

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

November 20, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, November 20, 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 and Steven Rudy.

Guests: Ken Marks, System Director of Facilities and Support Services, Kentucky Community and Technical College System; Scott Aubrey, Director, Division of Real Property, Department for Facilities and Support Services; Donna McNeil, Executive Director, Kentucky Infrastructure Authority; and 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 (October 16, 2018)

A motion was made by Representative Rudy to approve the minutes of the October 16, 2018 meeting. The motion was seconded by Senator Girdler and approved by voice vote.

Correspondence and Information Items

Ms. Halloran reported correspondence and information items. The first were the postsecondary notices of intent to use the public-private partnership (P3) and alternative construction contracting project delivery methods. Pursuant to KRS 45A.077, the University of Kentucky (UK) submitted the request for proposal (RFP) utilizing the P3 project delivery method for the mixed use Improve Campus Parking and Transportation System (Parking Structure #5), and pursuant to KRS 45A.180, Northern Kentucky University submitted the RFP utilizing either the construction management at-risk or construction manager-general contractor project delivery methods for the Construct/Acquire New Residence Hall 2016-2018 project.

UK Healthcare purchased two items of medical equipment with restricted funds, a \$1.1 million computed tomography (CT) scanner for Good Samaritan Hospital and a \$2.5 million robotics assisted surgical system for Chandler Hospital.

The Kentucky Community and Technical College System (KCTCS) purchased a \$1.2 million Driver Simulator for the Kentucky Fire Commission with the commission's restricted funds. \$1 million was authorized in HB 200 with the residual funds from KCTCS's Equipment Pool authorization.

Lastly, the Louisville Authority submitted its annual report pursuant to KRS 65.4931(3), and Section 8.22 of the Loan Agreement for the Series 2017 bond issue.

Lease Report from KCTCS

Mr. Marks reported a lease modification for the KCTCS System Office Building extending the current expiration date of December 1, 2023 through June 30, 2024 to amortize \$5 million in renovation costs. The \$50,290.30 current monthly rent will average that amount over the extended term.

Representative Brown asked about KRS 45.763 approval in the appropriations bill for the \$5 million borrowed by the City of Versailles for the renovations and the change from KCTCS's initial plan of acquiring the System Office Building through paying off the City of Versailles's Series 2016 bond issue. Mr. Marks stated that KCTCS is considering the arrangement a lease under KRS 56.813 and that KCTCS is not obligating any money outside the biennium.

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

Lease Report from the Finance and Administration Cabinet

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

Mr. Aubrey reported four lease renewals under the same terms and conditions. The first was for the Unified Prosecutorial System in Jefferson County, \$16.55 per square foot, through June 30, 2020.

The second was for the Department of Alcoholic Beverage Control in Franklin County, \$7.93 per square foot, though June 30, 2022.

The third was for the Cabinet for Health and Family Services in Letcher County, \$9.26 per square foot, through June 30, 2020.

The last renewal was for the Department for Libraries and Archives in Franklin County, \$10 per square foot for the office space, \$5.41 per square foot for the warehouse space, through June 30, 2027.

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

Report from the Office of Financial Management

A motion was made by Representative Rudy to roll the KIA Fund A loans and one of the Fund B loans (City of Murray) into one roll call vote, seconded by Senator Carroll and approved by voice vote.

Ms. McNeil submitted various loan requests. The City of Butler (Pendleton County) requested a \$93,331 increase to its Fund A (Clean Water State Revolving Fund Loan Program) loan for a \$1,080,574 total loan amount. The [Sewer System Rehabilitation] project will correct infiltration and inflow issues with the wastewater collection system and includes the rehabilitation of a lift station. The increase is for the paving contract to repair damage during construction from heavy equipment. The monthly sewer rate, effective July 2018, is \$37.03 for 4,000 gallons. The proposed rate increase, effective July 1, 2019, is \$38.61 for 4,000 gallons. The system has a CPI [Consumer Price Index] clause. The term is 20 years at 1.75 percent.

The City of Murray (Calloway County) requested a \$1.45 million Fund A loan. The [Combined Sewer] project will reduce infiltration into the wastewater collection system and eliminate a sanitary sewer overflow by replacing manholes and rerouting sewer around the city. The sewer rate, effective July 2018, for 4,000 gallons is \$42.84 inside the city and \$67.89 outside the city. The term is 20 years at .50 percent.

