

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 14, 2020

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, April 14, 2020, at 11:00 AM, in Room 171 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; and Representative Phillip Pratt.

Guests Providing Written Testimony: Bryan B. Russell, Chief Facilities Officer, Western Kentucky University; Jennifer Breiwa Smith, Special Assistant to the President for Government and Community Relations, Western Kentucky University; Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; and Linda Bridwell, Deputy Executive Director, Kentucky Infrastructure Authority.

Guests: 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 March 17, 2020 meeting minutes. Senator Girdler seconded the motion, and the committee approved the minutes by voice vote.

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, with the Commonwealth Office of Technology reporting independently; and postsecondary institutions managing their own capital construction under KRS 164A.580 transmitted quarterly capital projects status reports.

Pursuant to KRS 45.760(5), UK reported three restricted funds medical equipment purchases for Chandler Hospital totaling over \$2.3 million.

Pursuant to KRS 45.812(1), four school districts (Breckenridge County, Franklin County, Jefferson County, and Taylor County) reported upcoming bond issues for new projects. None of the school districts needed to levy an additional tax to pay debt service.

Pursuant to KRS 56.863(11), the Office of Financial Management transmitted the Kentucky Asset/Liability Commission's (ALCo) semi-annual report.

Project Report from the Finance and Administration Cabinet

The Finance and Administration Cabinet, through the Office of State Budget Director (OSBD), reported pool allocations for two Tourism, Arts and Heritage Cabinet projects. The first was for a Department of Fish and Wildlife Resources Wetland and Stream Mitigation project using restricted funds from the Fees-in-Lieu of (FILO) Stream Mitigation projects pool. The \$6.325 million allocation will restore and protect over 30,000 linear feet of Blue Spring Creek and its tributaries.

The second was for a Department of Parks bond funded maintenance pool project, General Burnside Campground Improvements. The \$1.05 million allocation from two bond funded maintenance pools, Parks 2018-2020 Maintenance Pool and Utilities and Communications Cabling Infrastructure Replacement Pool, will address campsite electric, water and sewer, paving, and ADA accessibility.

In response to Senator McDaniel, Ms. Halloran said that the Enhanced Statewide Election Administration and Online Ballot Delivery System project was monitored by the Commonwealth Office of Technology and agreed to provide further information. Ms. Halloran said that, for state debt issues, authorized but unissued (ABUI) debt amounts are in official statements [debt offering disclosure document for investors] and that ABUI debt service is factored into OSBD's calculations of the commonwealth's debt service to revenue ratio, of which the policy cap is six percent. General fund debt service is included in agencies' appropriation units during the first biennium of project authorization and then [except for School Facilities Construction Commission and Teachers' Retirement System debt] reverts to the Finance and Administration Cabinet's Debt Service appropriation unit, irrespective of whether the debt has been issued. OSBD determines which of the projects, for which there is ABUI debt, is expected to move forward within the upcoming biennium and ensures that the appropriate amount for debt service is included in the Executive Budget Recommendation. [If OSBD determines that a project is not expected to proceed; then it will deauthorize, often referenced as expired debt, the project in the Executive Budget Recommendation, in which case no debt service will be appropriated. It is necessary to deauthorize bond funded, supported by the general or road fund, projects since they are authorized in perpetuity through resolutions passed by either the State Property and Buildings Commission (SPBC) or Turnpike Authority of Kentucky].

Senator McDaniel referenced the ABUI debt amounts and requested a list of projects with ABUI debt as well as ABUI debt service appropriation amounts as the legislature will revisit the budget next year.

Project Report from Western Kentucky University

Western Kentucky University (WKU) submitted a new project, Reconfigure Health Science Classrooms. Representative Thomas read excerpts from testimony, available on the committee's website, submitted by Ms. Smith.

WKU requested authorization to use up to \$1.5 million in Academic Affairs carry forward funds to convert three nursing program classrooms into two larger classrooms. WKU's Board of Regents and the Council on Postsecondary Education's Finance Committee [with anticipated full CPE approval at its April 24 meeting] approved the project, which is included in the executive branch budget recently passed by the General Assembly.

Senator Mills moved to approve the new project, seconded by Representative Pratt, and approved by unanimous roll call vote.

Lease Report from the Finance and Administration Cabinet

The Division of Real Properties submitted an over \$50,000 lease modification for space occupied by the Transportation Cabinet in Warren County. Representative Thomas read excerpts from testimony, available on the committee's website, submitted by Mr. Aubrey. The new suite, which includes additional office space for REAL ID, is 3,852 square feet at \$21.37 per square foot for an \$82,317 total annual cost. The rental rate reflects the estimated \$200,000 replacement space improvements and the expiration date is June 30, 2027. The lessor spent around \$120,000 to improve the current leased space, 1,726 square feet, when the Cabinet occupied it last year.

Senator McDaniel, in explaining his vote, referenced the expenditure increases for REAL ID drivers' license issuance without corresponding expenditure reductions.

Senator Girdler moved to approve the lease modification, seconded by Representative Pratt. The motion failed by a roll call vote of three ayes and two nays.

Office of Financial Management Kentucky Infrastructure Authority

Ms. Bridwell submitted four loan requests. Senator McDaniel moved to roll the four loans into one roll call vote, seconded by Senator Mills, and approved by voice vote.

Representative Thomas read excerpts from testimony, available on the committee's website, submitted by Ms. Bridwell. The City of Smithland, Livingston County, requested a \$246,000 Clean Water State Revolving Fund (Fund A) planning and design loan to

finance a sanitary sewer evaluation study. The \$45.02 monthly sewer rate, for 4,000 gallons, has been effective since September 15, 2018 and phased sewer and water increases are planned through 2025. The term is five years at a 2.50 percent interest rate.

