

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

December 17, 2019

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, December 17, 2019, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Walker Thomas, 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 Christian McDaniel, and Robby Mills; Representatives Steven Rudy and Maria Sorolis.

Guests: Elizabeth Baker, Planning Director, University Budget Office, University of Kentucky; Angie Martin, Vice President for Financial Planning and Chief Budget Officer, University of Kentucky; Jeff Spoelker, Associate Athletic Director for Finance, University of Louisville Athletics; Scott Aubrey, Director, Division of Real Properties, 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

Senator McDaniel moved to approve the November 14, 2019 meeting minutes. Senator Mills seconded the motion, and the committee approved the minutes by voice vote.

Correspondence Item

Ms. Halloran referenced the KRS 45.800(2) and KRS 45.800(4) notifications to and from the Finance and Administration Cabinet.

Information Item

Ms. Halloran noted UK Healthcare's two medical and research equipment purchases totaling about \$1.3 million, reported pursuant to KRS 45.760(5).

Project Report from Postsecondary Institutions University of Kentucky

Ms. Baker submitted the primarily privately funded, through Aramark (UK's dining partner), Expand Student Center (Dining) project, approved by UK's Board and the Council on Postsecondary Education (CPE). The \$25 million expansion will add 34,000 square feet to the student center, mainly for dining with 350 more seats and another serving line to meet increased demand. The second and third floors will be shelled.

In response to Representative Thomas, Ms. Martin said that UK is renegotiating Aramark's current public-private partnership contract for receipt of its construction funding.

In response to Senator McDaniel, Ms. Martin said that UK will finalize renegotiations by the first or second quarter of 2020 and the agreement will likely include an extension of the existing contract term.

Representative Rudy moved to approve the project, seconded by Senator McDaniel, and approved by unanimous roll call vote.

University of Louisville

Mr. Spoelker submitted the restricted funded Upgrade and Expand WiFi and Cellular Service at Cardinal Stadium, approved by UofL's and University of Louisville Athletics Association's (ULAA) Boards and CPE. Project cost estimates are between \$3 and \$4 million and ULAA plans to have AT&T do an official site visit. If AT&T believes the costs will be under \$4 million, then ULAA will engage AT&T using the state contract with a projected August completion date prior to the first fall home game; otherwise, ULAA will wait to proceed, issuing an RFP. ULAA will finance the project through a lease agreement, using either PNC, its contracted financing vendor, or AT&T.

In response to Representative Thomas, Mr. Spoelker said that AT&T can meet the completion deadline and that the project will be delayed if financing terms are unfavorable. There will be mobile ticketing for football games next season as well.

In response to Senator McDaniel, Mr. Spoelker said that the project will be funded from ULAA operating revenues, primarily ticket sales receipts, with moneys from Adidas dedicated for the stadium set aside. While ULAA probably will have the necessary cash available next year to finance the project, ULAA would prefer a two year lease term. Mr. Spoelker said that restricted fund balances are around \$15 million.

Senator McDaniel moved to approve the project, seconded by Representative Sorolis, and approved by unanimous roll call vote.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey submitted a lease modification for the Commonwealth Office of Technology, Franklin County to change the tenant agency to the Department of Corrections

(DOC), Justice and Public Safety Cabinet, and extend the lease term through 2027. DOC's move to the leased property will allow it to consolidate offices.

In response to Representative Thomas, Mr. Aubrey said this leased property has a higher rental rate than DOC's currently leased space as it is a facility upgrade.

Senator McDaniel moved to approve the lease, seconded by Senator Girdler, and approved by unanimous roll call vote.

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

Senator McDaniel moved to roll three of the four KIA Fund A (Clean Water State Revolving Fund) Program loan requests, with separate consideration of the City of Marion's Fund A request, into one roll call vote, seconded by Senator Mills, and approved by voice vote.

Ms. McNeil submitted four KIA Fund A loan requests. The Augusta Regional Sewer Authority, Bracken County, requested a \$1.1 million increase to its previously approved \$6.297 million Fund A loan for the \$13.497 million Augusta/Brooksville Regional Sewer project. The \$7.397 million total KIA loan amount, of which \$1.3 million in principal forgiveness will be applied, will fund nearly 55 percent of the project costs, with USDA Rural Development financing and residual state grant funds covering the rest. The higher than estimated bids were primarily due to pump pricing. The new regional wastewater treatment plant will replace two existing sewer plants serving the cities of Augusta and Brooksville and the new collection system will extend service to 80 unserved customers in northern Bracken County between those two cities. The proposed sewer rate for 4,000 gallons is \$64.10. The term is 30 years at a .25 percent interest rate.

