

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

February 22, 2022

Call to Order and Roll Call

The February Capital Projects and Bond Oversight Committee meeting was held on Tuesday, February 22, 2022, at 2:00 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 Chris Freeland, Co-Chair; Senator Christian McDaniel; Representatives Joni L. Jenkins, Jason Petrie, and Walker Thomas.

Guests: Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; Sandy Williams, Executive Director, Kentucky Infrastructure Authority; and Ryan Barrow, Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Committee Staff Administrator; Korey Sallee, Committee Analyst; and Elizabeth Hardy, Committee Assistant.

Approval of Minutes

Representative Thomas moved to approve the February 22, 2022 meeting minutes. Representative Freeland seconded the motion and the committee approved without objection.

Information Items

Ms. Halloran referenced five information items. Pursuant to KRS 45.760(5), the University of Kentucky reported two restricted funds equipment purchases totaling \$608,600 for UK Chandler Hospital; a \$938,900 equipment purchase, primarily with restricted funds although UK utilized some private funds, for its Health Sciences Research Building; and a \$289,300 privately funded Mobile Health Unit purchase. Pursuant to KRS 45.760(6), Western Kentucky University reported \$5.5 million in private funds rather than agency bonds for its Improve Softball and Soccer Complex project under the \$50 million Construct, Renovate, and Improve Athletics Facilities authorization. Pursuant to KRS 45.812(1); six school districts, none of which needed an additional tax levy to pay debt service, reported upcoming debt issues for new projects through their fiscal agents as follows: Leslie County, Marshall County, Meade County, Monroe County, Paducah Independent (McCracken County), Pike County, and Simpson County. Pursuant to KRS

45A.180(2), UK reported the construction management-at-risk project delivery method for its Improve Sanders-Brown Center on Aging/Neuroscience Facilities project. Pursuant to KRS 56.823(11)(a), the Division of Real Properties reported a quarterly square footage lease modification under \$50,000. DRP did not have any reportable KRS 56.813(2)(a)3.b. leasehold improvements under \$10,000.

Project Report from the Finance and Administration Cabinet

Ms. Tomes submitted two new projects. Senator McDaniel moved to roll the two new projects into one roll call vote, Representative Thomas seconded the motion, and the committee approved without objection. The first was the \$2 million Education and Labor Cabinet, Office of Unemployment Insurance, Unemployment Insurance System Maintenance and Support Upgrades project, funded with one hundred percent federal funds from the U.S. Department of Labor. The Office of Unemployment Insurance needs to complete UI system security and software maintenance. This project will help secure personal identifiable information, provide database support, reduce vulnerabilities and operational risk, and make value-driven improvements to the claims/benefits processing capabilities of the UI system. The second is the Kentucky Community and Technical College System, Renovate Student Center Building - Elizabethtown Community and Technical College project. KCTCS submitted the \$800,000 restricted fund appropriation increase under the authority of KRS 164A.575(15) [statute references new projects]. The original 2016-18 biennial budget project authorization was \$4.3 million and this increase will bring the total appropriation to \$5.1 million. The project was bid and rebid and still came in over budget. Current construction market conditions have increased material and labor costs.

In response to Senator Girdler, Ms. Tomes said OSBD has seen other construction project appropriation increase requests due to market conditions.

Representative Thomas moved to approve the two new projects, Representative Freeland seconded the motion, and the committee approved by unanimous roll call vote.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey reported two Graves County emergency leases expiring February 28, 2022; in Mayfield, both for a one dollar one-time payment with the same lessor for temporary office space necessitated by the December 10, 2021 tornadoes. The first was with the Department of Corrections for 2,919 square feet and the second was with the Cabinet for Health and Family Services for 7,410 square feet.

Office of Financial Management Kentucky Infrastructure Authority

Ms. Williams submitted four Drinking Water State Revolving Fund (Fund F) Program transactions. Representative Freeland moved to roll the four Fund F drinking

water transactions into one roll call vote, Representative Thomas seconded the motion, and the committee approved without objection.

The City of Morehead, Rowan County, requested a \$16.57 million Fund F loan increase to its previously approved \$28.428 million Fund F loans for a \$44.998 million total Fund F loan amount. The Regional Water Treatment Plant construction loan increase is due to additional supply costs and price increases for both the plant and the raw and finished waterline. The loan term is thirty years at a 0.5 percent interest rate.

The Grayson County Water District requested a \$7.231 million Fund F loan for its Grayson County Water District East - West Improvements II project; comprehensive improvements to the water treatment plant and the distribution system. The loan term is thirty years at a 0.25 percent interest rate.

The City of Whitesburg, Letcher County, requested a \$1.66 million Fund F loan for its Water Line Replacement Phase 1 project; replacement of water lines, meters, hydrants, valves, and other related items to enhance the system on the eastern side of the city. The loan term is thirty years at a 0.25 percent interest rate.

The City of London, Laurel County, requested a \$2.904 million Fund F loan for its Water Treatment Plant Improvements project; various improvements to the water treatment plan, repairs to three existing water storage tanks, and submersible pump station installation. The loan term is twenty years at a 0.25 percent interest rate.

