Call to Order and Roll Call
The Capital Projects and Bond Oversight Committee was held on Tuesday, July 23, 2019, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Rick Girdler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Rick Girdler, Co-Chair; Representative Walker Thomas, Co-Chair; Senators Julian M. Carroll, Christian McDaniel, and Robby Mills; Representatives Steven Rudy, Steve Sheldon, and Maria Sorolis.

Guests: Elizabeth Baker, Planning Director, University Budget Office, University of Kentucky; Janice Tomes, Deputy State Budget Director, Office of the State Budget Director; Rick Sanders, Commissioner, Kentucky State Police; 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 (June 18, 2019)
Senator Carroll moved to approve the minutes of the June 18, 2019 meeting. Senator Mills seconded the motion and the committee approved the minutes by voice vote.

Correspondence and Information Items
Ms. Halloran referenced one correspondence item, KRS 45.800 notification to and from the Finance and Administration Cabinet, and three information items.

Pursuant to KRS 26A.168(1), KRS 45.793, and KRS 45.818; the Administrative Office of the Courts; the Finance and Administration Cabinet; the Commonwealth Office of Technology; and postsecondary institutions managing their own capital construction under KRS 164A.580 transmitted quarterly capital projects status reports.

Pursuant to KRS 45.760(5), the University of Kentucky (UK) reported three UK Healthcare medical equipment purchases totaling $3.5 million in restricted funds, a mobile
fluoroscopic system for Good Samaritan Hospital and a mass spectrometer and cobas 6000 analyzer for Chandler Hospital.

The University of Louisville reported a $271,300 federal funds research equipment purchase of a flow cytometer.

Pursuant to KRS 45.812(1), the Shelby County and Spencer County school districts reported upcoming bond issues for new projects in expected respective amounts of $21 million and $8.6 million.

**Lease Report from the University of Kentucky**
Senator McDaniel moved to roll the two new leases into one roll call vote, seconded by Representative Sheldon, and approved by voice vote.

Elizabeth Baker submitted two new leases for the University of Kentucky. The first was to relocate UK Healthcare’s Specialty Pharmacy from the Chandler medical campus to a larger off-campus site. The annual rental cost is $1.1 million for 30,712 square feet comprised of the pharmacy itself, central fill and mail order area, sterile room, and outpatient non-oncology infusion space.

The second was UK’s College of Agriculture, Food, and Environment assumption, due to its takeover of testing for the sport horse industry both in Kentucky and nationally, of the United States Equestrian Federation’s lease of the 1509 Building on the UK Coldstream Research Campus. The annual rental cost is $119,025 for 7,500 square feet.

In response to Senator McDaniel, Ms. Baker said no clean-up is involved at the current pharmacy location.

Senator McDaniel moved to approve the two new leases, seconded by Representative Sheldon, and approved by unanimous roll call vote.

**Project Report from the Finance and Administration Cabinet**
Representative Sheldon moved to roll the authorization revision and two new projects into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

Ms. Tomes submitted an authorization revision for the Department of Military Affairs’s Range Operations Expansion project at the Wendell H. Ford Regional Training Center in Greenville, KY. The project, construction of an approximately 38,000 square foot expansion to serve as a central security checkpoint, was previously submitted in October 2017 as a 100 percent federally funded new project and its authorization amount will be increased by $41,412 for a $1,315,149 project total. The increase will fund design and
construction contract change orders such as relocation of electrical conduit and switching of proposed metal lockers and wood benches to polyethylene plastic.

Ms. Tomes also submitted two new projects, the first was an equipment purchase for the Kentucky State Police, a $1.7 million 2016 McDonald Douglas 530FF helicopter. Of the $1.7 million, $1 million will be federal asset forfeiture funds and $700,000 will be restricted funds. Use of this helicopter, appraised at $1.8 million and essential to the core function of the state police to provide public safety; will include surveillance, high-risk procedures, disaster surveys, critical response team transport, marijuana eradication, and other state police official business.

In response to Senator McDaniel, Commissioner Sanders said that when working with federal law enforcement, KSP requests a portion of the federal forfeiture proceeds and uses the funds for tasers and equipment.

Ms. Tomes said that asset forfeiture receipts from the U.S. Department of Justice and the U.S. Department of the Treasury range from $100,000 to $1 million annually, with about $1 million carried over each year. Use of those funds are restricted and subject to federal asset forfeiture rules and regulations.

In response to Representative Sorolis, Commissioner Sanders said this purchase will replace one of its six helicopters, model years ranging from 1967 to 1983, which has the most maintenance issues and will be returned to the military. KSP’s last helicopter purchase was in 1984 for the 1983 model. The remaining five helicopters were military surplus dating back to the Vietnam era with the one returned retaining bullet holes from Vietnam.

