

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

November 17, 2022

Call to Order and Roll Call

The November meeting of the Capital Projects and Bond Oversight Committee was held on Thursday, November 17, 2022, at 2:00 PM, in Room 169 of the Capitol Annex. Representative Chris Freeland, Chair, called the meeting to order and the secretary called the roll.

Present were:

Members: Representative Chris Freeland, Co-Chair; Senators Rick Girdler, Christian McDaniel, and Robin L. Webb; Representatives Keturah Herron, 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, Finance and Administration Cabinet; Sandy Williams, 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 Thomas moved to approve the October 27, 2022, meeting minutes, Representative Herron 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 equipment purchases totaling approximately \$3.4 million: a \$3.3 million BD Kiestra work cell lab automation system purchased with restricted funds for use by UK HealthCare's clinical microbiology laboratory at UK Chandler Hospital and a \$349,000 Nikon Ti2 microscope and AXR confocal upgrade for use by the Markey Cancer Center at the Healthy Kentucky Research Building. The Ti2 and AXR upgrade were purchased with \$252,000 in federal funds, National Institute of General Medical Sciences grant, and \$97,000 in restricted funds. Pursuant to KRS 45.810(6), the Office of Financial Management submitted the Annual Report of Outstanding Debt on behalf of state entities and postsecondary institutions authorized to issue debt. Pursuant to KRS 45.812(1), three 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 Barren County, Campbell County, and Warren County. Pursuant to KRS 48.111(6)(a), the Division of Real Properties retransmitted its advertisement for Cabinet for Health and Family Services space in Bullitt County. The School Facilities Construction Commission (SFCC) reported fifteen school district debt issues with SFCC debt service participation from May through October. The issuance amount was approximately \$269 million for new projects, with ninety-five percent being locally supported debt service and five percent with SFCC debt service participation.

Project Report from the Finance and Administration Cabinet

Ms. Tomes submitted three new projects requiring action and reported a research equipment purchase; two emergency repair, maintenance, or replacement projects; and four pool allocations.

Senator Girdler moved to roll three new projects into one roll call vote, Co-Chair Freeland seconded the motion, and the committee approved without objection.

The first new project was a \$500,000 UI Connect Mobile Vehicle Purchase for the Education and Labor Cabinet, Department of Workforce Development, Office of Unemployment Insurance (OUI). The purchase, funded with U.S. Department of Labor, Employment and Training Administration equity grant monies, will allow regular travel by OUI personnel to designated areas, assisting underserved communities and disaster recovery with all direct and related unemployment insurance services. The unit, equipped with a generator and computer lab for internet access, will act as a mobile career center for filing unemployment insurance claims and setting up identity verification, requesting bi-weekly benefit payments, completing eligibility reviews, resetting PINs, and changing payment methods as well as email and mailing addresses.

The next two were Tourism, Arts and Heritage Cabinet, Department of Fish and Wildlife Resources (KDFWR) projects; construction of two new buildings on KDFWR headquarters' campus, known as the Game Farm, at #1 Sportsman's Lake off U.S. 60 in Frankfort. In addition to office space, the two buildings will include areas for equipment maintenance and storage as the current areas do not have enough space for equipment storage. The \$1,716,200 Lakes and Streams Branch Building project, funded with seventy-five percent U.S. Fish and Wildlife Dingell-Johnson Sport Fish Restoration Act federal monies and twenty-five percent agency/restricted Fish and Game funds, will be used to facilitate infrastructure development projects. The \$1,602,300 Critical Species Investigation Building project, funded with U.S. Fish and Wildlife Nonindigenous Aquatic Nuisance Prevention and Control Act monies, will be used to facilitate resource conservation activities. The Critical Species project is new and staff are currently in rented space with room for only one boat. The project has multiple boats with electronic equipment that need to be stored in dry areas.

