1,803,151; for the Department of Military Affairs Interior Renovation of the Wellman Armory at the Boone National Guard Center in Franklin County. The project is funded with 75 percent federal funds and 25 percent agency restricted funds from the Combined Clothing Distribution Fund (CCDF). This was previously submitted in October 2017 as a \$1,378,097 new project with the same fund source split, 75 percent federal funds and 25 percent restricted funds. The appropriation increase is for replacement of the communications wiring in the entire building for 2012 National Electric Code compliance and design changes for the processing of Personally Identifiable Information (PII), along with SECRET level operational and threat information transmitted via a Secure Internet Protocol Router terminal, in a secure open storage environment.

In response to a question from Senator McDaniel, Ms. Tomes said that she would provide CCDF balances and that while the balances were increasing, \$6 million in each year was appropriated for a new maintenance pool [Bluegrass Station Facility Maintenance Pool - 2018-2020] in the recently enacted budget.

In response to several more questions from Senator McDaniel, Colonel King stated that Housing, Buildings and Construction (HBC) requested the upgrade of the communication lines, costing about \$130,000, as well as additional egress, resulting in restructuring some of the interior spaces.

Colonel King said that DMA's existing Secure Internet Protocol Router terminal needed to be expanded; therefore, there needed to be a secure work area outside of the vault.

In response to a question from Representative St. Onge, Colonel King said the secure communications through the Kentucky National Guard's operational channels could come from the Department of the Army, the Department of Defense, the National Guard Bureau from another state, or from overseas.

In response to a question from Senator Humphries, Colonel King said that the renovations should meet standards for open storage requirements from several years to over a decade.

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

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey reported a new lease for the Cabinet for Health and Family Services in Marshall County. The Cabinet submitted a request for supplemental space due to an increase in staff and to allow for the incorporation of current design standards as well as to consolidate offices. The new lease was procured through advertisement, resulting in a lease award for 12,757 square feet at \$15.75 per square foot, including 69 parking spaces. The total annual cost is \$200,922.76 through June 30, 2025.

In response to a question from Senator Carroll, Mr. Aubrey said that the comparable costs for leases in Marshall County is now the market rate as the submitted lease is a consolidation of two of the commonwealth's three leases in Marshall County. The rental costs for the two consolidated leases have not been adjusted since initial occupancy in the 1990s. The rental cost for the remaining lease is around \$8 per square foot.

Mr. Aubrey next reported two lease modifications over \$50,000. The first was for the Department of Corrections in Taylor County. This lease is being modified to accommodate additional staff as well as to upgrade the electrical in the copier area and security. Two estimates were obtained: \$57,500 from Gupton Renovations and Exteriors and \$54,625 from Malco Construction. The low bid was selected and costs will be amortized over the remaining lease term.

The second was for the Commonwealth Office of Technology in Franklin County. This lease is being modified to reduce the amount of leased space by 14,372 square feet and to reduce the amount of reserved parking spaces by 75. The \$115,982.04 reduction will result in an annual cost of \$8,335.84.

Mr. Aubrey next submitted a Tenant Improvement Fund (TIF) request for the 300 Building in Frankfort. The occupying agencies requested voice data outlets in the glass conference rooms in each of the collaboration areas and badge readers to the entrance of the freight elevator and the stairwell at the east entrance. The total cost for these improvements is \$15,140.50 and the total amount of improvements to date for this building is \$210,358.61.

A motion was made by Senator Carroll to roll the four items into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Senator Carroll to approve the four items, seconded by Representative Rudy, and approved by unanimous roll call vote.

Lastly, Mr. Aubrey reported one lease modification under \$50,000 for the Cabinet for Health and Family Services in Jackson County. This lease is being modified to accommodate additional staff; increasing space by 1,905 square feet and completing renovations, which include replacing staff offices, extending an interior hallway, and creating a copy and storage area. Two estimates were received: \$10,182.04 and \$14,500. The low bid submitted by Mr. Bill Fowler was selected and costs will be amortized through the remaining lease term. No action was required.

