

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

July 18, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Wednesday, July 18, 2018, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Larry Brown, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Larry Brown, Co-Chair; Senators Julian M. Carroll and Rick Girdler; Representatives Dennis Horlander, Steven Rudy, and Diane St. Onge.

Guests: Mr. Bart Hardin, Director of Government Relations, University of Kentucky; Mr. Kevin Cardwell, Deputy State Budget Director, Office of State Budget Director; Mr. Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; Ms. Donna McNeil, Executive Director, Kentucky Infrastructure Authority; Senator Whitney Westerfield; Mr. Mark Bunning, Deputy Secretary, Finance and Administration Cabinet; 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 (June 19, 2018)

A motion was made by Representative Rudy to approve the minutes of the June 19, 2018 meeting. The motion was seconded by Representative St. Onge and approved by voice vote.

Correspondence Items

Ms. Halloran reported two correspondence items. The first, required by the 2016 executive branch budget bill, was from the Finance and Administration Cabinet certifying fiscal year 2018 unexpended debt service for the Kentucky Communications Network Authority's contractual public-private partnership availability payments. The second was KRS 45.800 correspondence from and to the committee regarding resubmittal of Kentucky Infrastructure Authority broadband loan requests.

Information Items

Ms. Halloran reported one information item: the quarterly capital projects status reports from the Administrative Office of the Courts; the Commonwealth Office of

Technology, reporting separately from the Finance and Administration Cabinet; the Finance and Administration Cabinet; and postsecondary institutions managing their own capital construction programs.

Lease Report from the Postsecondary Institutions

Mr. Hardin reported two lease renewals for the University of Kentucky (UK). The first was for the UK Center on Trauma and Children (CTAC), 11,199 square feet at \$18.50 per square foot for a \$207,181.50 annual cost, a \$5,823.50 increase. Although the rental rates from the other two respondents to UK's Request for Proposal (RFP) were lower, the buildings were rated below Class A and UK would have incurred significant renovation, including infrastructure upgrades, costs.

The second was for UK Healthcare; 101,264 square feet at \$16.10 per square foot, plus \$10.00 per square foot for common area maintenance and utilities, for a \$2,642,990.40 annual cost.

A motion was made by Representative St. Onge to roll the two new leases into one roll call vote, seconded by Representative Rudy, and approved by unanimous roll call vote.

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

Project Report from the Finance and Administrative Cabinet

Mr. Cardwell submitted a new \$665,000 project for the Kentucky State Fair Board (KSFB), Concessionaire Kitchen Buildout at the Kentucky International Convention Center (KICC). The project, the construction of a bakery, is supported by private funds from KICC's food service concessionaire, Levy's Convention Centers, and the KSFB will receive a percentage of the bakery's revenues.

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

Lease Report from the Finance and Administrative Cabinet

Mr. Aubrey reported a lease modification for the Board of Hairdressers and Cosmetologists in Franklin County; a 8,093 square feet decrease, from 12,611 square feet to 4,518 square feet, at \$7.74 per square foot, resulting in a \$62,639.88 annual decrease, from \$97,609.20 to \$34,969.32.

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

Report from the Office of Financial Management

Ms. McNeil submitted multiple Kentucky Infrastructure Authority loan requests.

The first items were the resubmittal of loan and loan increase requests for two broadband projects: Hopkinsville Electric System [for Phase 2 of the Fiber to Home project] and MuniNet Fiber Agency [for Project #2]. Hopkinsville Electric System (HES) requested a \$2.5 million Fund B (Infrastructure Revolving Loan Program) loan and a \$1.8 million Fund C (Government Agencies Program) loan. Phase 2 of the four-phased project is the installation of 65 miles of fiber to provide high speed internet, potentially serving 3,600 residences, including 900 new customers, within the city limits. HES has 13,000 customers in Trigg, Christian, and Todd counties. In 2007, Phase 1, new fiber to access a T-1 provider in Bowling Green and funded with a \$3 million KIA loan, resulted in reduced corporate T-1 service costs from \$3,000 per month to \$350.00 per month. The KIA loan has a balance of \$1,675,909 and will mature in 2023.

