

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

November 14, 2019

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Thursday, November 14, 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; Senator Christian McDaniel; Representatives Steven Rudy, and Steve Sheldon.

Guests: Elizabeth Baker, Planning Director, University of Kentucky; Jeff Spoelker, Associate Athletic Director for Finance, University of Louisville Athletics; Janice Tomes, Deputy State Budget Director; Scott Brinkman, Secretary of the Governor's Executive Cabinet; Doug Hendrix, General Counsel, Kentucky Communications Network Authority; Mike Hayden, Chief Operating Officer, Kentucky Communications Network Authority; Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; Linda Bridwell, Deputy 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 15, 2019)

Representative Rudy moved to approve the minutes of the October 15, 2019 meeting. Representative Sheldon seconded the motion, and the committee approved the minutes by voice vote.

Information Items

Ms. Halloran referenced three information items. Pursuant to KRS 45.760(5), the University of Kentucky (UK) reported two medical equipment purchases totaling \$840,000, an ambulance for UK Chandler and a robotic surgical system for UK Good Samaritan.

Pursuant to KRS 45.812(1), the Hart and Menifee school districts reported upcoming bond issues to finance new projects for which no tax increases were necessary.

Pursuant to KRS 65.4931(3) and Section 8.22 of the Series 2017 Loan Agreement, the Louisville Arena Authority reported its operations and financial condition.

Senator Girdler congratulated Representative Thomas on his chairmanship of the House Veterans, Military Affairs, and Public Protection Committee and acknowledged John Paul Alexander's, House Communications Specialist, birthday.

Lease Report from Postsecondary Institutions

University of Kentucky

Ms. Baker submitted a new lease for UK Healthcare Information Technology; 32,550 square feet of office space costing \$626,587 annually. The space will house around 250 people, about half of which will be temporary, to implement UK's replacement electronic health records system.

Representative Rudy moved to approve the new lease, seconded by Representative Thomas, and approved by unanimous roll call vote.

University of Louisville

Mr. Spoelker submitted a new lease for the University of Louisville (UofL) Athletic Association for office space and vehicle storage. The 21,000 square feet UofL Foundation building will provide space for the men's and women's golf programs, equipment, central receiving, transportation, pep band, and cheer and dance squads. The term is five years with two, five year renewable options. The annual cost for the first five years is around \$112,000, which includes the build-out, declining to around \$63,000 after the first renewal.

Representative Thomas moved to approve the new lease, seconded by Representative Rudy, and approved by unanimous roll call vote.

Report from the Finance and Administration Cabinet

Ms. Tomes submitted a \$20,062,400 federal funds appropriation increase for the Kentucky Communications Network Authority (KCNA), Next Generation Information Highway project, bringing the total project scope to \$454,462,400, including the \$43.5 million revised federal funds appropriation. The 2014-2016 biennial budget bill included \$20 million in federal funds and the Secretary of the Finance and Administration Cabinet proceeded with a \$3.5 million federal funds appropriation increase in September 2015. The Appalachian Regional Commission (ARC) granted the federal funds through the Center for Rural Development (CRD) in Somerset, Kentucky.

In response to Representative Sheldon, Secretary Brinkman said there are five separate ARC grants. The first three totaled approximately \$27.5 million, which will be deposited into the project fund for middle-mile network construction costs. The other two grants are \$8 million each, one for last-mile service to four state parks that were not on the original site list (Carter Caves, Cumberland Falls, Dale Hollow, and Lake Cumberland)

and the other, in tandem with the wholesaler, for last-mile service to local governments within the ARC region, which includes 54 counties.

Secretary Brinkman spoke with the Secretary of the Kentucky Tourism, Arts and Heritage Cabinet and the Commissioner of Parks about broadband enhancing the consumer experience and driving room nights for state parks as well as creating a revenue stream to defray costs of using the \$8 million. Revenue streams from local governments for use and possible purchase of the equipment and use of the fiber will defray the cost of using the other \$8 million. KCNA expects the arrangements to either be revenue neutral or profitable.

Secretary Brinkman said that the wholesaler agreement with OpenFiber Kentucky involved the use of half of the strands, available to the private sector as well as local governments. The second \$8 million will be used in combination with wholesaler funds in fronting the capital costs to provide last-mile service to those entities, with KCNA and OpenFiber recouping the costs through private sector and local governmental payments. The other half of the strands will be used by state agencies.

In response to Senator McDaniel, Mr. Hayden said that KCNA is submitting documentation, including information to support USDA's requirement for completion certification of the ARC middle-mile construction, for receipt of the federal funds.

In response to Senator McDaniel, Secretary Brinkman said that CRD owns all of Ring 2 and the bottom of Ring 1B and that KCNA's lease with CRD replaces the 2015 Memorandum of Agreement. The 2015 MOA allowed CRD to receive all of the net revenues from Eastern Kentucky; which includes Rings 1B, 2, and 5, and half of the I-75 spine. That arrangement was problematic because revenues were not capped. Therefore, CRD and the commonwealth entered into a lease in which the commonwealth would pay 4.5 percent of the \$43.5 million CRD grant award per year, consistent with borrowing costs, plus the greater of \$40,000 or twenty-five percent of the net wholesaler revenues received by KCNA. The greater of \$40,000 or twenty-five percent of the net wholesaler revenues was in lieu of CPI rental increases and the fifty percent of net revenues along the I-75 spine.