Report from the Office of Financial Management

Ms. McNeil submitted multiple Kentucky Infrastructure Authority loan requests.

The Augusta Regional Sewer Authority requested a \$6,297,000 Fund A (Clean Water State Revolving Fund Loan Program) loan [Augusta/Brooksville Regional Sewer project], which includes the previously approved \$600,000 Planning and Design loan. The project is for a new regional Wastewater Treatment Plant (WWTP) that will replace two existing plants serving the cities of Augusta and the Brooksville and extend sewer service to over 80 new customers between these two cities in northern Bracken County. The term is 30 years with a .25 percent interest rate.

The City of Marion requested a \$5,388,790 Fund A loan [New Wastewater Treatment Plant project], which includes the previously approved \$587,200 Planning and Design loan. This loan is the second of the four in the multi-year funding cycles and includes a new WWTP, replacing the existing undersized plant, and collection system rehabilitation. The project will partially satisfy a Division of Water (DOW) agreed order. The term is 30 years with a .50 percent interest rate.

The Regional Water Resource Agency (RWRA) requested a \$2,047,000 Fund A loan [Cedar Hills Subdivision Sewer Extension project], which will eliminate the package WWTP serving the Cedar Hills neighborhood in Daviess County. The term is 20 years with a 1.75 percent interest rate.

The Oldham County Environmental Authority requested a \$2,000,000 Fund A loan [I/I Program project], to prevent sanitary sewer overflows for compliance with a DOW agreed order. The term is 20 years with a 1.75 percent interest rate.

The Paducah McCracken County Joint Sewer Agency requested a \$625,000 Fund A loan [Waid Package Plant Removal project] to eliminate two package treatment plants serving 122 homes in two subdivisions. The term is 20 years with a 1.75 percent interest rate.

The Marion County Water District requested a \$950,000 Fund B (Infrastructure Revolving Loan Program) loan [Marion County Water District 2018 System Improvements

project] to replace undersize water lines in the distribution system. The term is 20 years with a 1.75 percent interest rate.

The Cannonsburg Water District requested an \$85,000 Fund B loan [Culp Creek Road Emergency Waterline Extension project] to extend a waterline to six homes in Greenup County. This project will address a public health emergency declared by the Kentucky Energy and Environment Cabinet (EEC) and local officials. An abandoned oil well has contaminated the ground water, impacting drinking water wells. The term is 20 years with a 1.75 percent interest rate.

The Monroe County Water District requested an increase of \$111,347 to its Fund F (Drinking Water State Revolving Fund Loan Program) loan [New Regional Water Treatment Plant and Water System Improvements project] for a total amount of \$15,675,679. The District is under a DOW agreed order and the change order as approved by DOW is to construct a conventional flocculation sedimentation basin to meet redundancy requirements. The term is 30 years with a .50 percent interest rate.

The City of Salyersville in Magoffin County requested a \$705,982 Fund F loan [Church Street Storage Tank project], which includes the previously approved Planning and Design loan, to replace an aging storage tank. The term is 20 years at a .50 percent interest rate.

In response to several questions from Senator McDaniel regarding the loan to the Cannonsburg Water District, Ms. McNeil said that she will contact EEC for costs incurred by the commonwealth for the emergency process and that the Coast Guard is attempting to determine the responsible entity for the abandoned oil well. If responsibility is determined, then the commonwealth's and the utility's costs will be reimbursed.

In response to questions from Senator Carroll, Ms. McNeil said that many of the utilities did implement rate increases to finance the loans presented at this meeting, with a few of the increases to be applied incrementally rather than all at once. Ms. McNeil stated that, when presenting to the committee, she will include utilities' rate increases implemented specifically to finance repayment of the submitted loans requests.

