

2020 REGULAR SESSION

HOUSE BUDGET REVIEW SUBCOMMITTEE ON PERSONNEL,
PUBLIC RETIREMENT, AND FINANCE
of the
HOUSE STANDING COMMITTEE ON APPROPRIATIONS AND REVENUE

1st Meeting

February 6, 2020

The House Budget Review Subcommittee on Personnel, Public Retirement, and Finance of the House Standing Committee on Appropriations and Revenue held its first meeting of the 2020 Regular Session on February 6, 2020, at 10:00 AM, in Room 129 of the Capitol Annex. The Chair called the meeting to order, and the secretary called the roll.

Members Present: Representative Myron Dossett, Chair; Representatives Joe Graviss, Adam Koenig, Michael Meredith, Russ A. Meyer, Jerry T. Miller, Phillip Pratt, and Nancy Tate.

Guests: James Link, Executive Director, Kentucky Communications Network Authority (KCNA); Steve Murphy, Chief Financial Officer, KCNA; Mike Hayden, Chief Operating Officer, KCNA; Mitchell Powers, Senior Network Engineer, KCNA; and, Andrew McNeill, State Director, Americans for Prosperity.

LRC Staff: Liz Columbia, Dillard Collier, and Spring Emerson.

Kentucky Communications Network Authority

Mr. Link provided an overview of the KCNA, the KentuckyWired program, and the Governor's budget recommendation for the agency. The KentuckyWired network is a high-speed, high capacity broadband system that will provide more than 3,000 miles of fiber across the state. It is a middle-mile system designed to provide access to all the counties in Kentucky, many of which are in rural areas and would not otherwise have high-speed broadband access available. High-speed broadband could now be considered as a necessary component to basic infrastructure.

The initial service the program will provide is to approximately 900 state agencies, three of which have been connected so far: Owenton, Cynthiana, and Ft. Mitchell. These include the Department for Community Based Services in the Cabinet for Health and Family Services and District 6 Transportation Headquarters. Very soon, General Butler State Park in Carrollton and the Kentucky State Police Post in Dry Ridge will be added, and will serve as beta test sites. Once those are completed, other areas will be added at a more accelerated pace to bring more state agencies online. The construction phase of the project is scheduled to be completed in October of this year.

In response to a question from Chair Dossett, Mr. Link said the KentuckyWired program began in 2015.

Representative Graviss commented that KentuckyWired is a very important project for transformational connectivity progress for Kentucky families. Too many citizens are being forced to use lobbies of restaurants and other businesses in order to do their homework.

In response to a question from Chair Dossett, Mr. Hayden said the original contract had an estimated completion date of 2018. At that point, entities could have come online if that timeline had been met.

In response to questions from Representative Meredith regarding the agency budget request for contractual expenses, Mr. Murphy said internet access is estimated at approximately \$3.2 million; other third party payments (BGN and EKN) at approximately \$2.6 million; and, site moves, pole moves, and utility moves together are estimated at approximately \$4.7 million, in addition to general operating expenses. Mr. Hayden said that fiber is leased from the East Kentucky Network (EKN) group to get to the end points in far eastern Kentucky, through an ongoing lease over the 30-year term of the contract. The same is true for the Blue Grass Network (BGN) group for central portions of the state. There may be additional charges for moves, add-ons, and changes. Mr. Murphy said approximately \$43 million in USDA grants is received from the Center for Rural Development, for the bottom southeast corner of the state.

In response to a question from Representative Miller, Mr. Murphy said the initial bond authorization was in 2014. There are three series of bonds for this project. Series A and B bonds are publicly held and add up to approximately \$290 million. The Series C bond is \$15.7 million and is privately held. The Commonwealth's contribution of \$28.6 million was bonded out for equipment. Series A and B bonds are secured by project fund availability payments and interest earned on the same.

Representative Meyer commented that this is a very important project for Kentucky families, and expressed his desire to see the project completed.