In response to Representative Rudy, Mr. Hayden said that Rings 1A and 1B were lit, Ring 2 was within four weeks of being lit, and Rings 3, 4, and 5 were scheduled to be lit by February 2020 and that last-mile service to state parks was incremental to the project and would not interfere with the completion of Rings 3, 4, and 5.

In response to Senator McDaniel, Mr. Hayden said that last-mile construction to state parks was initially planned and then set-aside due to financials as some of the parks were ten to twelve miles away from the current backbone.

Due to the policy shift of using funds for last-mile construction and wishing for input from additional stakeholders, Senator McDaniel moved to defer action on the appropriation increase until the following month.

In response to Representatives Rudy and Sheldon and Senator Girdler, Secretary Brinkman said that the committee's deferral of action may impact last-mile construction federal funds receipts but would not impact the lease as it was already signed for receipt of middle-mile construction federal funds.

Representative Rudy seconded Senator McDaniel's motion to defer action on the appropriation increase until the following month.

With four yes votes and one no vote, the motion failed.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey submitted one lease renewal under the same terms and conditions for the Cabinet for Health and Family Services in Lincoln County; \$13.89 per square foot through June 30, 2028.

Representative Thomas moved to approve the lease renewal, seconded by Representative Sheldon, and approved by unanimous roll call vote.

Mr. Aubrey reported a lease modification, improvements and the addition of one year to the lease term, under \$50,000 for the Energy and Environment Cabinet in Franklin County. The improvements include additional electrical outlets, exterior water spigot, and insulated area for water pumper vehicle storage. The lower of two bids for each improvement was selected and the \$21,828 total will be amortized through the June 30, 2022 lease expiration.

Report from the Office of Financial Management Kentucky Infrastructure Authority

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

Ms. Bridwell submitted two Kentucky Infrastructure Authority (KIA) loan requests. The Metropolitan Sewer District (MSD), Jefferson County, requested to assume eight Oldham County Environmental Authority (OCEA) loans, executed between 2010 and 2018, with a \$19,492,651 principal balance. The OCEA, created by ordinance on September 21, 2010, serves all of Oldham County except the cities of LaGrange and Crestwood and operates through Veolia North America. Approval of the loan assumptions is required before MSD can assume OCEA's assets, which include its wastewater collection and treatment system, and obligations. Per MSD and OCEA's interlocal

agreement, OCEA customers will keep their current rates, \$79.12 per month for 4,000 gallons, until the existing contract with Veolia expires. In August 2022, OCEA customers' monthly bills will be reduced by approximately \$10. Going forward, MSD will raise existing OCEA customer rates at a maximum of five percent per year until those rates equalize with MSD's other customers, whose monthly bill is currently \$49 for 4,000 gallons [with 6.9 percent usual annual rate increases].

The City of Mount Sterling, Montgomery County, requested a \$525,000 Fund A Planning and Design Loan for the Wastewater Treatment Plant Capacity Upgrade project. The project will increase the Hinkston Creek Wastewater Treatment Plant's current capacity from three to six million gallons per day. The plant is in excess of its organic loading capacity and at 79 percent of its hydraulic capacity. The construction period will be from October 2020 to October 2021. For 4,000 gallons, effective July 1, 2019, inside and outside city sewer rates are \$26.15 and \$29.59 and inside and outside city water rates are \$24.91 and \$27.82. The term is five years at a 2.5 percent interest rate.

Representative Sheldon moved to approve the Fund A loans, seconded by Senator McDaniel, and approved by unanimous roll call vote.

Office of Financial Management Previous Debt Issue

Mr. Barrow reported the State Property and Buildings Commission (SPBC) Revenue and Revenue Refunding Bonds, Project No. 122 debt issue. Series A financed \$175 million of new projects authorized in various appropriations bills; Series B current refunded, closing within ninety days of the prior debt's earliest redemption date, debt for around \$520,000, or 18 percent, net present value savings; and Series D advance refunded debt for around \$10.3 million, or 11.3 percent, net present value savings. The savings percentages were high since interest rates are historically low, even though the Series D was taxable due to the 2017 Tax Cuts and Jobs Act. Series C, reported separately as it was a tax-exempt forward delivery closing next year, refunded debt for around \$1.7 million, or 2.6 percent, net present value savings. Although the Series C transaction involved the commonwealth's payment of a slight premium, all of OFM's financial models showed savings, even if interest rates were to decline further. OFM last executed a forward delivery transaction ten years ago.

School District Bond Issues with School Facilities Construction Commission Debt Service Participation

Senator McDaniel moved to roll the ten school district bond issues into one roll call vote, seconded by Representative Sheldon, 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 in the Campbell County, Clinton County, Greenup County, and Marion County school districts

with a total anticipated issuance of just over \$7 million and 33.53 percent SFCC participation. No tax increases were necessary to finance these projects. Mr. Barrow also submitted six current refunding bond issues for the Barbourville Independent (Knox County), Carlisle County, Crittenden County, Martin County, Pike County, and Raceland Independent (Greenup County) school districts with about the same total anticipated issuance, just under \$7 million, with two-thirds of the debt SFCC supported.

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

Senator Girdler announced the next meeting would be Tuesday, December 17, 2019 with Representative Thomas as chair.

With there being no further business the meeting adjourned at 1:50 p.m.