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

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

The Hopkinsville Electric System in Christian County requested a \$2,500,000 Fund B loan and a \$1,800,000 Fund C (Governmental Agencies Program) loan [Phase 2 of the Fiber to Home project]. The project will install 65 miles of fiber to provide high speed

internet to potentially serve 3,600 homes within the city limits. The term for both loans is 20 years with a 1.75 percent rate and 3 percent rate for the Fund B and Fund C loans, respectively.

The MuniNet Fiber Agency requested a \$514,000 increase to its \$3,173,049 Fund C loan [Fiber Optic Cable Build project #2] due to changing from hanging fiber from existing poles to buried fiber. The term is 20 years with a 3 percent interest rate.

In response to questions and comments from Senator Humphries and Representative St. Onge, Ms. McNeil said that she will provide supplemental information regarding Hopkinsville Electric System's broadband competitors within its city limits and on MuniNet Fiber Agency.

A motion was made by Senator Carroll to approve the two KIA Broadband loans, seconded by Representative St. Onge. The motion failed by a roll call vote of 3 yeas, 2 nays, and 1 pass.

Cabinet for Economic Development

Ms. Smith submitted a \$1 million Economic Development Bond (EDB) grant to the City of Franklin for the benefit of Fritz Winter North America LP. The German company specializes in iron cast auto parts such as brake rotors, drums, and flywheels. Fritz Winter is investing over \$193 million in its 240,000 square foot Franklin facility to process, store, and distribute automotive and commercial products. Fritz Winter is to create up to 265 new, full-time Kentucky resident jobs, paying an hourly wage of \$22, including benefits. Should the company fail to achieve the job or wage requirement, the grant will be reduced. Disbursements will not occur until after performance is reported and reviewed; therefore collateral will not be required.

Representative Rudy stated that he appreciated the grant for this project and would like to see more grants for projects in western Kentucky.

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

Follow-up Report for Previously Approved Bond Issue

Mr. Barrow reported the previously approved State Property and Buildings Commission (SPBC) Agency Fund Revenue Bonds, Project No. 118 (Kentucky River Authority) (KRA). The approximately \$29 million agency fund transaction financed the reconstruction of Dam 10, which creates the pool from which the City of Winchester draws its water. UBS purchased the bonds and the deal closed on May 24. The true interest cost was 3.625 percent. No action was required.

School District Bond Issues with School Facilities Construction Commission (SFCC) Debt Service Participation

Mr. Barrow submitted seven school district bond issues with School Facilities Construction Commission (SFCC) debt service participation [for projects in the Bowling Green Independent (Warren County), Breckinridge County, Fort Thomas Independent (Campbell County), Hickman County, Jefferson County, Paducah Independent (McCracken County), and Russell County school districts]. As discussed in prior meetings, for various reasons there are fewer municipal refunding transactions, reflected in the SFCC's submittal of transactions for only new projects. The estimated issuance amount is \$102 million, with SFCC debt service participation of approximately 19 percent or about \$19.6 million, the local debt service participation of approximately 73.5 percent or about \$75 million, and SFCC urgent needs debt service participation of [approximately 7.5 percent or] about \$7.6 million for the Ft. Thomas Independent School District. No tax increases were necessary for the financings.

Senator McDaniel recognized Representative Fischer, in the audience, and Senator Schroder, for securing urgent needs school assistance for the replacement of Johnson Elementary and referenced the tarp over the school's main electrical box. While the tarp protects the box when it rains, the water flows through the basement.

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

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

Ms. Halloran reported six local school district bond issues with 100 percent local debt service support for two new facilities [Clark County and Raceland-Worthington Independent (Greenup County)], one for district wide energy improvements [Bullitt County], and three for renovations [Danville Independent (Boyle County), Marshall County, and Pulaski County] . The bond issues involved neither SFCC participation nor tax increases. No action was required.

Senator McDaniel thanked Ms. Halloran and her staff for their work in the transmission of meeting materials, including bookmarking the .pdf documents, and gave favorable feedback on the new Meeting Materials committee webpage.

With there being no further business the meeting adjourned at 1:47 p.m.