

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 17, 2020

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, March 17, 2020, at 8:00 AM, 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 Christian McDaniel and Robby Mills; Representatives Phillip Pratt and Maria Sorolis.

Guests: 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

Representative Thomas moved to approve the February 18, 2020 meeting minutes. Senator Mills seconded the motion, and the committee approved the minutes by voice vote.

Correspondence

The Council on Postsecondary Education (CPE) notified the committee that it approved \$1 million in additional fire commission funds for the National Responder Preparedness Center's parking lot (driving course) construction in Muhlenberg County. The committee's January 18, 2020 approval was contingent upon CPE approval.

Information Item

Pursuant to KRS 45.812(1), three school districts (Ballard County, Mason County, and Washington County) reported anticipated debt issuances totaling over \$11 million for new projects. None of the school districts needed to pass tax increases to finance the debt service.

Office of Financial Management

Kentucky Infrastructure Authority

Ms. Bridwell submitted one Clean Water State Revolving Fund (Fund A) Program and two Governmental Agencies (Fund C) Program loan requests. The Fund C program is

one of KIA's two state programs. Representative Thomas moved to roll the KIA loans into one roll call vote with the committee's Cannonsburg Water District loan approval contingent upon Public Service Commission (PSC) approvals, seconded by Senator Mills and approved by voice vote.

The City of Hodgenville, LaRue County, requested a \$227,000 Fund A planning and design loan for its Wastewater Treatment Plant Upgrade and Wet Weather Storage project to identify needed capacity, appropriate treatment processes, and plant upgrades. The \$29.72 and \$44.52 inside and outside city monthly sewer rates, for 4,000 gallons, have been effective since July 1, 2019. The term is five years at a 2.50 percent interest rate, consistent with all KIA planning and design loans.

The Cannonsburg Water District, Boyd County, requested a \$622,000 Fund C loan for its Phase I - Zone Metering project. The loan will finance 54 percent of the project costs with local funds financing the remaining expenses. The project is the district-wide installation of 53 zone meters to address water loss, which reached a January 2017 high of 55 percent. PSC is monitoring the district's water loss reduction efforts [under Case No. 2019-00041]. The \$48.41 monthly water rate, for 4,000 gallons, has been effective since May 13, 2019. The term is four years at a two percent interest rate.

In response to Senator McDaniel, Ms. Bridwell said that the zone meter installation will detect water loss sources, which could be a result of pipe leakage or unauthorized consumption. In setting rates, a PSC jurisdictional water utility's water loss standard is fifteen percent [807 KAR 5:066] of total water pumped and treated [purchased and produced] and PSC jurisdictional water utilities generally cannot adjust rates for purchasing and production costs beyond the fifteen percent threshold. KIA believes loss above twenty percent is excessive and, in a separate case from this as well as at least one other water utility already under PSC examination, PSC is investigating eleven jurisdictional water utilities that reported greater than thirty-five percent water loss [Case No. 2019-00041 - based upon utilities' most recent annual reports]. Senator McDaniel referenced the water losses' impact on customer bills.

The City of Lewisport, Hancock County, requested a \$100,000 Fund C Loan for its Ultraviolet and Headworks Upgrade and Yellow Creek Waterline Replacement projects. The loan will finance 77 percent of the project costs with local funds financing the remaining expenses. The project is primarily the current ultraviolet treatment system upgrade and wastewater treatment plant headworks replacement. The \$27.03 monthly water rate, for 4,000 gallons, has been effective since June 15, 2017. The term is 20 years at a 2.75 percent interest rate.

Senator McDaniel moved to approve the KIA loans with the Cannonsburg Water District loan approval contingent upon PSC approvals, seconded by Representative Sorolis, and approved by unanimous roll call vote.

Office of Financial Management
New and Previous Debt Issues
New Debt Issues

Mr. Barrow submitted two new debt issues. Senator Mills moved to roll them into one roll call vote, seconded by Representative Thomas, and approved by voice vote. COVID-19 disrupted the municipal markets and the sale date for debt transactions is now uncertain. OFM is continuing to obtain approvals so that debt, including School Facilities Construction Commission debt, may be issued, in consultation with underwriters and financial advisors, when there is less volatility.

The first debt issue was the Kentucky Housing Corporation (KHC) Tax-Exempt Conduit Multifamily Housing Revenue Notes (The Colony Apartments), Series 2020. Mr. Barrow reiterated that conduit KHC debt transactions affect neither the commonwealth's nor KHC's financials and are applied to KHC's private activity bond volume cap. The initial proposed sale date was in May with a 3.84 net interest rate estimate for a May 2036 final maturity.

The other debt issue was the Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Backed Notes in an amount not to exceed \$815 million. An estimated \$115 million issue will finance, or retire interim financing for, Federal Family Education Loan Program (FFELP) loan acquisitions, similar to the \$104.965 million direct placement notes issue that closed in August 2019. KHESLC requested committee approval for issuances totaling up to \$815 million rather than \$115 million through June 30, 2021; primarily for flexibility to also restructure some of its London Interbank Offered Rate based floating rate debt, consolidating up to four FFELP trust indentures to free up equity. KHESLC sought committee approval prior to expending equity for issuance costs such as legal and ratings services. Consolidating FFELP trust indentures would involve significant legal work including obtaining bondholder approval.

In response to Senator McDaniel, Mr. Barrow said that OFM is concerned with underwriters, financial advisors, and bond counsel doing substantive work on a complex transaction prior to committee approval as either agencies may have made substantial upfront equity expenditures to pay the financing team or the financing team may not be paid [issuance costs are often paid from debt proceeds] for work on an unexecuted transaction. Senator McDaniel suggested controls to ensure that issuance costs were not excessive, such as returning to the committee after those costs reached a specific amount. Mr. Barrow said that primarily structured finance transactions such as KHESLC debt issues would involve significant upfront issuance costs.

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

Previous Debt Issues

Mr. Barrow reported two previous debt issues. The first was the University of Kentucky General Receipts Bonds, 2020 Series A (\$46.120 million) and Taxable Series B (\$12.405 million), to finance a portion of the projects under the HB 200 (2018 Regular Session) Renew/Modernize Facilities authorization. Interest rates were trending downward when this transaction priced in January. The Series A and Series B respective true interest costs and maturities were 2.32 percent (April 2040) and 1.84 percent (April 2026).

The second transaction was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (City View Park), Series 2020. Mr. Barrow reiterated that conduit KHC debt transactions affect neither the commonwealth's nor KHC's financials. Net proceeds were \$34 million.

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

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

Mr. Barrow submitted three school district current refunding debt issues with School Facilities Construction Commission (SFCC) debt service participation (Barren County, Cloverport Independent (Breckinridge County), and Crittenden County school districts). The total anticipated issuance amount is \$3.2 million, with over 75 percent SFCC, the remaining \$1 million local, debt service participation.

In response to Senator McDaniel, Mr. Barrow confirmed that the school districts, rather than SFCC, realize the savings from refinancings [although greater available school district funds, reducing the school district's unmet facility need calculation, could affect future SFCC offers of assistance] and agreed to provide the committee information regarding school districts and their corresponding nickel levies.

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

Senator Girdler thanked the committee members for their questions and the agency representatives for their reliable responses. He announced the Tuesday meeting dates and times for the next two months: April 14, 2020, 8:00 a.m.; and May 19, 2020, 1:00 p.m.

With there being no further business the meeting adjourned at 8:23 a.m.