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

The \$250,000 Triple Quadrupole Liquid Chromatograph/Mass Spectrometer research equipment purchase was for the Energy and Environment Cabinet, Department of Environmental Protection (DEP) and funded with federal Environmental Protection Agency Performance Partnership Grant monies. DEP will use this certified preowned equipment to perform analysis on various soil and water samples; focusing on polyfluoroalkyl substance (PFAS) particulates, an emerging contaminant that can adversely affect human health.

The two Kentucky Community and Technical College System emergency repair, maintenance, or replacement projects were to restore buildings damaged in the July 2022 major flood event, with expenses reimbursable by state risk insurance proceeds. The \$3.1 million Emergency Building Repairs, Southeast Kentucky Community and Technical College project will restore Caudill Hall and the Belinda Mason Building in Whitesburg, flooded with between four to five feet of water. The \$7.5 million Emergency Building Repairs, Hazard Community and Technical College project will restore the School of Craft and the Knott County Opportunity Center in Hindman, flooded with between three and five and a half feet of water.

The first pool allocation was for the Department of Education, Operations and Support Services, \$4,693,500 Kentucky School for the Deaf HVAC project in Boyle County; funded from the bond-funded State Schools HVAC Pool - 2020-2022. The project will replace the original chiller in Kerr Hall with a new outdoor air-cooled chiller; install a new closed-circuit evaporative cooler in Brady Hall for the closed-loop water source heat pump system; and install two new HVAC roof top units on the Thomas Hall gymnasium and pool along with new electrical gear and a transformer to support the unit's electrical requirements. The Thomas Hall gymnasium and pool facility has no air conditioning and the unit will provide both heating and cooling to the building. The campus buildings are between thirty and fifty years old and the existing HVAC systems are the original, having undergone repairs over the years.

The next three allocations were for Tourism, Arts, and Heritage Cabinet, Department of Fish and Wildlife Resources projects, all of which were authorized by the U.S. Army Corps of Engineers and funded from the restricted funded Fees-In-Lieu-of Stream Mitigation Projects Pool. The \$4.9 million Steep Creek project in Boone County will restore and protect over 27,000 linear feet of stream in the Northern Kentucky Service Area. The \$6.7 million Broke Leg Creek project in Morgan County will restore and protect over 35,000 linear feet of stream in the Upper Licking River Service Area. The Mill Creek project in Jefferson County will restore and protect over 64,300 linear feet of stream in the Salt River Service Area.

In response to Senator McDaniel, Ms. Halloran said that further capital projects reporting after committee approval are reflected in the quarterly capital projects status reports and the annual capital projects reports. The annual capital projects reports, rather than the quarterly capital projects status reports, show the projects' budgetary status. However, due to the provisions of Part III., 27. of House Bill 1, the information technology projects' budgetary status is reflected in the comments section of the quarterly capital projects status reports. Senator McDaniel mentioned the unemployment insurance system replacement and the issues with the prior vendor.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey submitted a new Education and Labor Cabinet, Department of Workforce Development lease requiring action, and reported a Transportation Cabinet, Department of Highways emergency lease and an Education and Labor Cabinet, Department of Workers' Claims lease modification under \$50,000.

The Department of Workforce Development lease in Fayette County was to co-house thirteen staff members with the Bluegrass Area Development District; 4,053 square feet at \$28.36 per square foot for \$114,943 total annual cost through June 30, 2029.

Representative Thomas moved to approve the new lease; Senator McDaniel seconded the motion, and the committee approved by unanimous roll call vote.

