

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

February 20, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, February 20, 2018, at 7:00 PM, in Room 169 of the Capitol Annex. Representative Phil Moffett, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Stan Humphries, Co-Chair; Representative Phil Moffett, Co-Chair; Senators Rick Girdler, and Christian McDaniel; Representatives Larry Brown and Steven Rudy.

Guests: Ms. Janice Tomes, Deputy State Budget Director; Mr. Scott Aubrey, Director, Real Properties; Ms. Donna McNeil, Executive Director, Kentucky Infrastructure Authority; Mr. Mark Bunning, Deputy Secretary, Finance and Administration Cabinet; and Mr. 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 (December 19, 2017)

A motion was made by Representative Rudy to approve the minutes of the December 19, meeting. The motion was seconded by Representative Brown and approved by voice vote.

Representative Moffett said that members would limit the meeting to only items that need to be voted upon by the committee.

Project Report from the Finance and Administration Cabinet

Ms. Tomes presented two projects from the Department of Military Affairs (DMA). The first was the Bardstown National Guard Armory HVAC and Lighting in the amount of \$612,135.92, 50 percent in federal funds and 50 percent from DMA's 2016-2018 Maintenance Pool, submitted pursuant to KRS 45.760(7). The project involved the installation of a new HVAC and mechanical ventilation system as well as a lighting system that meets energy efficiency standards.

The second was the Boone National Guard Center Indoor Firing Range, funded with private funds. DMA worked closely with the Department for Facilities and Support Services; developing a Request for Proposal (RFP) for a private partner, leasing state-owned land, to construct and operate a public facility that also will support the requirements for military troops and local state police.

Ms. Tomes submitted one project from the Kentucky Community and Technical College System; the Welding Facility Renovation and Training Lab Addition at Hopkinsville Community College in the amount of \$2,674,734; \$2.3 million in bond funds from the Workforce Development Construction Pool and \$321,180 from restricted funds. The use of restricted funds resulted in an appropriation increase under 15 percent; therefore, the project was presented pursuant to 45.760(6).

A motion was made by Representative Rudy to roll the three projects into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Senator McDaniel to approve the three projects, seconded by Representative Rudy, and approved by unanimous roll call vote.

Lease Report from the Finance and Administration Cabinet

Mr. Aubrey submitted two leases. The first was for the Department of Corrections in Christian County. The department needed additional space and the City of Hopkinsville offered a facility with 7,263 square feet at \$14 per square foot for a total annual cost of \$101,682; through June 30, 2025.

The second lease is for the Cabinet for Health and Family Services in Harrison County. The cabinet submitted a supplemental space request due to an increase in staff and client traffic. The lease was procured through advertisement in which the sole respondent offered a facility with 6,419 square feet at \$18 per square foot for a total annual cost of \$115,542; through June 30, 2025.

A motion was made by Representative Rudy to roll the leases into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Representative Rudy to approve the leases, seconded by Senator McDaniel, and approved by unanimous roll call vote.

Report from the Office of Financial Management

Ms. McNeil and Mr. Bunning presented the Fund C (Governmental Agencies Program) Federal Surplus Equipment Loan Pilot program. Ms. McNeil stated that one of the frequent concerns of governmental agencies/utilities during her tenure with the Kentucky Rural Water Association, providing technical assistance to drinking water systems throughout the commonwealth, was obtaining equipment such as generators and

maintenance vehicles; which she would suggest acquiring through the Finance and Administration Cabinet's Federal Surplus Properties program.

Upon her appointment as Executive Director of KIA about a year ago, Ms. McNeil researched the possibility of KIA financing those federal surplus equipment purchases since there is demand, particularly from smaller utilities. As an example, she mentioned that the mayor of Hindman was quoted \$25,000 for four generators and was considering funding through KIA.

With KIA's new program, a governmental agency/utility may apply for a line of credit of up to \$50,000 for listed, eligible types of equipment once it becomes a member of the Federal Surplus Property program. On the loan application; the agency/utility lists the equipment, cost estimate, and justification.

In December 2017, KIA's Board of Directors authorized the Executive Director to approve federal surplus equipment loans, which the Executive Director then reports at the following board meeting. Upon approval, the agencies/utilities work with the Finance and Administration Cabinet's Division of Surplus Properties to procure the equipment. Agencies/utilities have five years to repay the loan after funds are drawn.

Ms. McNeil stated that KIA sought the committee's endorsement of the federal surplus equipment loan program, with KIA reporting the equipment loan assistance agreements as well as any expenditures associated with the program.

In response to queries from Representative Moffett, Ms. McNeil confirmed that KIA has the \$500,000 available in the Fund C program for lines of credit of up to \$50,000 for individual governmental agencies/utilities. The lines of credit would be open for two years, allowing governmental agencies/utilities to attain the equipment. If the governmental agency/utility does not purchase equipment within the two years, then KIA will close the line of credit. After the governmental agency/utility purchases equipment, it will have five years to pay back the principal and interest. The repayments of those governmental agencies/utilities would replenish the original \$500,000; enabling further financing. A governmental agency/utility may have only one loan open at a time.