In response to Representative Sheldon, Commissioner Sanders stated that KSP retains a contract pilot during marijuana eradication season. When KSP no longer uses a military surplus aircraft, it has to return it to the military rather than sell it. With KSP’s current aircraft having antiquated airframes and associated maintenance issues, this purchase will help provide proper coverage.

In response to Senator Girdler, Commissioner Sanders confirmed that the avionics is better on this helicopter and said that it was sent back to McDonald Douglas for refurbishment, which included the engine, blades, tail rotor, and tail boom. The additional power will facilitate tight landings and take offs.

Senator Girdler referenced the appraisal in the members’ materials.

The second project was the $3 million Renovate Building A – Main Campus at the Southcentral Kentucky Community and Technical College, which includes HVAC
upgrades, a bookstore expansion, and additional faculty offices and is funded solely by restricted funds.

Senator McDaniel moved to approve the authorization revision and the two new projects, seconded by Senator Carroll, and unanimously approved by roll call vote.

**Report from the Office of Financial Management**

**Kentucky Infrastructure Authority**

Representative Rudy moved to roll the Clean Water State Revolving Fund (Fund A) loans and Drinking Water Revolving Fund (Fund F) loans into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

Ms. McNeil submitted KIA loan requests. The Regional Water Resource Agency (RWRA), Daviess County, requested a $560,745 Fund A loan increase, due to higher than expected bids, for a total $2,607,745 loan amount, of which KIA will apply $250,000 in principal forgiveness. The Cedar Hills Subdivision Sewer Extension project will eliminate a failing package treatment plant in the eastern part of Daviess County. The construction will rehabilitate the collection system and install gravity sewer, lift station, and force main to connect 122 residential customers and one church to the RWRA collection system. Effective since July 1, 2018 for 4,000 gallons, the monthly sewer rate is $39.59. The term is 20 years at a 1.75 percent interest rate.

The City of Elkton, Todd County, is requesting a $3,934,351 Fund A loan, of which KIA will apply $1 million in principal forgiveness, incorporating a previously approved $500,000 planning and design loan. The Wastewater System Rehabilitation and Improvements project will address excessive wet weather sanitary sewer flows in the collection system and wastewater treatment plant. The collection system component includes installing cured-in-place pipe of about 20,000 linear feet of 6-inch to 15-inch pipe and the replacement and repair of various other items. The wastewater treatment plant portion includes upgrades of equipment, replacement of some components, and revisions to site piping, influent structure, processes, chemical feed system, and sludge dewatering. Effective since July 1, 2019, for 4,000 gallons, the monthly inside and outside city water rates are $47.10 and $53.24 and the monthly sewer rate is $49.60. The term is 30 years at a 0.50 percent interest rate.

The City of Hopkinsville F/B/O of Hopkinsville Water Environment Authority, Christian County, requested a $9 million Fund A loan incorporating a previously approved $1.5 million planning and design loan. KIA plans to fund the Expand Hammond-Wood Wastewater project over multiple funding cycles and will reassess loan compliance and creditworthiness prior to approval of each planned loan increment. This project will renovate and expand, from six to nine million gallons per day, the Hammond-Wood wastewater treatment plant to meet permit limits and demand from the cities of Hopkinsville and Pembroke. The project will include a bid option for an alternate sludge
drying process. Effective since July 1, 2019 for 4,000 gallons, the monthly sewer rate is $28.77 and the proposed monthly sewer rate, effective July 1, 2020, is $32.78. The term is 20 years at a 0.50 percent interest rate.

The City of Georgetown, Scott County, requested a $13,542,784 Fund A loan, of which KIA will apply $1 million in principal forgiveness. Co-funding includes local funds from the City of Georgetown, Scott County, and Lexington-Fayette Urban County Government; a federal EPA Section 319 non-point source grant; and a state House Bill 265 non-coal grant. The Georgetown/Scott County South Sewer Extension project will eliminate the package treatment plants in the Ponderosa and Spindletop mobile home parks and remove major point sources of pollution to the Cane Run Creek and Watershed. Construction includes replacement of leaking sewers within the mobile home parks and installation two master meters; about 37,148 linear feet of gravity sewer; 2,256 linear feet of force main; manholes; and lift station. In addition to the 500 mobile home lots, the project will serve eight to ten farm or residential properties, and commercial customers along US 25. Effective since November 15, 2007 for 4,000 gallons, the monthly sewer and water rates are $18.98 and $18.14. The Spindletop and Ponderosa property owners will be billed for the sewer service with treatment and project costs passed on to residents in their lot rent bills. Based upon a door-to-door income survey for this project area, the term is 30 years at a 0.50 percent interest rate.

