

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 27, 2022

Call to Order and Roll Call

The October meeting of the Capital Projects and Bond Oversight Committee was held on Thursday, October 27, 2022, at 2:00 PM, in Room 169 of the Capitol Annex. Senator Jason Howell, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jason Howell, Co-Chair; Representative Chris Freeland, Co-Chair; Senators Rick Girdler and Robin L. Webb; Representatives Keturah Herron, Jason Petrie, and Walker Thomas.

Guests: Leslie Geoghegan, Chair, Louisville Arena Authority; Tom Liston, Finance Committee Chair, Louisville Arena Authority; Don Parkinson, Board Member, Louisville Arena Authority; Chip Sutherland, Managing Director, Baird; Meg Campbell, Assistant Vice President of University Planning, Design, and Construction, University of Louisville; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Joe Sanderson, Division Director for Facilities Management, Department of Military Affairs, General Government Cabinet; Pat Grugin, Executive Director, Office of Support Services, Transportation Cabinet; Jennifer Linton, Executive Director, Office of Facility Development and Efficiency, Department for Facilities and Support Services, Finance and Administration Cabinet; Milward Dedman, Deputy Executive Director, Kentucky Infrastructure Authority; and Ryan Barrow, Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Spring Emerson, and Liz Hardy.

Approval of Minutes

Representative Girdler moved to approve the September 29, 2022 meeting minutes. Co-Chair Freeland seconded the motion, and the committee approved without objection.

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 project status reports. Pursuant to KRS 45.760(9), the Administrative Office of the Courts and postsecondary institutions managing their own capital construction under KRS 164A.580

transmitted annual capital projects reports. Pursuant to KRS 45.812(1), seven 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. The school districts were Bardstown Independent (Nelson County), Casey County, Fayette County, Ludlow Independent (Kenton County), Menifee County, Newport Independent (Campbell County), and Paris Independent (Bourbon County). Pursuant to KRS 45A.180(2), Western Kentucky University reported its intent to use the construction management-at-risk project delivery method for its Construct New Gordon Ford College of Business project authorized in House Bill 1. Pursuant to KRS 56.863(11), the Kentucky Asset/Liability Commission transmitted its semi-annual report through the Office of Financial Management. Pursuant to House Bill 1, Eastern Kentucky University and WKU reported their planned Postsecondary Education Asset Preservation Pool projects.

Louisville Arena Authority Prepayment Plan

Ms. Geoghegan submitted the Louisville Arena Authority's (LAA) alternative payment plan for the \$58.77 million in debt eligible to be retired, without payment of a premium, December 1 of this year. LAA's 2017 refinancing of its prior debt allowed it to meet its financial obligations, particularly debt service and capital improvements; thereby maintaining its investment grade rating during the pandemic. From 2018 through 2020, LAA's annual interest-only debt service, paid semiannually, was around \$17 million. Principal payments started December 1, 2021, which increased the annual debt service to approximately \$21 million.

Of the estimated \$59 million negative revenue impact from the pandemic, roughly \$35 million relates to the decrease in Tax Increment Financing (TIF) sales tax revenue (two years of actual losses plus estimated future losses through 2025). LAA received \$12.5 million in TIF sales tax revenue for tax year 2019, did not receive any TIF sales tax revenue for tax year 2020, and will only be receiving around \$4.8 million in TIF sales tax revenue for tax year 2021.

With the \$12 million of American Rescue Plan Act funding through House Bill 1 and the additional \$1.2 million from Metro Louisville, LAA's board has approved a \$30.9 million prepayment towards the \$58.77 million. This allows a \$25 million contingency, which would cover approximately one year of debt service if LAA encounters unforeseen circumstances, until TIF sales tax revenue have recovered. Using the \$30.9 million to prepay now versus the entire \$55.9 million balance of excess funds would impact the final payment date by a few months. Depending on the recovery and growth of the TIF sales tax base, LAA expects to prepay the remainder of the December 1 bond balance redeemable without payment of a premium, approximately \$27.9 million, over the next three years by 2025, the year it projects TIF sales tax revenue to recover.

Representative Thomas moved to approve LAA's alternate prepayment plan, Senator Girdler seconded the motion, and the committee approved by unanimous roll call vote.

Lease Report – University of Louisville

Ms. Campbell submitted a new lease for the Office of the Executive Vice President of Research and Innovation space in the 515 Building, donated to the university by Humana to consolidate the Health Equity Innovation Hub's operations.

