

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

November 19, 2020

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Thursday, November 19, 2020, at 12:00 PM, in Room 171 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, Steven Rudy, and Maria Sorolis.

Guests: Elizabeth Baker, Planning Director, University Budget Office, University of Kentucky; Dr. Leslie Sherwood, Assistant Vice President for Research Services, University of Louisville; Mark Watkins, Chief Operating Officer, University of Louisville; Dr. Michael Mardis, Dean of Students and Vice Provost for Student Affairs; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; 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

Representative Rudy moved to approve the October 21, 2020 meeting minutes. Representative Pratt seconded the motion, and the committee approved without objection.

Information Items

Ms. Halloran referenced two information items. Pursuant to KRS 45.812(1), the Henderson and Shelby County school districts, neither of which needed an additional tax levy to pay debt service, reported upcoming debt issues to finance new projects and the Dayton Independent (Campbell County) school district reported an upcoming current refunding issue.

Pursuant to KRS 65.4931(3), the Louisville Arena Authority reported its operations and financial condition to the committee.

Lease and Project Reports from Postsecondary Institutions

The University of Kentucky

Ms. Baker submitted a lease renewal for UK Healthcare, UK Physical Medicine and Rehabilitation (Cardinal Hill Encompass): 6,379 square feet at \$18 per square foot for an \$114,822 annual base cost with amortized improvements for a maximum \$145,000 total annual cost. The renewal includes additional space for increased client services.

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

The University of Louisville

Representative Thomas moved to roll the two new projects into one roll call vote, seconded by Representative Pratt, and approved without objection.

Dr. Sherwood submitted the \$8 million federally funded Medical Tower – 55A Vivarium, animal research facility, project, to be located on the ninth floor of the medical school tower. Mr. Watkins submitted the \$1.3 million J.B. Speed Building Renovation – Phase 1 project, replacing the HVAC system in the basement. The building’s infrastructure is over fifty years old and basement space overheats to about ninety-five degrees.

Representative Rudy moved to approve the two new projects, seconded by Representative Pratt, and approved by unanimous roll call vote.

Dr. Mardis submitted the master lease for the Southeast Corridor Residence Hall construction, to be located on Floyd Street close to the university’s academic core; a 128 bed facility for student-athletes from the men’s and women’s basketball and women’s lacrosse teams as well as a living learning community for UofL sports administration program majors.

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

Project Report from the Finance and Administration Cabinet

Ms. Tomes reported, pursuant to Part II(4) of the executive branch appropriations bill, allocations totaling \$3.2 million from the bond-funded Facilities and Support Services maintenance pools (2018-2020, 2016-2018, and 2012-2014) for the Halon System Replacement project; replacement of the halon system at the CHFS building and the Commonwealth Data Center. The current fire suppression system does not meet EPA standards and a new system is needed to protect Office of Vital Statistics documents and computer equipment.

Ms. Tomes also reported, pursuant to KRS 45.450(1)9g), a \$2.5 million Emergency, Repair, Maintenance, or Replacement project; the Emergency Replacement Nurse Call

System – Western KY Veterans’ Center, funded primarily with agency restricted funds with minimal insurance proceeds. The project will replace the nurse call system that was struck by lightning on October 23, 2020. Ms. Tomes referenced the \$6.05 million current line-item authorization, \$4.5 million in restricted funds and \$1.55 million in investment income, to replace the nurse call systems at WKVC as well as the Thomson-Hood and Eastern Kentucky Veterans’ Centers. That authorization included \$4.5 in restricted funds and \$1,550,000 in investment income for a total of \$6,050,000. When this original line item project was developed the Finance and Administration Cabinet learned that the Western Veterans’ Center did not fit the originally approved project. The emergency project involved temporary repairs that were not in the scope of the original line-item authorization and the cabinet recommended combining the WKVC nurse call system temporary repairs and replacement under one project.

Lease Report from the Finance and Administration Cabinet

Representative Thomas moved to roll the five lease renewals into one roll call vote, seconded by Representative Pratt, and approved without objection.

Mr. Aubrey submitted five lease renewals under the same terms and conditions; all through June 30, 2029 except for the first renewal, through June 30, 2022: Unified Prosecutorial System, Jefferson County: 24,233 square feet at \$16.55 per square foot for a \$401,056.16 annual cost; Board of Nursing, Jefferson County: 22,010 square feet at \$11.75 per square foot for an \$258,617.52 annual cost; Cabinet for Health and Family Services, Carter County: 14,628 square feet at \$11.89 per square foot for a \$173,926.92 annual cost; Department of Workforce Investment, Hardin and Rowan Counties: 14,054 square feet at \$15.00 per square foot and a \$210,810 annual cost (Hardin) and 8,348 square feet at \$14.89 per square foot for a \$124,301.72 annual cost (Rowan).

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

Mr. Aubrey submitted a Tenant Improvement Fund disbursement request on behalf of all Mayo-Underwood Building, Franklin County, state agency building occupants; power and four-inch core for better cellular coverage with coax gps antenna. AT&T is supplying and installing the antenna, fiber circuit, and hardware. The Division of Real Properties received two bids; \$2,521.38 from Blue Sky Electric and \$1,260.00 from CRM. The tenant agencies requested to proceed with the lower bid. The total cost of improvements to date for this facility is \$7,829.03.

