

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

January 15, 2019

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee was held on Tuesday, January 15, 2019, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Girdler, Presiding, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senators Julian M. Carroll, Rick Girdler, Christian McDaniel, and Robby Mills; Representatives, Steve Sheldon, Maria Sorolis, and Walker Thomas.

Guests: Scott Aubrey, Director, Division of Real Property, Department for Facilities and Support; Donna McNeil, Executive Director, Kentucky Infrastructure Authority; Brad Good, Controller, Louisville and Jefferson County Metropolitan Sewer District; 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.

Election of Co-Chairs

Pursuant to KRS 45.790(1), there was the election of Senate and House committee co-chairs, filling the remaining terms of the prior committee co-chairs.

Senator Mills nominated Senator Girdler for the position of Senate co-chair. The motion was seconded by Senator McDaniel. A motion was made by Senator Carroll that nominations cease and that Senator Girdler be elected Senate co-chair by acclamation. The motion was seconded by Senator McDaniel and approved by voice vote.

Representative Sheldon nominated Representative Thomas for the position of House co-chair. The motion was seconded by Representative Thomas. A motion was made by Representative Sheldon that nominations cease and that Representative Thomas be elected by acclamation. The motion was seconded by Representative Thomas and approved by voice vote.

Approval of Minutes (November 20, 2018)

A motion was made by Senator Carroll to approve the minutes of the November 20, 2018 meeting. The motion was seconded by Representative Thomas and approved by voice vote.

Correspondence and Information Items

Ms. Halloran reported correspondence and information items. Regarding the cancellation of the December 18, 2019 meeting, the Secretary of the Finance and Administration Cabinet deferred all items requiring committee action with the exception of the University of Kentucky's current refunding of its 2009 Series A General Receipts bonds for a projected net present value savings of just over \$800,000 (5.47 percent). The bond sale was scheduled for January 23, 2019. The Cabinet also reported a \$1.3 million allocation from the State Fair Board's bond-funded maintenance pool to update areas in the South Wing of the Kentucky Exposition Center. Committee action was not required.

The Finance and Administration Cabinet reported a notice of advertisement for Cabinet for Health and Family Services replacement space in Shepherdsville.

The University of Louisville's Research Foundation reported the purchase of a cytometer for cancer research.

The Kentucky Interlocal School Transportation Association (KISTA) plans to issue \$16.955 million of Equipment Lease Certificates of Participation on behalf of 56 school districts to purchase 159 school buses. Harlan County, Elliott County, and Erlanger-Elsmere Independent School Districts plan to issue bonds for new projects. No tax increases were necessary to finance the purchases or projects.

The Administrative Office of the Courts, the Finance and Administration Cabinet, the Commonwealth Office of Technology, and postsecondary institutions managing their own capital construction programs pursuant to KRS 164A.580 submitted their quarterly capital projects status reports.

Lease Report from the Finance and Administration Cabinet

Scott Aubrey submitted a lease modification for the Transportation Cabinet's salt storage space in Jefferson County, reducing the square footage by 50,280 square feet for a total of 151,145 square feet and decreasing the annual rent to \$303,019.16. The stored salt is for treating roads during inclement weather.

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

Mr. Aubrey next submitted a lease renewal under the same terms and conditions for the Cabinet for Health and Family Services' space in Clark County, \$10 per square foot for 10,946 square feet, through June 30, 2020.

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

**Report from the Office of Financial Management
Kentucky Infrastructure Authority**

Ms. McNeil gave an overview of the Kentucky Infrastructure Authority (KIA). KIA, managed by an 11 member board, provides loans to governmental agencies for construction and acquisition of infrastructure projects. The types of infrastructure projects that can be funded through KIA include wastewater, drinking water, solid waste, dams, storm water control and treatment, gas or electric utilities, broadband deployment, or any other public utility or public service project. As of the first of January, KIA manages over 600 loans for 238 borrowers from four different loan programs.