Community and business leaders requested that HES provide expanded residential service to promote economic development. Most of the proposed service area has access to internet services through HES or other providers such as AT&T and Spectrum; however, is considered underserved because of quality of internet access. 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 loan, respectively.

Senator Westerfield said he appreciated the committee's reconsideration of the project. He stated that he and his law office were HES customers and that the robust organization, although the only local provider, conducts business as if there were hundreds of other competitors. He also referenced local customer service, competitive pricing, and good stewardship of existing KIA loan proceeds. He mentioned that whenever the citizens of Hopkinsville have been polled, as with residents in other communities as there is still much need, particularly in rural areas; they requested broadband access most often. Lastly, he said the project is a huge initiative and asked for the support of the committee.

Mr. Bunning stated that he is a KIA board member and that it was important for the committee to reconsider the project, as when communities are underserved by the private sector, communities should be given the opportunity to serve themselves. Mr. Bunning said the requested loan amount represented less than one half of one percent of KIA's \$1.2 billion loan portfolio. The loan will fund last-mile work impacting residences and businesses.

Representative Brown said that he could relate to the issues involved when a community is underserved.

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

Representative Rudy referenced Representative Walker Thomas's support when explaining his yeas vote.

The MuniNet Fiber Agency requested a \$514,000 increase to its \$3,173,049 Fund C (Government Agencies Program) loan [Project #2] due to changing from hanging to buried fiber. The MuniNet Fiber Agency was created as a joint agency under the Interlocal Cooperation Act. There are seven members: Murray Electric System, Mayfield Electric and Water Systems, Paducah Power System, Princeton Electric Plant Board, Hopkinsville Electric System, Russellville Electric Plant Board, and Glasgow Electric Plant Board. MuniNet provides service to two banks, Graves and Marshall County schools, Marshall County libraries, Murray State University, Murray-Calloway County Hospital, and six internet service providers: CIS Telecom Group, Dialog Telecommunication, e-Tel, Paducah Power System, Systems Solutions, and Windstream. The fiber from this project was constructed along the path that KentuckyWired planned to take; therefore, it will be one of MuniNet's customers through a 30 year Indefeasible Right of Use contract. MuniNet members began receiving internet services from Level 3 in April 2013, paying \$1.85 per megabyte, a significant savings from the \$108 Murray Electric System was paying in 2009. Presently the cost of internet connection, just under a dollar, is about half as what it was in 2009. MuniNet has three existing loans through KIA for approximately \$7.7 million, maturing in 2030, 2034, and 2037, respectively. The term is 20 years with a 3 percent interest rate.

Senator Carroll said that he was involved in representing utilities many years ago and is familiar with what these utilities are doing, that he read all the correspondence and the proposal, and that he believes the savings are significant.

Representative St. Onge referenced briefings by Representative Thomas, Deputy Secretary Bunning, Annette DuPont-Ewing [Executive Director, Kentucky Municipal Utilities Association], and others when explaining her yeas vote.

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

The City of Campbellsville in Taylor County requested a \$1,377,000 increase to its \$6,593,000 Fund F (Drinking Water State Revolving Fund Loan Program) loan [2017 Water System Improvements project] for a total loan amount of \$7,970,000. The project will provide improvements to the existing water treatment plant; clarifier, filter controls, pipe gallery valve replacements, raw water meter valve kit, chlorine controls; two existing service pumps and add storage garage, filter belt press, sludge pumping facilities as well as chlorine pumps for the filters. The current average respective monthly water bills, for 4,000 gallons, for those inside and outside of the city are \$19.32 and \$38.04. The current rates; an increase of 1.5 percent over the previous year, less than the 3 percent allowed by

the city's ordinance, were effective July, 2018. The term is 20 years at a .25 percent interest rate.