Representative Freeland moved to approve the four Fund F drinking water transactions, Leader Jenkins seconded the motion, and the committee approved by unanimous roll call vote.

New and Previous Debt Issues

Mr. Barrow submitted the State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 126. Series A will finance \$100 million of various remaining capital projects authorized in appropriations bills with general fund supported debt. OFM included two refunding series in its submission; however, it is unlikely that OFM will execute the refundings unless market conditions change. For the first series, the all-in true interest cost is 2.86 percent. If OFM completes the refundings, then projected savings are close to \$915,000 and \$2 million for Series B and C. The sale date will be around March 9th with delivery on April 5th.

In response to Senator McDaniel, Mr. Barrow said that he did not expect a negative effect on the municipal market if the Federal Reserve scales back or divests its bond purchases.

Representative Thomas moved to approve the new State Property and Buildings Commission debt issue, Senator McDaniel seconded the motion, and the committee approved by unanimous roll call vote.

Mr. Barrow reported three previous Kentucky Housing Corporation conduit debt issues, applied towards the state's private activity volume cap for the tax-exemption and affecting neither the commonwealth's nor KHC's financials as the developer pays the debt service, for multifamily rental housing in Louisville, Kentucky. The first was Kentucky Housing Corporation Conduit Multifamily Housing Revenue Bonds (Crossings at Mill Creek), Series 2021; 180 units, \$20.8 million net proceeds with an over \$38.1 million project cost. The second was Kentucky Housing Corporation Conduit Multifamily Housing Revenue Bonds (Lower Hunter's Trace), Series 2021; 168 units, \$18.7 million net proceeds with an over \$35.2 million project cost. The final was Kentucky Housing Corporation Conduit Multifamily Housing Revenue Bonds (Mt. Lebanon of Cedars of Lebanon Homes), Series 2022; 70 units, \$5.6 million net proceeds with an over \$16 million project cost.

Mr. Barrow reported two previous postsecondary debt issues. The first was Murray State University General Receipts Bonds, 2022 Series A, the debt issue was just over \$11 million to fund \$12.2 million of projects in the Historic Buildings Preservation Pool as authorized by the General Assembly. The all-in true interest cost was 2.15 percent with an A2 Moody's rating and an AA Standard and Poor's rating [insured rating for maturities 2037, 2039, and 2041]. The second was University of Kentucky General Receipts (Forward Delivery) Refunding Bonds, Series 2022 A. The debt issue was \$27.5 million with an April 2034 final maturity. The all-in true interest cost was 1.57 percent with an Aa2 Moody's rating and an AA- Standard and Poor's rating. UK received its net present value savings, \$3 million [net of costs of issuance] or close to eleven percent, upfront and applied \$2.9 million towards electrical infrastructure improvements at the agricultural complex and nearly \$130,000 towards the central plant deaerators.

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

Mr. Barrow submitted six new school district debt issues with SFCC debt service participation, none of which needed an additional tax levy to pay debt service as follows: Christian County, Crittenden County, Greenup County, Lee County, Paducah Independent (McCracken County), and Scott County. Senator McDaniel moved to roll the school district debt issues with SFCC participation into one roll call vote, Representative Thomas seconded the motion, and the committee approved without objection. The debt issues totaled about \$195 million, over ninety-six percent with locally supported debt service and just under four percent, around \$7.7 million, with SFCC debt service participation.

Senator McDaniel moved to approve the school district debt issues with SFCC participation, Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

Senator Girdler announced the 9:00 AM. March 15 meeting. With there being no further business, the meeting adjourned at 2:34 PM.

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 15, 2022

Call to Order and Roll Call

The March Capital Projects and Bond Oversight Committee was held on Tuesday, March 15, 2022, at 9:00 AM, in Room 171 of the Capitol Annex. Representative Chris Freeland, Chair, called the meeting to order, and the secretary called the roll. There was no quorum at this meeting.

Present were:

Members: Representative Chris Freeland, Co-Chair; Senators Jason Howell and Robin L. Webb; Representative Walker Thomas.

Guests: Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; Sandy Williams, Executive Director, Kentucky Infrastructure Authority; Katie Smith, Deputy Secretary and Commissioner, Department for Financial Services; and Ryan Barrow, Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Committee Staff Administrator; Korey Sallee, Committee Analyst; and Elizabeth Hardy, Committee Assistant.

Introduction of New Member

Representative Freeland welcomed Representative Keturah Herron from the 42nd District in Jefferson County to the committee.