A motion was made by Senator Carroll to roll the two Fund A (Federally Assisted Wastewater/Clean Water State Revolving Fund Loan Program) loan requests from the Louisville and Jefferson County Metropolitan Sewer District (MSD) into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

Ms. McNeil submitted various loan requests. The first were two Fund A loans for MSD, with a twenty year term and two percent interest rate. MSD requested a \$3.87 million Fund A loan for a [Nightingale I&I Elimination] project to reduce infiltration and inflow in the collection system, including rehabilitation of approximately 47,000 linear feet of sewer lines with cured-in-place pipe and inspections of more than 60,000 feet of linear sewer pipes. MSD is under a consent decree to eliminate sewer overflows.

MSD also requested a \$22 million Fund A loan to rehabilitate and expand, from 6 million gallons per day (MGD) to 9 MGD during dry weather and up to 24 MGD with wet weather flow, the Hite Creek Water Quality Treatment Center. The project also will eliminate sanitary sewer overflows upstream of the facility and allow for future growth. The current sewer rate for 4,000 gallons is \$45.82, effective since August 1, 2018.

In response to queries from Senator Carroll, Mr. Good said MSD had liability insurance coverage through the Louisville Area General Government Insurance Trust and two excess liability policies through Safety National and Gemini Insurance.

In response to queries from Senator McDaniel, Mr. Good said that it was too soon to ascertain the impact on insurance rates due to the December 24, 2018 fatal accident involving a MSD employee and a Louisville Metro Police Department officer. Ms. McNeil said that KIA had did not have concerns with respect to debt service coverage if insurance rates did increase.

A motion was made by Senator Carroll to approve the two Fund A loans to MSD, seconded by Representative Thomas, and approved by unanimous roll call vote.

A motion was made by Representative Carroll to roll the remaining three Fund A loan requests from the Farmdale Sanitation District (Franklin County) (increase), City of Corbin f/b/o Corbin Utilities Commission (Knox County), and Western Mason Sanitation District (Mason County) into one roll call vote, seconded by Senator Mills, and approved by voice vote.

The Farmdale Sanitation District requested a \$21,753 Fund A loan increase, resulting in a total loan amount of \$321,753, of which \$305,665 (95 percent) will be allocated as a principal forgiveness subsidy. The increase will address an impending structural failure at the Coolbrook package wastewater treatment plant. The original [Ridgelea Investments Inc. Package Treatment Plant Abandonment] project was based upon Farmdale's acquisition of three, with 200 customers, rather than seven, with over a thousand customers, wastewater package treatment plants. The district's proposed sewer rate for 4,000 gallons, pending board approval, is \$45.00, effective July 1, 2019. The term is one year at 1.75 percent.

The City of Corbin f/b/o Corbin Utilities Commission requested a \$1,262,600 Fund A loan. The [Master Street Sewer Main Upgrade] project will construct 3,000 linear feet of 15 inch gravity relief sewer in downtown Corbin to address sanitary sewer overflow. The utility is not under a consent decree, an agreed order, or any other type of enforcement action, but is taking a proactive stance in moving forward with the project. The current sewer rate for 4,000 gallons, effective since February 1, 2018, is \$21.72 inside the city and \$34.28 outside of the city. The term is 20 years at .50 percent.

The Western Mason Sanitation District requested a \$100,000 Fund A loan, of which 95 percent will be allocated as a principal forgiveness subsidy. The [Pinewood Subdivision Sewer] project will construct 566 linear feet of 8 inch sewer pipe to eliminate a wastewater treatment package plant serving 75 homes in the Pinewood subdivision. The Division of Water (DOW) issued a notice of violation to the subdivision in 2016. Flow from this subdivision will be directed and treated by the City of Maysville. The current sewer rate for 4,000 gallons, effective since January 1, 2016, is \$60.13. The term is one year at 2 percent.

A motion was made by Senator Mills to approve the three Fund A loans to the Farmdale Sanitation District (increase), City of Corbin f/b/o Corbin Utilities Commission, and Western Mason Sanitation District, seconded by Senator Carroll and approved by unanimous roll call vote.

