

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 16, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, October 16, 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; Representative Larry Brown, Co-Chair; Senators Julian M. Carroll, Rick Girdler, and Christian McDaniel; Representatives Dennis Horlander, Steven Rudy, and Diane St. Onge.

Guests: Ms. Janice Tomes, 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; and Ms. Sandy Williams, Deputy Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Committee Staff Administrator; Julia Wang, Legislative Analyst; and Rhonda Schierer.

Approval of Minutes (September 18, 2018)

A motion was made by Senator Carroll to approve the minutes of the September 18, 2018 meeting. The motion was seconded by Senator McDaniel and approved by voice vote.

Information Items

Ms. Halloran reported submittals from the McCracken County and Somerset Independent (Pulaski County) School Districts, bond issues for new projects for which no tax increases were necessary to finance, and the Office of Financial Management, the Semi-Annual Report of the Kentucky Asset/Liability Commission (ALCo) and the KRS 45.810(6) annual report of debt principal outstanding. Ms. Halloran also reported the KRS 26.A168(1), KRS 45.793, and KRS 45.818 Quarterly Capital Projects Status and KRS 45.760(9) Annual Capital Projects Status submittals.

Senator Carroll commented on the successful consolidation of the county high schools in McCracken County, referencing McCracken County High School's basketball and football teams.

Lease Report from the University of Kentucky

A motion was made by Senator Carroll to roll the two new leases into one roll call vote. The motion was seconded by Senator McDaniel and approved by voice vote.

Ms. Baker reported two leases in Fayette County for the University of Kentucky (UK). The first was additional space for the UK Office of Philanthropy for UK's new capital campaign. The square footage is 8,067 at \$14 per square foot [plus fit up amortization of \$1.90 per square foot] for a total annual cost of \$128,265.30.

The second was for expansion of UK Healthcare's Beyond Birth Program, a holistic approach for women with substance abuse disorders who have just had children or have small children. The new space is owned by the commonwealth and located next to Eastern State Hospital. The total square footage is 11,500 at \$12.30 per square foot for a total annual cost of \$141,450.00.

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

Project Report from the Finance and Administration Cabinet

A motion was made by Senator Carroll to roll two the new projects into one roll call vote. The motion was seconded by Representative Horlander and approved by voice vote.

Ms. Tomes submitted two new projects for the Department of Military Affairs, which the Secretary of the Finance and Administration Cabinet approved pursuant to KRS 45.760(7). The first was the 100 percent federally funded \$1,457,976 Disney Training Site Battalion Headquarters project in Knox County. The new headquarters will provide the Harold L. Disney Training Site administrative space for operations, equipment storage, and unit training coordination. The installation of a new security gate entrance and security equipment will enhance physical security measures.

The second was the \$1,243,200 Buechel National Guard Armory HVAC and Lighting project in Jefferson County, half federally funded with the remaining monies from Investment Income Maintenance Pool funds. The upgrades include HVAC, energy efficient lighting, windows to current antiterrorism/force protection standards, ADA improvements, and replacement of vinyl composition tile flooring.

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

Ms. Tomes recognized Brigadier General Steven T. King for his recent promotion to the rank of brigadier general.

Senator Humphries thanked General King for his work in Kentucky and commented on the recent meeting of the Interim Joint Committee on Veterans, Military Affairs, and Public Protection Committee held in Hopkinsville regarding the Fort Campbell region. Senator Humphries extended an invitation to tour the military installations in the area.

Lease Report from the Finance and Administration Cabinet

A motion was made by Senator Girdler to roll the two lease renewals and one lease modification into one roll call vote. The motion was seconded by Senator Carroll and approved by voice vote.

Mr. Aubrey reported two lease renewals under the same terms and conditions. The first was for the Cabinet for Health and Family Services (CHFS) in Montgomery County, \$13.50 per square foot for 11,544 square feet of office space, through June 30, 2020.

The second was for the Department of Workforce Investment in Boone County, \$10.50 per square foot for 9,870 square feet of office space, through June 30, 2027.

Mr. Aubrey submitted a lease modification for CHFS in Fayette County. The modification rescinded the prior notice of termination and reduced the amount of leased space. The reduction was from 14,010 square feet to 4,011 square feet, reducing the annual rent to \$75,206.44, effective October 1, 2018.

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

Report from the Office of Financial Management

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

Ms. McNeil first submitted a \$1,798,000 Fund A (Clean Water State Revolving Fund Loan Program) loan increase, resulting in a \$5,298,000 total loan amount, for Glasgow (Barren County) Water and Sewer Commission's completed [Southside Interceptor] project. The project upgraded a large portion of the southside interceptor to eliminate a sanitary sewer overflow and the loan increase will reimburse the utility for its cash expenditures. The utility will use the \$1.798 million to either purchase a new building or partially finance a transmission line. The documentation was in place to fund the loan increase upon execution of the supplemental assistance agreement. Project draw requests were either inclusive of the cash amounts previously funded internally or previously approved by KIA staff. Funds in the B (Infrastructure Revolving Loan Program) and C (Governmental Agencies Program) programs were unavailable due to strong demand. The monthly sewer bill for 4,000 gallons is \$19.60. The term is 20 years with a .75 percent interest rate.