Co-Chair Freeland moved to approve the lease, Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

Project Report – Finance and Administration Cabinet

Ms. Tomes submitted three new Department of Military Affairs (DMA) readiness center interior restoration projects (amended) and a fifteen percent Transportation Cabinet appropriation increase requiring action and reported two pool allocations requiring no action. Representative Thomas moved to roll them into one roll call vote, Co-Chair Freeland seconded the motion, and the committee approved without objection.

The first DMA project was the \$2.5 million Danville Readiness Center Interior Restoration. The committee originally approved the project, \$1.25 million in National Guard Bureau Minor Construction federal funds and the other half from the general funded portion of the Modernization Pool – National Guard, at its July 2022 meeting. The amended project approval changes the allocation from fifty percent federal and fifty percent state funding to seventy-five percent, \$1.875 million, federal and twenty-five percent, \$625,000, state funding. Of the \$625,000 in state funding, \$555,850 comes from the general funded portion of the Modernization Pool – National Guard and \$69,150 from DMA's 2020-2022 investment income maintenance pool. The renovation is a complete interior renovation of the facility including upgrades to the electrical and HVAC systems, flooring, latrines, lighting, and walls as well as installation of anti-terrorism force protection windows and lactation room. The Kentucky National Guard plans to station the 223rd Military Police Company in the facility, constructed in 1954, after the renovation.

The next two DMA projects were approved by the committee at its August 2021 meeting and among seven projects that DMA requested to be fully funded with military operations and maintenance master cooperative agreement federal funds under COVID guidelines. The Murray Readiness Center Interior Restoration did not fit within the federal annual allotment therefore, the amended project approval includes fifty percent state funding as well as a \$258,300 increase to \$2,208,300. Of the \$1,104,150 in state funding; \$1,041,219.50 comes from DMA's 2020-2022 investment income maintenance pool and \$62,930.50 from the general funded Armory Installation Facility Maintenance Pool. The renovation involves selective demolition (the communications, data, electrical, and mechanical systems will need to be disassembled also) and subsequent upgrades to the

ceilings, doors, flooring, HVAC, latrines, lighting, and storage as well as installation of anti-terrorism force protection windows/storefront and lactation room. The project also converts the rifle range to a classroom, as well as a training/simulation devices room, to house a five-lane engagement skills simulator. The facility was constructed in 1985.

For the Jackson Readiness Center Interior Restoration, the amended project approval was \$2.466 million; a \$566,000 increase in the cooperative agreement federal funds from the original \$1.9 million due to the escalation in bid climate. The renovation includes selective demolition (the communications, data, electrical, and mechanical systems will need to be disassembled also) and subsequent upgrades to the ceilings, doors, flooring, and latrines, as well as, installation of blast protectant windows/storefront. The facility was constructed in 1984.

In response to a query, Mr. Sanderson said that there are no longer firing ranges in the armories due to lead contamination. The Wendell H. Ford Regional Training Center has ranges for National Guard training.

The fifteen percent (\$1.8 million) appropriation increase for the Transportation Cabinet, General Administration and Support, District 6 Office and Materials Lab road funded project in Kenton County, raised the project amount to \$13.8 million from the line-item amount of \$12 million in the Transportation appropriation bill (as amended by House Bill 490). The increase was due to higher than budgeted construction costs and, as required by KRS 45.760(6)(e), will be paid out of the KRS 45.247 Highway Construction Contingency account.

In response to Representative Petrie, Mr. Grugin said that they value engineered the project since initiation and that there is a health and safety issue with the current facility.

Ms. Tomes said that capital project amounts in appropriations bills are estimates, that the District 6 project amount was based on the actual bid, and that there are cost escalations with the authorized capital projects. The Finance and Administration Cabinet pursues rebidding and/or reducing the project scope before requesting an appropriation increase. In response to Co-Chair Howell, Ms. Linton stated that agencies were finalizing their biennial budget requests in October 2021 and that nearly a year elapsed since the estimates and receipt of bids.

In response to Representative Petrie, Ms. Linton said that they work closely with their consultants for accurate estimates and ways to reduce scope while preserving the functionality of the buildings and ability to receive successful bids. Representative Petrie said that delays in initiating projects in the current construction environment with escalating project costs may invite more scrutiny about needs versus wants.