The City of Marion, Crittenden County, requested a \$4.205 million Fund A loan for the \$13,405,790 New Wastewater Treatment Plant project. The \$4.205 million is the third segment of KIA's multi-phased Fund A loan and will bring the cumulative borrowed amount to \$9,593,790. The city plans to apply for the last segment, \$3.812 million, to cover the remaining project costs next year and \$1.3 million in principal forgiveness will be applied to the total loan amount. The project, which will fully address state enforcement action, includes a 1.5 million gallon per day wastewater treatment plant and rehabilitation of about 43,336 linear feet of gravity sewer. For 4,000 gallons, effective since August 27, 2015, the sewer rate is \$27.52 and the water rate is \$36.73. A flat rate environmental assessment fee to fund capital projects has been in effect since mid-2016 and the next environmental assessment fee increase will be effective July 1, 2021. The city is conducting a rate study. The term is 30 years at a .50 percent interest rate.

The City of Kuttawa, Lyon County, requested a \$1.264 million Fund A loan for the Lift Station and Force Main Replacement project to address federal enforcement action.

The project includes replacing the Magnolia and Old Kuttawa lift stations and about 9,400 linear feet of cast iron force main. For 4,000 gallons, effective since March 11, 2019, the sewer rate is \$30.00 and the inside and outside city water rates are \$21.60 and \$44.50. For 4,000 gallons, the proposed inside city water rate, effective February 1, 2020, will mirror the sewer rate and the outside city water rate will be \$47.50. The term is 20 years at a 2.5 percent interest rate.

The City of Eddyville, Lyon County, requested a \$423,964 Fund A planning and design loan for the Wastewater Sanitary Sewer Evaluation Survey and Rehabilitation project. The planning and design loan will finance the evaluation of the collection system south of Fairview Avenue, north of Interstate 69, from the Eddyville Industrial Park to the wastewater treatment plant, about 31,000 and 23,000 linear feet of 8-inch and 12-inch gravity sewer. Construction is expected to begin December 2020 and end the following December. For 4,000 gallons, effective since July 1, 2018, the sewer and water rates are \$38.10 and \$34.29 inside and \$43.09 and \$38.78 outside the city. The term is five years at a 2.5 percent interest rate.

Senator McDaniel moved to approve the three KIA Fund A Program loan requests, with separate consideration of the City of Marion's Fund A request, seconded by Senator Mills, and approved by unanimous roll call vote.

In response to Senator McDaniel's queries regarding the City of Marion's project, Ms. McNeil said that KIA reviews demographics, including potential population shifts, in its loan analyses. Utilities, on the recommendation of some engineering firms, may increase a wastewater treatment plant's capacity to address collection system inflow and infiltration when fixing the collection system is too cost prohibitive. To address this as the collection systems will eventually need to be repaired or replaced, KIA is working with the Division of Water to assist utilities in planning.

Ms. McNeil said that USDA Rural Development offers financing with forty year terms and that the American Water Infrastructure Act amended Drinking Water State Revolving Fund (DWSRF) provisions of the Safe Drinking Water Act to increase loan terms for disadvantaged communities from thirty to forty years. The life expectancy of the asset still has to exceed the term of the loan. KIA advises utilities that increased loan terms, while lowering debt service payments, will result in higher interest costs.

Senator McDaniel commented that the city's new treatment plant, servicing a small population, would be over double the current plant's capacity and that the city was paying debt service for prior projects. He cautioned that if there is significant debt with population decreases, then utilities could find themselves in untenable situations.

Senator Mills moved to approve the Fund A loan for the City of Marion, seconded by Representative Sorolis, and approved by unanimous roll call vote.