The Department of Highways emergency month-to-month lease in Perry County was for the temporary use of approximately five acres to store brush and tree debris caused by the recent flooding in Eastern Kentucky at \$500 per acre per month. The Department of Workers' Claims lease modification changed the agency occupancy from the Cabinet for Health and Family Services and amortized \$49,999 in leasehold improvements through the June 30, 2028 lease expiration date. The space will consolidate the hearing site and the office space for Administrative Law Judges and support staff. For the leasehold improvements, the Division of Real Properties (DRP) received two estimates; \$55,729 from AreaLex Real Estate and \$74,468 from Elaine Allen and DRP selected the lower bid. The lessor agreed to absorb \$5,730 of the costs to expedite the Education and Labor Cabinet's occupancy since lease modifications of at least \$50,000 require committee approval.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Ms. Williams submitted four Cleaner Water Program (CWP) Water Grant Reallocations (three County Pool and one Unserved Pool).

Senator McDaniel moved to roll the CWP water grant reallocations into one roll call vote, Senator Webb seconded the motion, and the committee approved without objection.

Ms. Williams said that except for a few remaining reallocation requests and the Lexington-Fayette Urban County Government consent decree project, all Round One Senate Bill 36 CWP grants have been submitted to the committee. The supplemental pool will most likely be additive to existing grants. Kentucky Infrastructure Authority (KIA) will start submitting Round Two House Bill 1 CWP grants, of which there are currently over 400, over the next several months. When all funds are allocated, KIA expects about 850 total grants from both rounds of funding.

Senator McDaniel moved to approve the four CWP water grant reallocations, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

Office of Financial Management - Previous Debt Issues

Mr. Barrow reported three previous debt issues. The first was the \$235.49 million State Property and Buildings Commission Revenue Bonds, Project No. 127 Series A and Federally Taxable Series B; which financed \$255 million of general fund debt supported projects authorized in various appropriations bills. Over the last two weeks, rates have decreased by nearly half a percent, almost returning to September 16, 2022, levels when this debt issue priced. Rates are still over two percent above beginning of the year levels. The transaction was negotiated with Citigroup as the underwriter and a 4.1 percent true interest cost. The second was the \$75.61 million University of Kentucky General Receipts Refunding Bonds, 2022 Taxable Series D; a Cinderella structure in which the purchasing bank sets the taxable and tax-exempt rates with the debt converting from taxable to tax-exempt at a future date. The net present value savings was \$6.5 million, or 8.6 percent; the winning purchaser was Truist Bank; and the issue priced October 12, 2022, with a 3.4 percent true interest cost. The final was the \$47.48 million Kentucky Turnpike Authority Economic Development Road Revenue Bonds (Revitalization Projects), 2022 Series B; which financed the remaining \$50 million of Economic Development Road Revenue Bonds authorized in House Bill 3 of the 2010 Extraordinary Session. The issue priced on September 28, 2022, with a 4.35 percent true interest cost.

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

Mr. Barrow submitted seven school district debt issues with SFCC debt service participation. Senator McDaniel moved to roll the seven SFCC debt issues into one roll call vote, Co-Chair Freeland seconded the motion, and the committee approved without objection.

The SFCC debt issues totaled \$131.33 million for new projects; 96 percent, \$126.03 million, with locally supported debt service and 4 percent, \$5.3 million, with SFCC debt service participation. The seven school districts were Bardstown Independent (Nelson County), Bullitt County, Garrard County, Grayson County, Hopkins County, Johnson County, and Walton-Verona Independent (Boone County). Bardstown Independent

resubmitted due to a change in project scope and Johnson County's project, the first phase of the new high school construction, was the first since the district passed its second recallable nickel in 2019.

In response to Representative Petrie, Ms. Halloran said that Bardstown Independent resubmitted due to amended project specs and that the district itself was financing \$9.8 million instead of \$6.8 million. She also referenced the \$10 million Local Area Vocational Education Center grant for the project.

Senator McDaniel moved to approve the seven school district debt issues with SFCC debt service participation, Co-Chair Freeland seconded the motion, and the committee approved by unanimous roll call vote.

Adjournment

The final calendar year 2022 meeting will be held on Thursday, December 15, at 2:00 PM in Room 131 of the Capitol Annex, with Senator Jason Howell, Chair, presiding. There being no further business, the meeting was adjourned at 2:26 PM.