The City of Tompkinsville, Monroe County, requested a $861,148 Fund A loan, of which KIA will apply $430,574 in principal forgiveness. Co-funding includes an Appalachian Regional Commission grant, a Community Development Block Grant, and local funding from the Monroe County Board of Education. The Tompkinsville Wastewater and Treatment Plant Expansion and Sanitary Sewer Collection Improvements project will eliminate sanitary sewer overflows. Construction includes rehabilitation of 8,750 linear feet of 8-inch sewer, installation of 11,600 linear feet of 4-inch force main to a new lift station that eliminates a package treatment plant, and the expansion of the wastewater treatment plant to a larger sequential batch reactor treatment plant, which does three processes in one tank or basin. Effective February 1, 2019 for 4,000 gallons, the monthly inside and outside city sewer and water rates are $36.55 and $48.55. The term is 30 years at a 0.50 percent interest rate.

The City of Vanceburg, Lewis County, requested a $1.131 million Fund A loan, of which KIA will apply $400,000 in principal forgiveness. Co-funding includes an Appalachian Regional Commission grant and a Community Development Block Grant. The Meadowbrook and Black Oak Sewer Consolidation project will address notices of violation issued by the Kentucky Division of Water and eliminate four failing package treatment plants. Construction includes a new 64,000 gallon per day activated sludge treatment plant near the Black Oak Industrial Park plant, which will eliminate the two package plants in Meadowbrook, to be replaced with one lift station, and the Echo Hills and Black Oak Industrial Park package plants, to be replaced by lift stations. The collection
systems will be connected to the new plant with 72 linear feet of 10-inch PVC gravity and 11,238 linear feet of 4-inch or 6-inch force main. Effective since February 1, 2014 for 4,000 gallons, the monthly sewer rate, which includes a $2 monthly surcharge, is $33.86 and the proposed rate is $35.45. Effective since February 1, 2017 for 4,000 gallons, the monthly inside and outside city water rates are $25.15 and $33.80 and the proposed monthly inside and outside city water rates are $26.41 and $35.50. The term is 30 years at a 0.50 percent interest rate. The proposed sewer and water rates will be effective February 1, 2020.

The RWRA, Daviess County, requested a $7.015 million Fund A loan. The Tunnel Replacement, Lining, and Repair project will rehabilitate or replace a deteriorated portion of the tunnel sewer system in downtown Owensboro. The first phase of construction will address part of the Eastern tunnel that is dangerous of failing. Construction will either reline or replace 1,100 linear feet with new piping. The second phase will rehabilitate or replace other sections of the tunnel deemed the highest priority with the remaining project budget. Effective since July 1, 2018 for 4,000 gallons, the monthly sewer rate is $39.59. The term is 20 years at a two percent interest rate.

The City of Edmonton, Metcalfe County, requested a $4.5 million Fund F loan, of which KIA will apply $1.3 million in principal forgiveness. Co-funding includes a Community Development Block Grant. The Water Improvements project will address an agreed order issued by the Kentucky Division of Water. Construction includes replacing about 28,000 linear feet of 2-inch, 4-inch, 6-inch, and 8-inch lines that are undersized with 11,600 linear feet of 4-inch PVC, 13,000 linear feet of 6-inch PVC, and 4,048 linear feet of 8-inch PVC. 15,100 linear feet of 3-inch PVC will be installed to create two loops to eliminate dead end lines, a 100,000 gallon storage tank will be replaced with a 250,000 gallon storage tank, and four other tanks will be rehabilitated or modified. One pump station will be rehabilitated, two will be replaced, and one will be eliminated. The Supervisory Control and Data Acquisition System (SCADA) will be upgraded on all storage and pumping facilities. Effective since July 1, 2019 for 4,000 gallons, the monthly inside and outside city water rates are $32.00 and $42.75 and the proposed monthly inside and outside city water rates, effective July 1, 2020 for 4,000 gallons, are $35.20 and $46.50. Effective July 1, 2019 for 4,000 gallons, the monthly sewer rate is $29.00. The term is 30 years at a 0.50 percent interest rate.