Representative Thomas moved to roll the three new DMA projects (amended) and KTYC appropriation increase into one roll call vote, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

The first pool allocation was for the Finance and Administration Cabinet, Department for Facilities and Support Services (DFSS), \$2,816,020 CHR Central Utility Plant Optimization project; a mechanical renovation, including controls, to the Cabinet for Human Resources's central utilities plant which serves the Cabinet for Human Resources Building, Health Services Building, Commonwealth Office of Technology, and the Jones Building, funded from DFSS's 2020-2022 and 2022-2024 bond-funded maintenance pools. The other was the Justice and Public Safety Cabinet, Department of Corrections, Adult Correctional Institutions \$2,406,500 Roederer Correctional Complex (RCC) Kitchen Drain Line Repair/Replacement project; repair/replacement of RCC's failing kitchen sewage system involving drain lines, kitchen floor, grease trap, lift station, and temporary kitchen, funded from the 2020-2022 bond-funded (\$391,500) and 2022-2024 general fund (\$2.015 million) maintenance pools.

In response to Senator Webb, Ms. Tomes said the kitchen sewage system was the only failing sewage system in the facility.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Mr. Dedman submitted an Infrastructure Revolving Fund (Fund B) Program loan and eleven Cleaner Water Program (CWP) grant reallocations. Senator Girdler moved to roll them into one roll call vote, Senator Webb seconded the motion, and the committee approved without objection.

The Bath County Water District (BCWD) requested a \$640,469 Fund B loan for its \$1,491,477 BCWD Improvements and Upgrades; several improvements and repairs to the water system's aging infrastructure including rehabilitation of six water tanks, construction of a new pump station, and upgrade of an existing pump station. The loan term is twenty years with a one and a quarter percent interest rate. The eleven proposed CWP grant reallocations are from the county pool, one sewer and ten water projects.

Senator Girdler moved to approve the Fund B loan and eleven CWP grant reallocations, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

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

Mr. Barrow submitted a new Kentucky Housing Corporation (KHC) conduit debt issue; the Kentucky Housing Corporation Multifamily Conduit Revenue Bonds (Richwood Bend), Series 2022, \$10 million net proceeds with a \$19.8 million project cost for an 84-

unit residential rental facility in Lexington. KHC conduit debt issues are applied towards the state's private activity volume cap for the tax-exemption and affect neither the Commonwealth's nor KHC's financials. Co-Chair Freeland moved to approve the new KHC conduit debt issue, Senator Webb seconded the motion, and committee approved by approved by unanimous roll call vote.

Previous Debt Issues

Mr. Barrow referenced the Municipal Market Data ten-year rate increases since January totaling over 200 basis points and reported three previous debt issues, which priced prior to recent rate increases. The first was a postsecondary general receipts debt issue, University of Kentucky (UK) General Receipts Bonds, 2022 Series B (\$67.825 million) and 2022 Taxable Series C (\$22.850 million); which financed UK's \$23.13 million fiscal year 2023 Postsecondary Education Asset Preservation Pool match and \$74 million of its reauthorized Facilities Renewal and Modernization pool. The competitively-sold transaction priced August 16 with a 3.40 percent true interest cost for the twenty-year Series B and a 3.48 percent true interest cost for the seven-year Series C. Janney Montgomery Scott (Series B) and PNC Capital Markets (Series C) were the purchasers. The second was a conduit debt issue; the Kentucky Economic Development Finance Authority (KEDFA) Healthcare Facilities Refunding Revenue Bonds, Series 2022, Carmel Manor, Inc. Project (The Carmelite System, Inc. Obligated Group Guaranty); which affected neither the Commonwealth's nor KEDFA's financials. The final was the Kentucky Housing Corporation Conduit Multifamily Revenue Bonds (Crossings at South Park), Series 2022; \$22 million net proceeds with a \$41.312 million project cost for a 192-unit residential rental facility in Louisville. The KEDFA and KHC transactions priced September 22.

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

Mr. Barrow submitted four school district debt issues with School Facilities Construction Commission (SFCC) participation. Senator Webb moved to roll them into one roll call vote, Co-Chair Freeland seconded the motion, and the committee approved without objection. The SFCC debt issues totaled \$37.5 million for new projects; 93.4 percent, \$35 million, with locally supported debt service and 6.6 percent, \$2.5 million, with SFCC debt service participation.

The four school districts, none of which needed an additional tax levy to pay debt service, were Bardstown Independent (Nelson County), Bath County, Casey County, and Nelson County. Senator Webb moved to approve the SFCC debt issues, Co-Chair Freeland seconded the motion, and the committee approved by unanimous roll call vote.

Adjournment

The next meeting will be held Thursday, November 17, 2022 at 2:00 PM in Room 169 of the Capitol Annex. There being no further business, the meeting was adjourned at 2:48 PM.