Representative Pratt moved to approve the Tenant Improvement Fund disbursement request, seconded by Representative Thomas, and approved by unanimous roll call vote.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Representative Rudy moved to roll the three Drinking Water State Revolving Fund (Fund F) Program Loans into one roll call vote, seconded by Representative Pratt, and approved without objection.

The City of Whitesburg, Letcher County, requested a \$2.2 million Fund F loan for its KY HWY 931 Waterline Extension project; 61,000 linear feet of polyvinyl chloride waterline, storage tank, and pump station, for 166 unserved households currently relying on wells or hauled water. For 4,000 gallons, effective July 1, 2019, the monthly water rate is \$24.40. The loan term is thirty years at a 0.25 percent interest rate.

The McCreary County Water District requested a \$270,000 Fund F loan, of which KIA will apply \$135,000 in principal forgiveness, for its Catron/Needle Road Water Line project; 6,550 linear feet of PVC waterline, for nine unserved households with potentially another 2,500 linear feet along KY 896 for additional unserved households. For 4,000 gallons, effective August 2, 2019, the monthly water rate is \$36.56 with a proposed January increase, pending PSC approval, to \$41.00. The loan term is thirty years at a 0.25 percent interest rate.

The City of Hazard, Perry County, requested a \$1,637,500 Fund F loan for its \$2,437,500 Emergency Tank Replacement project; replacement of the existing Liberty Street tank with two tanks. Governor Beshear designated this project as an emergency project, based upon the Division of Water's recommendation, since engineers deemed the tank, which feeds the entire Hazard system, unsafe after a routine inspection and advised that it be taken out of service. An \$800,000 Appalachian Regional Commission grant will cover the remaining project costs. For 4,000 gallons, effective February 1, 2020, the monthly water rate is \$30.81. The loan term is thirty years at a 0.25 percent interest rate.

Representative Rudy moved to approve the Fund F loans with the McCreary County Water District loan approval contingent upon applicable PSC approvals [including Certificate of Public Convenience and Necessity, debt authorization, and rate increase], seconded by Representative Pratt, and approved by unanimous roll call vote.

Ms. Bridwell informed the committee that KIA offered retroactive principal forgiveness for the City of Whitesburg's other Fund F loan, approved by the committee in September. Due to COVID-19, three utilities did not proceed with drinking water projects for which KIA offered principal forgiveness; therefore, KIA's allocated additional subsidization was below the required amount for federal fiscal year 2019 funding. The city's project was the next one to meet the KIA additional subsidization guidelines detailed in the Intended Use Plan.

Office of Financial Management
New Debt Issues

Representative Rudy moved to roll the three new debt issues into one roll call vote, seconded by Representative Thomas, and approved without objection.

Mr. Barrow submitted three new debt issues, a KHC conduit issue and two postsecondary refundings. The first was the Kentucky Housing Corporation Tax-Exempt Conduit Multifamily Mortgage Backed Bonds (Three Thirty Newtown Apartments Project), Series 2020; 209 units in Lexington. The anticipated sale date is December 15 for net proceeds of \$25 million. KHC conduit debt issues are applied towards the state's private activity volume cap but affect neither the commonwealth's nor KHC's financials as the developer pays the debt service.

The next was the Eastern Kentucky University General Receipts (Forward Delivery) Refunding Bonds, Series 2021A; issuance of around \$11.27 million for net present value savings just over \$1.4 million, 11.3 percent. [In a forward refunding, the issuer waits until ninety days of the prior debt's redemption date to close the transaction]. The purchaser gave ECU the option to receive upfront savings, which will be placed in a university housing capital reserve fund for improvements and maintenance, with ECU making the same debt service payments as before.

The third was the Morehead State University Taxable General Receipts Refunding Bonds, Series 2020 A; issuance of around \$4.965 million to partially advance refund two series of bonds for net present value savings of around \$591,900, just over ten percent. The \$4.965 million factors the \$1.7 million in cash from the sale of the procurement services center applied towards the transaction, decreasing the borrowed amount.

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

In response to Senator McDaniel, Mr. Barrow confirmed that OFM has not submitted prior refinancing transactions utilizing upfront savings for capital improvements and that one of Moody's postsecondary downgrades, partially due to a twelve percent enrollment decline, may not impact the \$8.00 BuildSmart Investment for Kentucky Competitiveness fee.

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

Mr. Barrow submitted one debt issue with SFCC participation. The Bullitt County school district's, which did not need an additional tax levy for debt service, proposed \$21.78 million debt issue for a new elementary school will have around ninety percent district debt service, with SFCC debt service for the remaining \$2.3 million.

Representative Rudy moved to approve the debt issue with SFCC participation, seconded by Representative Pratt, and approved by unanimous roll call vote.

Senator Girdler announced the December 16, 2020 next meeting date.

With there being no further business the meeting adjourned at 12:45 p.m.