Representative Graviss commented that according to a recent University of Kentucky Gatton Academy publication on economic facts in Kentucky, only three competing states are worse than Kentucky, and we desperately need to complete the project in order to be competitive.

In response to a question from Chair Dossett, Mr. Hayden said approximately 2,700 miles have been completed, representing about 87 percent, which also includes third-party lease arrangements.

In response to a question from Chair Dossett regarding pricing estimates, Mr. Link said they have an arrangement with OpenFiber Kentucky, the entity responsible for the last mile proliferation of the project, and they will provide market competitive rate structures.

In response to a question from Chair Dossett, Mr. Hayden said that third-party entities would typically contract with providers for a service, depending on the needs of end users, and there is a revenue share associated with that.

In response to questions from Representative Pratt, Mr. Link said KentuckyWired does not compete against private providers. It provides the backbone and the access points for each county. The last mile providers would be competing in the market, which would be with OpenFiber Kentucky, through a contractual agreement with KentuckyWired. OpenFiber Kentucky is owned by Macquarie Capital. The total cost of the project over thirty years will be approximately \$1.5 billion for principal and interest payments on the debt; however, a revenue share with OpenFiber Kentucky or other network participants would offset that amount somewhat. Representative Pratt expressed his concerns regarding the use of public dollars to compete with private companies.

Representative Meredith expressed concerns for the lack of service available to areas in his district, with KentuckyWired coming in for state agencies. In response to a question regarding actual appropriations to date, Mr. Murphy said it was approximately \$490 million. Mr. Hayden said institutional buyers of service are served by a single contract, and are no competition. Mr. Link added that they might begin to see some wholesale revenue in 2025 or 2026.

In response to a question from Chair Dossett, Mr. Hayden said the Department of Education pays for single access, and get connectivity through other contractual arrangements, due to not being directly connected to KentuckyWired. If they already have a provider, the Finance and Administration Cabinet (FAC) would open a competitive bid scenario, which may or may not be won by KentuckyWired.

Representative Tate requested that more detailed information be provided to the committee showing documentation, models, impacts, etc. Mr. Hayden will provide those details at a later date.

In response to a question from Chair Dossett, Mr. Link said there is a ten-year refresh schedule in place for updating equipment at milestone points, and we are five years in. Mr. Hayden said KentuckyWired will work with the Commonwealth Office of Technology (COT) within the FAC for a secure location to store their customers' business information. COT currently has a facility in northern Kentucky for that purpose.

In response to questions from Representative Koenig, Mr. Link said OpenFiber Kentucky was created by Macquarie Capital, and the Commonwealth entered into a contract with them for the provision of last-mile services. Mr. Hayden explained that a portion of the original contract states that half of the network is intended to serve government users, and the other half is intended for spare capacity. The Commonwealth would participate on a revenue share basis.

In response to a question from Chair Dossett regarding the rate calculation that was used in the recommended budget, Mr. Link deferred to the Governor's Office of State Budget Director, who put together the charges to state agencies.

In response to a question from Representative Pratt, Mr. Link said KentuckyWired provides a backbone to allow the last-mile provider additional infrastructure to compete for that business. Mr. Hayden could not answer what incentives those companies have to provide better service.

In response to a question from Representative Miller, Mr. Link said OpenFiber Kentucky (Macquerie Capital) would be the competitor in the open market to compete for those last-mile customers. Other competitors in that market could also tap into KentuckyWired to provide a faster, higher capacity backbone that they did not have previously. Mr. Hayden added that it is based on an open-access principle that others using the network pay the same freight.

Chair Dossett commented that it is very important to have internet access across the state, especially in our rural areas. He also cautioned that this investment should not be incentivized, so no harm would come to current internet service providers to those final miles.

Americans for Prosperity

Chair Dossett welcomed Andrew McNeill, State Director, Americans for Prosperity, to speak on KentuckyWired.

Adjournment

There being no further questions, the meeting was adjourned at 11:05 AM.