Ms. McNeil next submitted two Fund B loan requests. Calvert City (Marshall County) requested a \$542,900 Fund B Loan [Heights Phase IV Water Main Replacement – Cherry & Cedar Streets project] to finance the replacement of aging drinking water lines, increasing flows and improving service. Drinking water rates inside the city, as of January 2018, are \$14.95 per 4,000 gallons and \$22.57 outside the city. Sewer rates inside the city are \$28.09 for 4,000 gallons and \$42.19 outside the city. These rates are adjusted annually. The term is 20 years with a 3.0 percent interest rate.

Mount Washington (Bullitt County) requested a \$1,599,630 Fund B Loan [Bardstown Road Water Main Replacement project] to finance the replacement of water lines, improving flow and service. The inside the city water rate, effective July 2018, is \$29.88 and the outside the city rate is \$34.49 for 4,000 gallons. The sewer rate is \$29.88 for 4,000 gallons. The term is 20 years at a 3.0 percent interest rate.

Ms. McNeil submitted a \$121,319 Fund F (Drinking Water State Revolving Fund Loan Program) Director Level loan increase, resulting in a \$1,963,390 total loan amount, for the Green-Taylor Water District's [2018 Water District System Improvements in Taylor County] project. The project area will cover Green County as well and the loan increase is due to bids coming in higher than originally expected. The project will replace problematic mains as well as complete loops in the distribution system to allow better water turnover, reducing and eliminating disinfection byproducts compliance issues. The committee's approval of the original loan at its February 20, 2018 meeting was contingent upon Public Service Commission (PSC) approval of the district's 15 percent rate request. The district received approval for a 9.0 percent rate increase, effective August 2018 at \$40.73. The district is projected to meet the 1.1 debt coverage ratio requirement and Ms. McNeil asked for reapproval of the original loan with the loan increase for a total of loan amount of \$1,963,390. The term is 20 years with a 1.75 percent interest rate.

In explaining his aye vote, Senator McDaniel commented that he hoped the district was not pushing the outside bounds of its debt service coverage with the loan increase; that if the district were to experience a population shift or something similar, then the loan could be problematic; and that he was sure KIA would monitor the situation and report back to the committee.

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

New Conduit Debt Issues

A motion was made by Representative Brown to roll the two new conduit debt issues into one vote, seconded by Representative Rudy and approved by voice vote.

Ms. Williams submitted two new conduit debt issues, neither of which were an obligation of Kentucky Housing Corporation (KHC) or the commonwealth. The first was the KHC's Tax-Exempt Conduit Multifamily Housing Revenue Notes, Series 2018 to finance the Puritan House Apartments project, a 247 unit property located in Louisville. The proposed date of sale was November 2018. The notes issue was a private placement for \$24 million and the developer was SOCAYR.

The second was KHC's Tax-Exempt Conduit Multifamily Housing Revenue Bonds, Series 2018 to finance the acquisition, rehabilitation, and equipping of the Westminster Village project, a 132 unit property located in Lexington. The proposed date of sale was November 8, 2018 for \$9.5 million, and a total project cost of just over \$17.8 million. The developer was Allied Real Estate Partners.

A motion was made by Senator Carroll to approve the conduit debt issues, seconded by Senator McDaniel, and approved by unanimous roll call vote.

Previously Approved Debt Issue

Ms. Williams reported the previously approved Kentucky Housing Corporation Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Jefferson Green Apartments Project), Series 2018 bond issue, which sold on September 10. The bond proceeds were used to finance the acquisition, rehabilitation, and equipping of Jefferson Green Apartments, a 312 unit property located in Louisville. Amount issued was \$30 million and the total project cost was just over \$56 million. The bond issue was a public offering with Dinsmore & Shohl as bond counsel, Stifel Nicolaus as underwriter, and Huntington Bank as trustee.

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

Ms. Williams submitted 11 school district bond issues with School Facilities Construction Commission (SFCC) debt service participation [for new projects in the Anderson County, Boyle County, Christian County, Hazard Independent (Perry County), Mason County, McCreary County, Menifee County, Paris Independent (Bourbon County), Southgate Independent (Campbell County), and Walton-Verona Independent (Boone County) School Districts and a refinancing for the Nicholas County School District]. The total estimated new money issuance was slightly over \$42.09 million, with SFCC debt service participation of 35.6 percent. No tax increases were necessary to finance the new projects.

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

In response to queries from Senator McDaniel, Ms. Halloran clarified that some entities were unaware of KRS 45.760(9) reporting requirements, annual submittal of a list

and summary description of incomplete capital projects including project expenditures; however, all entities agreed to submit a report.

With there being no further business the meeting adjourned at 1:29 p.m.