Representative Moffett entertained a motion for the committee to endorse the allocation of \$500,000 for KIA's Federal Surplus Equipment Loan Pilot program and to approve the subject assistance agreements, pursuant to KRS 222A.100, contingent upon their submittal after execution at the following monthly committee meeting. Ms. McNeil verified that she would report the assistance agreements.

A motion was made by Representative Rudy to approve the motion, seconded by Senator McDaniel, and approved by unanimous roll call vote.

Ms. McNeil next presented various KIA loan requests.

The Kentucky Department of Parks requested a Fund B (Infrastructure Revolving Loan Program) loan in the amount of \$796,000 (Taylorsville Lake Sewer System Improvements project) which will eliminate a wastewater package treatment plant and provide sewer service to the state park, marina, and existing homeowners. The loan is for 20 years with a 1.75 percent interest rate.

A motion was made by Representative Rudy to approve the Fund B loan, seconded by Senator Girdler, and approved by unanimous roll call vote.

The City of Albany requested a Fund B loan in the amount of \$53,000 to complete financing with an ARC (Appalachian Regional Commission) grant and local funding for new customers on Rowena Marina [Rowena Marina Water System Extension project]. The loan is for 20 years with a .5 percent interest rate.

The City of Flemingsburg requested a Fund B loan in the amount of \$132,046 to complete financing with an ARC grant for a sewer rehabilitation project [Flemingsburg Marys Avenue & Tinnerman Drive Sewer Replacement project]. The loan is for 20 years with a .5 percent interest rate.

Marshall County Fiscal Court requested a Fund A (Clean Water State Revolving Fund Loan Program) loan in the amount of \$3,066,988 for the expansion of the Draffenville sewer system [Draffenville Sewer Expansion Phases 1-3 project]. The fiscal court is combining the two existing sanitation districts into a new sanitation district. The loan is for 20 years with a 2.75 percent interest rate.

The City of Elkton requested a Fund A planning and design loan in the amount of \$500,000 for a wastewater rehabilitation project [Wastewater System Rehabilitation and Improvements project]. The loan is for five years with a 2.75 percent interest rate.

A motion was made by Representative Rudy to roll the four KIA loans into one roll call vote, seconded by Representative Brown, and approved by voice vote.

A motion was made by Representative Rudy to approve the four KIA loans, seconded by Representative Brown, and approved by unanimous roll call vote.

The Green-Taylor Water District requested a Fund F (Drinking Water State Revolving Fund Loan Program) loan in the amount of \$1,842,071 for better water turnover and drinking water compliance [System Improvements in Taylor County project]. The District filed a rate case with the Public Service Commission (PSC) in January of this year. The loan is for 20 years with a 1.75 percent interest rate.

Representative Moffett recommended that approval of the Fund F loan be contingent upon PSC's approval of the requested rate increase. A motion was made by Representative Rudy to approve the Fund F loan contingent upon PSC's approval of the requested rate increase, seconded by Representative Brown, and approved by unanimous roll call vote.

Lastly, the City of Lebanon requested a Fund F loan in the amount of \$2,641,680 for distribution and treatment improvements [Lebanon Water Works System Improvements project]. The loan is for 30 years with a .5 percent interest rate.

A motion was made by Senator Humphries to approve the Fund F loan, seconded by Representative Rudy, and approved by unanimous roll call vote.

Mr. Barrow reported one new bond issue: KIA Wastewater and Drinking Water Revolving Fund Program Revenue Bonds, Series 2018A in an aggregate principal amount not to exceed \$60,000,000. \$35 million and \$25 million will finance Fund A and F loans, respectively. This negotiated transaction with Morgan Stanley is proposed for an interest rate just under 3 percent for both series.

A motion was made by Representative Rudy to approve the new bond issue, seconded by Senator McDaniel, and approved by unanimous roll call vote.

Mr. Barrow submitted eleven school district bond issues with School Facilities Construction Commission (SFCC) debt service participation. The approximately \$88.6 million (9.9 percent SFCC participation) will finance improvements and renovations in the following school districts: Caldwell County, Danville Independent (Boyle County), Hancock County, Kenton County, Knox County, Pike County, Robertson County, Russellville Independent (Logan County), Shelby County, Spencer County, and Wayne County. As federal tax reform terminated tax-exempt advance refundings; there will likely be fewer refundings in the next year or two.

A motion was made by Representative Rudy to approve the school district bond issues, seconded by Senator Humphries, and approved by a roll call vote of 5 yeas, 1 nay.

With there being no further business the meeting was adjourned at 7:26 p.m.