The City of Cynthiana, Harrison County requested a $95,457 Fund F loan increase, due to higher than expected bids, for a total $1,050,022 loan amount. The New Booster Pump Station project will install a booster pump station near the one million gallon storage tank to increase pressure by a minimum of 25 pounds per square inch and provide fire flows for the Harrison Memorial Hospital and surrounding areas. Effective since July 1, 2019 for 4,000 gallons, the monthly water rate is $19.65. Effective since September 5, 2017 for 4,000 gallons, the monthly sewer rate is $30.14. The wholesale water rate is $2.85 per 1,000 gallons. The term is 20 years at a 0.50 percent interest rate.
The City of Elkton, Todd County, requested a $170,000 Fund F loan, of which KIA will apply $85,000 in principal forgiveness. The Water System Rehabilitation and Upgrade project will improve pressures, flow, and address severe line breaks in the project area. Construction includes replacing two 4-inch galvanized lines along Popular Street and West Main Street and a 6-inch main on North Williams Lane with 1,324 linear feet of 6-inch PVC. Effective since July 1, 2019 for 4,000 gallons, the monthly inside and outside city water rates are $47.10 and $53.24 and the monthly sewer rate is $49.60. The term is 30 years at a 0.50 percent interest rate.

The City of Mortons Gap, Hopkins County requested a $835,000 Fund F loan, of which KIA will apply $417,000 in principal forgiveness. Co-funding includes a Community Development Block Grant. The Water Systems Improvement project will reduce significant water loss which created a financial hardship for the city. Construction includes replacing plastic fittings with ductile iron, installing valves and radio read meters, replacing all service tubing from the main to the meter, and installing SCADA for the tank and master meter. Effective since February 7, 2019 for 4,000 gallons, the monthly inside and outside city water rates are $40.96 and $51.96 and the proposed monthly inside and outside city water rates, effective March 1, 2020, are $42.96 and $54.61. The term is 30 years at a 0.50 percent interest rate.

In response to Senator McDaniel, Ms. McNeil said that some of the projects submitted this month had higher than expected bids, of which she expects more occurrences.

Senator McDaniel mentioned that while there are more projects than bidders, he wanted to ensure that KIA had mechanisms in place to verify that was the reason for an increase versus changes in scope or engineering difficulties. In response, Ms. McNeil said that several factors are affecting bids as well as a lack of bidders, which she expects to continue as one of the construction firms just filed for bankruptcy. With the Kentucky prevailing wage law’s repeal, federal Davis-Bacon prevailing wage requirements apply and KIA is working with the Department of Labor to increase federal job categories. KIA also is looking at ways to recruit more contractors into the state. Although utilities may rebid projects with only one or two bidders, subsequent bids could yield the same results.

Senator McDaniel commented that initial estimates will need to reflect labor rates. Ms. McNeil said that KIA has a partnership committee meeting every two months with the American Civil Engineering Council and that one of the topics is improving bid estimates. Ms. McNeil stated that steel tariffs and other federal matters are also affecting bids and that KIA had two more loan increase requests this week.

In response to Senator Carroll, Ms. McNeil said KIA finalized its Clean Water State Revolving Fund Intended Use Plan with $75 million available for loans and 29 communities accepting loan invitations. The Drinking Water State Revolving Fund Draft
Intended Use Plan, which KIA intends to finalize by the end of next week, is out for public comment. $52.5 million was available and communities accepted $45 million in loan invitations.

Senator Carroll referenced public employee retention, salaries, and pensions as well as additional revenues sources such as sports betting and medicinal marijuana.

Senator Carroll moved to approve the KIA loans, seconded by Representative Thomas, and approved by unanimous roll call vote.

**New Debt Issue**

Mr. Barrow submitted the Kentucky Economic Development Finance Authority Revenue Bonds (CommonSpirit Health), Series 2019 in an amount not to exceed $330 million. Mr. Barrow stated that the conduit debt issue is a liability of CommonSpirit, formed through the merger of Catholic Health Initiatives and Dignity Health, rather than the commonwealth.

Representative Sheldon moved to approve the debt issue, seconded by Senator Carroll, and approved by roll call vote of seven ayes and one nay.

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

Senator McDaniel moved to roll the school bond issues into one roll call vote, seconded by Senator Carroll, and approved by voice vote.

Mr. Barrow submitted four school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for new projects [Henry County, Jackson Independent (Breathitt County), Monroe County, and Trigg County school districts]. The total estimated issuance amount is $16.8 million, with about 25 percent SFCC participation. No tax increases were necessary to finance the projects.

Senator Carroll moved to approve the school bond issues, seconded by Representative Rudy, and approved by unanimous roll call vote.

Senator Girdler announced that the next committee meeting would be Tuesday, August 27, 2019, at 1:00 p.m. in Annex Room 169, with Representative Thomas as chair.

With there being no further business the meeting adjourned at 1:45 p.m.