The Paducah-McCracken County Joint Sewer Agency requested a \$5.17 million Fund A loan for its Outfall 003 Fine Screening - Phase One project, outfall adjacent to the wastewater treatment plant, which will allow operation of the Harrison Street storage tank. The \$23.76 monthly sewer rate, for 4,000 gallons, has been effective since July 1, 2019. The term is 20 years at a 0.50 percent interest rate.

The City of Flemingsburg, Fleming County, requested a \$77,405 Infrastructure Revolving Fund (Fund B) loan to finance 30 percent of its \$258,015 E Main St, Mills Ave, and E Water St Waterline Replacement project. An Appalachian Regional Commission grant will finance the rest of the project, the replacement of approximately 1,650 linear feet of asbestos cement and 600 linear feet of cast iron distribution water mains with 6-inch and 2-inch polyvinyl chloride pipe. The \$37.46 and \$49.19 inside and outside city monthly water rates, for 4,000 gallons, have been effective since April 1, 2019. The term is 20 years at a 0.50 percent interest rate.

The City of Lebanon, Marion County, requested a \$5,238,230 Drinking Water State Revolving Fund (Fund F) loan, of which KIA will apply \$1.3 million in principal forgiveness, for its Main Replacement project, the replacement of around 80,000 linear feet of varying sized cast iron and galvanized steel water mains, along with the accompanying service lines. The \$26.19 and \$28.82 inside and outside city monthly water rates, for 4,000 gallons, have been effective since July 8, 2019. The term is 30 years at a 0.50 percent interest rate.

Senator McDaniel referenced the City of Lebanon's \$700,000 additional projected annual water revenues, current annual water revenues are \$3.2 million, with Diageo Lebanon Distillery commencing operations next year. He credited the Senate President and former Senate Appropriations and Revenue Chair for their roles in the 2014 bourbon barrel tax credit legislation's passage. Representative Thomas thanked Senator McDaniel for his expertise.

Senator Mills complimented the City of Smithfield on addressing its water and sewer issues.

Senator Mills moved to approve the KIA loans, seconded by Senator McDaniel and approved by unanimous roll call vote.

Representative Thomas announced the Tuesday, May 19, 2020, 1:00 p.m. meeting.

Office of Financial Management

New and Previous Debt Issues

New Debt Issues

Mr. Barrow submitted four new debt issues. Representative Pratt moved to roll the new debt issues into one roll call vote, seconded by Senator Girdler, and approved by voice vote.

Mr. Barrow stated transactions' sale dates are subject to change with the COVID-19 municipal market disruption. At the moment, transaction pricing and rates have stabilized slightly with fed purchases offsetting investor outflows.

The first was a conduit debt issue, the Kentucky Economic Development Finance Authority (KEDFA) Healthcare Facilities Revenue Bonds (Christian Care Communities Obligated Group), Series 2020A and Taxable Series 2020B. This conduit debt issue, refinancing debt for certain Christian Care Communities' health facilities, affects neither the commonwealth's nor KEDFA's financials.

In response to Senator McDaniel, Mr. Barrow said that SPBC rather than KEDFA will be used as an issuer [consistent with using SPBC for other KEDFA programs financed with general fund supported debt] for the \$35 million partially forgivable KEDFA loan, authorized in House Bill 99, to University of Louisville (UofL) Health since the debt service will be supported by the general fund rather than a third party.

If significant changes were made to transactions' structures after committee approval, then OFM would resubmit, although there is more flexibility for conduit transactions, since the commonwealth is not liable for the debt service. Previous debt issue reports show transactions' final terms.

The second debt issue was the SPBC Revenue Bonds, Project 123 Federal Taxable Series A to finance the \$35 million partially forgivable KEDFA loan to UofL Health, which acquired certain Louisville-based KentuckyOne Health assets. The negotiated transaction with Citigroup is taxable as it is long-term debt supporting a loan for operating expenditures. With current market volatility, interest rates have changed considerably from the just under four percent all-in true interest cost listed in OFM's submittal.

The third debt issue was the Murray State University General Receipts Refunding Bonds, Series 2021. Around \$4.6 million and \$6.2 million respectively will forward refund 2011 Series A and 2011 Series C debt for estimated net present value savings of around \$500,000 and \$300,000. Consistent with postsecondary debt issuance, the transaction will be sold competitively.

The fourth debt issue was the Kentucky Asset/Liability Commission General Fund Refunding Project Notes, 2020 Series A to terminate the three swap agreements associated with the commonwealth's sole derivatives transaction, originated in 2007. Citigroup was

the original and Deutsche Bank is the current counterparty. The swap terminations will eliminate counterparty risk and with the swap termination payments, estimated net present value savings will be nominal, under \$200,000.

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

Previous Conduit Debt Issue

Mr. Barrow reported the Kentucky Housing Corporation Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Chapel House Apartments), Series 2020. The facility is located in Louisville, the debt sale date was March 10, and net proceeds were \$13.5 million.

Office of Financial Management

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

Mr. Barrow submitted the Daviess County and Madison County school district debt issues with SFCC debt service participation, for which neither of the school districts needed to levy an additional tax to pay debt service. Senator Girdler moved to roll the two school district debt issues into one roll call vote, seconded by Senator Mills, and approved by voice vote.

Of the total \$88.3 million anticipated issuance amount, SFCC participation is over one percent, around \$1.1 million, with local participation around 99 percent.

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

With there being no further business the meeting adjourned at 11:34 a.m.