A motion was made by Senator Carroll to roll the Fund B (Infrastructure Revolving Loan Program) and Fund C (Governmental Agencies Program) loan requests from the Warren County Water District into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

The Warren County Water District requested a \$2 million Fund B loan. The [Plum Springs Area Sewer Rehab and Replacement] project is to install approximately 34,500 linear feet of cured-in-place pipe gravity sewer line and will replace lines from the 1960s that are starting to experience failures. The term is 20 years at 2 percent.

The Warren County Water District also requested a \$2 million Fund C loan. The [Morgantown Road Area Improvements] project is a 250,000 gallon elevated storage tank to replace a 100,000 gallon storage tank, a new pump station, and associated line work. The drinking water rate for 4,000 gallons, effective since January 1, 2017, is \$19.38 and the proposed sewer rate for 4,000 gallons is \$20.87. The term is 20 years at 3 percent.

A motion was made by Senator Carroll to approve the Fund B and Fund C loans to the Warren County Water District, seconded by Senator Mills, and approved by unanimous roll call vote.

A motion was made by Senator Carroll to roll the three Fund F (Drinking Water State Revolving Fund Loan Program) loan requests from the Cities of Lancaster (Garrard County), Paintsville f/b/o Paintsville Utilities Commission (Johnson County), and Jamestown (Russell County) into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

The City of Lancaster requested a \$4 million Fund F loan, of which \$1 million will be allocated as a principal forgiveness subsidy. The city also has commitments from both ARC [Appalachian Regional Commission] and Rural Development to fully fund the new 3 MGD water treatment plant project to replace the current 2.1 MGD plant. The project also will address sludge processing to remedy a Notice of Violation from the Kentucky Division of Water. The water rate for 4,000 gallons, effective since April 1, 2018, is \$31.32. The term is 30 years at .50 percent.

The City of Paintsville requested a \$2.01 million Fund F loan, of which 50 percent will be allocated as a principal forgiveness subsidy. The project is a 150,000 gallon storage tank to replace a 100,000 gallon storage tank, replacement pump station, and associated line work. The water rate for 4,000 gallons, effective since May 1, 2018, is \$30.00 inside the city and \$40.76 outside the city. The term is 30 years at .50 percent.

The City of Jamestown requested a \$500,000 Fund F loan, of which 50 percent will be allocated as a principal forgiveness subsidy. The city also has a \$500,000 grant committed to fully fund the [Downtown Jamestown Waterline Replacement] project, which will replace aging water lines in the downtown area. The water rate for 4,000 gallons, effective since April 1, 2018, is \$25.00 inside the city and \$32.00 outside the city. The term is 30 years at .50 percent.

A motion was made by Senator Carroll to approve the three Fund F loans to the Cities of Lancaster, Paintsville f/b/o Paintsville Utilities Commission, and Jamestown, seconded by Senator Mills, and approved by unanimous roll call vote.

New Debt Issue

Mr. Barrow submitted the Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Revenue Bonds, Series 2019-1. He stated that state agency debt issuance is lower, consistent with the overall decrease in municipal bond market volume, and that this was one of the Office of Financial Management's lowest number of submittals. The negotiated KHESLC transaction, which may be tax-exempt, is primarily for Advantage Refinance, Advantage Education, and Advantage Parent loans. The anticipated sale date is the end of February with an estimated \$110 million in senior and \$25 million in subordinate bonds to be issued at a 4.69 percent true interest cost.

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

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

Mr. Barrow submitted two school bond issues with School Facilities Construction Commission (SFCC) participation for projects [in Breckinridge and Laurel Counties]. The total estimated issuance is projected to be \$10.5 million, with SFCC's participation at just under 10 percent. No tax increases were necessary to finance the projects.

In response to queries from Senator McDaniel, Mr. Barrow stated that ratings actions on the KRS 160.160(5) school district intercept program typically move in tandem with ratings actions on general fund appropriation supported debt. Moody's rates the majority of local school district transactions.

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

With there being no further business the meeting adjourned at 1:31 p.m.