Information Item

Ms. Halloran referenced an information item. Pursuant to KRS 45.812(1), four school districts reported upcoming debt issues through their fiscal agents. Bowling Green Independent, Jefferson County, and Rowan County; none of which needed an additional tax levy to pay debt service, reported financings for new projects. Carter County reported a current refunding.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey submitted a new lease, lease renewal with a rate increase, and lease modification over \$50,000. The Transportation Cabinet, Department of Vehicle Regulation's new lease in Jefferson County; 7,594 square feet at \$15.00 per square foot for a \$113,910 total annual cost from January 18, 2022 through June 30, 2023, was due to the reassignment of REAL ID office space from the Circuit Clerk to the Transportation Cabinet. The Finance and Administration Cabinet, Department of Revenue's lease

renewal; 7,081 square feet at \$19.18 per square feet for a \$138,814 total annual cost through June 30, 2030, involved a rental rate increase. DRP procured bids [required by KRS 56.806(1) for rate increases. The advertisement notice was reported to the committee at its December, 2021 meeting.] DRP received one best and final proposal [from the current lessor]. Both leases included janitorial and utilities. The Transportation Cabinet, Department of Vehicle Regulation's over \$50,000 lease modification in Boyle County was to amortize leasehold improvements for REAL ID office space. DRP received two estimates: \$79,600 from Mobley's and \$95,520 from McAnly Commercial Properties [the current lessor]. DRP selected the lower bid, the amount of which will be amortized through the lease term ending June 30, 2029.

Mr. Aubrey reported a KRS 56.820(4)(b) General Government Cabinet, Department of Military Affairs, Bluegrass Station Division lease modification in Fayette County. The Bluegrass Station Division is modifying, at the federal agency occupant's request, one of its built-to suit leases to construct a two-story 65,327 square foot secured storage facility adjacent to and connected to Building #344. The \$4.14 square foot rental rate will remain unchanged with extension of the lease term to November 30, 2049.

**Office of Financial Management
Kentucky Infrastructure Authority**

Ms. Williams submitted two Drinking Water State Revolving Fund (Fund F) Program loans, two Fund F loans with Cleaner Water Program grants, and one hundred three Cleaner Water Program grants.

The City of Hazard requested two Fund F loans with thirty-year loan terms at a quarter percent interest rate. The first request was \$1 million for its Buckhorn Middle Fork Water Treatment Plant to Chavies Transmission Line project and the second was \$1.95 million for its Lothair Waterline Replacement project, which will reduce excessive water loss for two hundred seventy-seven existing customers.

The City of Monticello requested a \$2,340,250 Fund F loan and a \$746,750 CWP grant for its New Powersburg Booster Pump Station, Wray Hill BPS/Storage Tank Replacement, and Miscellaneous Waterline Improvements project. The loan term is thirty years at a quarter percent interest rate. The Knox County Utility Commission requested a \$1.193 million Fund F loan and a \$1,143,832 CWP grant for its Barbourville Connection - KY 225 project, which will install about 15,000 linear feet of eight inch water main and add a booster pump station. The loan term is twenty years at a quarter percent interest rate.

Of the one hundred three CWP grants, thirty-four were for sewer and sixty-nine were for water projects. The General Assembly appropriated \$250 million for the CWP program; \$150 million based upon each county's population, \$50,000 for unserved drinking water or consent decree sewer projects, [and \$49.9 million to supplement project

grants]. All of today's submittals, except one from the consent decree pool, were from the county allocation pool.

In response to Representative Freeland, Ms. Williams confirmed that KIA would be submitting more CWP grants.

Cabinet for Economic Development

Ms. Smith submitted a \$100,000 Economic Development Fund grant for the City of Elizabethtown on behalf of Kruger Packaging (USA), a subsidiary of Kruger Incorporated; to be applied towards its capital investment in its first U.S. corrugated box plant; which will serve future and existing customers across the midwestern and southern U.S. The grant agreement includes job and wage requirements; 147 new full-time jobs for employees subject to Kentucky individual income tax at a \$32.50 average hourly wage, including benefits, measured annually over three years beginning December 30, 2025. CED will disburse funds after annual compliance reporting, with the amount based upon the achieved performance requirements. If Kruger fails to achieve the job or wage targets, then CED will reduce the disbursement amount at each of the compliance measurement dates.

New Conduit Bond Issue

Mr. Barrow submitted the Kentucky Economic Development Finance Authority Hospital Revenue Refunding Bonds, Series 2022A-1 and Series 2022A-2 (Baptist Healthcare System Obligated Group) conduit bond issue. This conduit debt issue, refinancing the remaining Series 2009B-1 through 2009B-4 variable rate demand notes for certain healthcare facilities, affects neither the commonwealth's nor KEDFA's financials as the debt service is the Baptist Healthcare System's obligation. The proposed sale and closing dates are March 31 and April 1.

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

Mr. Barrow submitted three new school district debt issues with SFCC debt service participation, two for new projects and one to refinance debt. For new projects; Beechwood Independent plans a \$26 million issuance for the second phase of its school renovations and passed a tax increase in 2019. Taylor County, which did not need an additional tax levy to pay debt service, plans a \$4.9 million issuance; \$4.7 million through district debt service and \$210,000 through SFCC debt service. Jefferson County plans a \$31.8 million refunding debt issue.

Next Meeting Date

Representative Freeland announced the next meeting date, Thursday April 14 at 11:00 AM in Room 169 with Senator Rick Girdler presiding, and the April 1 agency submission due date.

With there being no further business the meeting adjourned at 9:17 AM.