Ms. McNeil submitted a Fund B (Infrastructure Revolving Fund) and a Fund F (DWSRF) Program loan request. The City of Hazard, Perry County, requested a \$596,000 Fund B Program loan for the \$2.98 million Coalfields Industrial Gas Supply project, co-funded with Economic Development Administration and Abandoned Mine Land grants. The project, the first gas transmission project financed through KIA, will install six miles of 8-inch gas lines from the wellhead in central Perry County to the Coalfields Industrial Park. The project is 75 percent complete and will add one industrial customer with the expectation of more. The municipal owned gas system has 1,637 customers with a \$105 average monthly bill. The term is 20 years with a .50 percent interest rate.

Senator McDaniel moved to approve the Fund B loan, seconded by Representative Rudy, and approved by unanimous roll call vote.

The City of West Liberty, Morgan County, requested a \$300,000 Fund F Program loan for the \$1.5 million Water Quality Improvements project, co-funded with an Appalachian Regional Commission grant. The project will construct a new 100,000 gallon ground storage tank and pump station as well as replace over 4,000 linear feet of 6-inch water lines on various streets and extend about 900 linear feet of 6-inch and 8-inch water lines. For 4,000 gallons, effective since February 7, 2019, the sewer rate is \$41.00 and the inside and outside city water rates are \$35.36 and \$43.84. The term is 20 years at a 1.5 percent interest rate.

In response to Senator McDaniel, Ms. McNeil said that she would provide further information on KIA's consideration of utilities' unfunded pension liabilities in its loan analyses.

Senator McDaniel moved to approve the Fund F loan, seconded by Representative Rudy, and approved by unanimous roll call vote.

Office of Financial Management

New Debt Issues

Senator McDaniel moved to roll the two new debt issues into one roll call vote, seconded by Representative Rudy, and approved by voice vote.

Mr. Barrow submitted two new debt issues. The first was the Kentucky Housing Corporation Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Donerail Run Apartments Project) Series 2020 to partially finance an estimated \$62 million project on Taylorsville Road, Louisville. Mr. Barrow verified that the transaction will affect neither the commonwealth's nor KHC's financials.

The second was the University of Kentucky General Receipts Bonds, 2020 Series A and Taxable Series B to partially finance a portion of the Renew/Modernize Facilities

project pool authorized during the 2018 Regular Session. The modernization projects throughout campus will have an energy efficiency focus and include Chemistry/Physics Phase II, Patterson Office Tower 18th Floor, and White Hall Phase I. The estimated taxable component is for private use.

Senator Mills moved to approve the new debt issues, seconded by Representative Rudy, and approved by unanimous roll call vote.

Previous Debt Issues

Mr. Barrow reported two previous debt issues. The first was the Northern Kentucky University General Receipts Bonds, 2019 Series A to finance a new residence hall, student housing renovations, and a parking facility. The approximately \$37.9 million competitively sold transaction had a 2.871 percent true interest cost.

The second was the Kentucky Housing Corporation Tax-Exempt Conduit Multifamily Housing Revenue Bonds, BTT Development III Portfolio/Volunteer Management and Development Portfolio II Project, Series 2019 with a total project cost of just over \$34 million, debt issuance was \$12.8 million, and a net interest rate of 1.45 percent. Mr. Barrow verified that the transaction will affect neither the commonwealth's nor KHC's financials.

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

Senator McDaniel moved to roll the five school district debt issues into one roll call vote, seconded by Representative Rudy, and approved by voice vote.

Mr. Barrow submitted school district bond issues with School Facilities Construction Commission (SFCC) debt service participation, two for refinancings (Boyle and Lee County school districts) and three for new projects for which tax increases will not be necessary (Boone County, Henderson County, and Pikeville Independent school districts). The total anticipated issuance amounts and SFCC participation for the refinancings and new projects are \$3.5 million with 25.1 percent SFCC participation and \$46.7 million with 4.4 percent SFCC participation.

In response to Senator McDaniel, Mr. Barrow said that SFCC percentage participation for new projects was dependent upon the bond issue's term and the school district's available revenues and debt profile. Mr. Barrow said that he would provide a list of school district debt issues with SFCC participation, for new projects, over the last three years; including the purpose, SFCC and school district principal, and percentage participation share.

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

Representative Thomas announced the next three meeting dates and times: Tuesday, January 21, 2020, 1:00 p.m., Senator Girdler, Chair; Tuesday, February 18, 2020, 8:00 a.m., Representative Thomas, Chair; and March 17, 2020, 8:00 a.m., Senator Girdler, Chair.

With there being no further business the meeting adjourned at 1:42 p.m.