The City of Pineville in Bell County requested a \$2,084,590 Fund F loan [Water Treatment Plant Expansion project], including the \$220,000 previously approved Planning and Design loan, to construct a new 2 million gallon per day water treatment plant. The current average respective monthly water bills, for 4,000 gallons, for those inside and outside of the city are \$37.04 and \$47.45. The rates have not increased since July 2014; however, the city has committed to raise rates, if necessary, to meet the 1.1 debt coverage ratio required by the terms of the assistance agreement. The term is 20 years at a .50 percent interest rate.

Representative Rudy commented on the engineering cost differential between the two Fund F projects, Campbellsville's project at 10.2 percent and the Pineville's project at 15.7 percent. Ms. McNeil said that Pineville switched engineers, that KIA adheres to the old slide rule for the rural development wage on the engineering rates, and that she would provide the average engineering costs for KIA projects.

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

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

The City of Lebanon in Marion County requested a \$50,000 Fund C Federal Surplus Property Equipment loan from the \$500,000 KIA set aside for the this pilot program, which provides a two-year line of credit of up to \$50,000 for public utilities that are members of the federal surplus property program administered by the Finance and Administration Cabinet. Lebanon is KIA's first equipment loan applicant as well as approval and is acquiring the equipment listed on their application. The repayment period is five years, once the line of credit is closed, with a 2 percent interest rate. No action was required.

New Conduit Bond Issues

Mr. Barrow submitted the Kentucky Economic Development Finance Authority (KEDFA) Taxable Hospital Revenue Refunding Bonds, Series 2018A (Baptist Healthcare System Obligated Group). Proceeds from this bond issue will consolidate a large portion of its prior debt; the Series 2009A, long term, and Series 2017C, short term. The proposed date of sale is August 9 and as a conduit issue, the debt service is the obligation of the healthcare system rather than the commonwealth or KEDFA.

Mr. Barrow stated that the Kentucky Housing Corporation (KHC) Tax-Exempt Conduit Multifamily Housing Revenue Bonds (City View Park Project), Series 2018, will be presented at a future committee meeting due to project scope increases.

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

Follow-up for Previously Approved Bond Issue

Mr. Barrow reported the previously approved State Property and Buildings Commission (SPBC) Revenue Bonds, Project No. 119 and SPBC Agency Fund Revenue Refunding Bonds, Project No. 120, a general fund transaction for \$300 million of authorized projects from various budget bills and an agency fund refunding transaction resulting in a net present value savings of \$1.5 million (14 percent) for the Department of Military Affairs. The bonds sold at a 3.72 true interest cost, just below 4 percent.

Rating agencies will typically review the commonwealth's credits around once a year, within the confines of a transaction. Moody's and Fitch affirmed its prior ratings and S&P downgraded the commonwealth; citing known factors including unfunded pension liabilities, budgetary constraints, and weakened reserves (similar to its commentary in prior years). Mr. Barrow said that, prior to the downgrade, the commonwealth already had a split rating with S&P rating the commonwealth one notch below Moody's and Fitch. With the downgrade, S&P's rating is now two notches below the other rating agencies, consistent with S&P weighing the pension component more severely. Mr. Barrow said he did not think the downgrade greatly affected this transaction since S&P assigned a negative outlook to its rating before the downgrade. No action was required.

In response to questions from Senator Carroll, Mr. Barrow said that S&P referenced uneven budgetary management with expenditure cuts and weakened reserve levels during a period of economic expansion.

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

Mr. Barrow submitted two school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for new projects in the Jenkins Independent [Letcher County] and Scott County school districts. Similar to prior meetings, SFCC did not submit municipal refunding transactions. The amount to be issued is about \$16.7 million, with around \$2.7 million SFCC and \$14 million local.

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

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

Ms. Halloran reported two local school district bond issues for new projects in the Butler and Scott County School Districts with 100 percent local debt service support, for which no tax increases were necessary to finance. No action was required.

With there being no further business, the meeting adjourned at 1:37 p.m.