The City of Murray requested a \$1.5 million Fund B (Infrastructure Revolving Loan Program) loan. The loan will reimburse the city for a portion of the construction costs for the [Clearwell at Water Treatment Plant] project, the demolition and construction of a new one million gallon clearwell with a high service pump station projected to be complete in January 2019. The reimbursement will offset a possible rate increase as debt service will be due in 2020 for the wastewater treatment plant expansion. The drinking water rate, effective July 2018, for 4,000 gallons is \$20.97 inside the city and \$32.08 outside the city. The term is 20 years at .50 percent interest.

Representative Rudy moved to approve the Fund A loans and the Fund B loan (City of Murray), seconded by Representative Horlander, and approved by unanimous roll call vote.

Laurel County Water District #2 submitted a \$445,000 Fund B loan request, matching a Section 531 U.S. Army Corp of Engineers grant at 25 percent. The grant will

fund the [Fariston Water Storage Tank] project, a new 500,000 gallon elevated storage tank for Greer Industrial Park near London which will improve service for approximately 1,200 existing customers and enhance the level of fire protection. The water rate, effective March 14, 2016 is \$25.08 for 4,000 gallons. The proposed increase to \$31.33 for 4,000 gallons will require Public Service Commission (PSC) approval and will also fund two US Rural Development projects. The term is 30 years at .50 percent.

Representative Brown suggested that the motion to approve the Fund B loan be contingent upon PSC granting a Certificate of Public Convenience and Necessity and approving a water rate increase sufficient to maintain a 1.1 debt service coverage ratio.

Senator Carroll moved to approve the Fund B loan, contingent upon PSC granting a Certificate of Public Convenience and Necessity and approving a water rate increase sufficient to maintain a 1.1 debt service coverage ratio. The motion was seconded by Representative Rudy, and approved by unanimous roll call vote.

New Debt Issue

Mr. Barrow submitted the Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Backed Notes to be issued in one or more tranches for the acquisition of Federal Family Education Loan Program (FFELP) loans, which have at least a 97 percent federal guarantee. The transaction differs from prior transactions in that the specific loan portfolios to be acquired are not yet identified. This transaction will utilize \$325 million of the \$460 million authorized by KHESLC's Board of Directors for fiscal year 2019 debt issuance.

In response to queries from Representative Brown regarding rehabilitated FFELP loans, Mr. Carlson said that although the FFELP program was discontinued, there are still legacy FFELP loans. If one defaulted on a FFELP loan, then one may rehabilitate by making nine on-time payments within a ten month time period. Upon rehabilitation, the Kentucky Higher Education Assistance Authority, the guarantee agency, would sell the rehabilitated loan to a FFELP lender such as KHESLC. FFELP loans are federally guaranteed at either 97 or 98 percent depending on the first disbursement date or at 100 percent with special circumstances such as death or disability.

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

Previous Debt Issues

Mr. Barrow next reported the Kentucky Asset/Liability Commission (ALCo) Agency Fund 2018 Direct Loan/Project Note issue. Proceeds from the direct placement note financed the remaining \$27.7 million of KCTCS's BuildSmart capital projects. There were two prior bond transactions for the BuildSmart program. The BuildSmart program had legislation authorizing KCTCS to assess a fee of up to \$8 per credit hour for debt

service. Due to enrollment fluctuations, the amounts collected could not be projected with certainty. Therefore, the variable rate transaction, 70 percent of the 3-month LIBOR plus one percent, was structured so that additional principal could be paid upon fee receipts. A similar structure was used for the unemployment insurance trust fund as well as other transactions. KCTCS already made two principal payments totaling several million dollars.

Information on the Kentucky Housing Corporation (KHC) Tax-Exempt Conduit Multifamily Housing Revenue Bonds (J.O. Blanton House Apartments Project), Series 2018; financing the acquisition, rehabilitation, and equipping of a multifamily residential rental facility containing 256 units located in Louisville, was included in the meeting materials.

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

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

Mr. Barrow submitted three school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for projects [in Kenton, Mercer, and Muhlenberg Counties]. The total estimated issuance amount was estimated at \$11.2 million, with SFCC's just under 40 percent portion of approximately \$4.3 million. No tax increases were necessary to pay debt service for any of the bond issues.

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

Representative Brown thanked the committee, saying that it has been a great honor to serve as co-chair.

Representative Rudy commented that he has been on the committee for several years and that Representative Brown, amongst the best of the chairmen, will be missed.

With there being no further business the meeting adjourned at 1:28 p.m.