

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

August 21, 2018

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, August 21, 2018, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Stan Humphries, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Stan Humphries, Co-Chair; Representative Larry Brown, Co-Chair; Senators Julian M. Carroll and Christian McDaniel; Representatives Dennis Horlander, Steven Rudy, and Diane St. Onge.

Guests: Ms. Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Ms. Donna McNeil, Executive Director, Kentucky Infrastructure Authority; 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 (July 18, 2018)

A motion was made by Senator Carroll to approve the minutes of the July 18, 2018 meeting. The motion was seconded by Representative Brown and approved by voice vote.

Information Items

Ms. Halloran reported two information items. The first was six medical equipment purchases totaling \$6.7 million in restricted funds; all for University of Kentucky HealthCare (UKHC) A.B. Chandler Hospital, except the replacement MRI scanner for UKHC's primary outpatient clinic next to the hospital.

The second item reported was two school districts bond issues for new district-wide projects, for which no tax increases were necessary to finance.

Project Report from the Finance and Administrative Cabinet

Ms. Tomes submitted a \$2 million restricted funds project requested by the Kentucky Community and Technical College System (KCTCS) and approved by the Secretary of the Finance and Administration Cabinet. The KCTCS Technical Campus Building B Roof Replacement at Jefferson Community and Technical College was the first project submitted under KRS 164A.575(15). The provision, effective April 26, 2018,

suspends KRS 45.760 and allows higher education institutions to authorize non-general funded capital projects.

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

Ms. Tomes reported three pool projects approved by the Secretary of the Finance and Administration Cabinet, each with an authorization variance. The first, Capitol Campus Parking Garage, Phase IV, was from a \$1,276,800 million allocation authorized in HB 200, Part II(4), using bond funded 2016-2018 Facilities and Support Services Maintenance Pool proceeds. The project included the final phase of various repairs to the garage including concrete repairs, sealant, waterproofing, painting, drain repairs, pavement markings, and barriers. After the allocation for this project, the balance of the maintenance pool will be \$489,294.49. No action was required.

The second project, Renovate and Expand Advanced Manufacturing Center at the Danville Bluegrass Community and Technical College, was from a consolidation of authorizations, a \$2,736,000 allocation authorized in HB 303, Part II(4) from the bond-funded Workforce Development Construction Pool and a \$5 million restricted fund line-item project authorized in HB 200. The \$7,736,000 will finance the addition of 16,000 square feet to the existing facility. This project was approved in the first round of funding from the Workforce Development Construction Pool in January 2017 and the project agreement was finalized in August 2017. No action was required.

The third project, Demolish Cardinal Stadium located at the Kentucky Exposition Center, was from a \$5 million allocation authorized in HB 200, Part II(4) as amended by HB 265 and also in Part I A. 5. (3) and Part X C. 1. (3). No action was required.

Report from the Office of Financial Management

Ms. McNeil submitted three Kentucky Infrastructure Authority (KIA) loan requests.

The Regional Water Resource Agency requested a \$4,585,262 Fund A (Clean Water State Revolving Fund Loan Program) loan [Ravines Sewer Upgrade project], which includes the previously approved 2016 \$415,000 Planning and Design loan. This project will reconstruct and upgrade a combined sewer interceptor in north central Owensboro to separate storm water and wastewater into separate pipelines. The current rate for 4,000 gallons of water is \$37.29. The term is 20 years with a 1.75 percent interest rate.

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

The City of Mayfield requested a \$849,000 Fund B (Infrastructure Revolving Loan Program) loan [Screw Pump Replacement and New Water Well project], for both drinking

and wastewater projects. Two new drinking water wells were constructed at the Mayfield water treatment plant as its current well capacity has reached its daily capacity limits. Two screw pumps were also replaced at the wastewater treatment plant. Drinking water rates inside the city as of January 2018 are \$16.35 for 4,000 gallons and \$23.69 outside the city. Those rates are being increased six percent annually through 2021. Sewer rates inside the city are \$22.02 for 4,000 gallons and \$25.60 outside the city. The city sewer rates will increase two percent through 2021 and outside the city, rates will increase 10 percent through 2020. The term is 20 years with a .25 percent interest rate.

In response to several questions from Senator McDaniel regarding the submittal of the loan to the committee after the assistance agreement was executed, Ms. McNeil stated that this was the first time she was aware of where this has occurred and that a major priority for her is to modernize internal processes, eliminate redundant data entry, and maximize internal controls. KIA has one spreadsheet that tracks all loans internally. She has set up a meeting with Commonwealth Office of Technology staff to discuss options and submitted a restricted funds expansion request for IT consulting in KIA's prior budget request. It is imperative that KIA follow requirements. KIA wants to ensure safeguarding of its \$1.1 billion in assets.

Representative St. Onge commented that a higher education institution requested retroactive approval before another committee, which was denied due to concerns of setting a precedent, and that she also appreciated KIA's honesty.

In response to several questions from Senator Carroll, Ms. McNeil said KIA has a sign-off method among staff, with plans to automate so that one cannot move forward to the next step of the loan process until the prior step is completed and verified.

Senator Humphries expressed his appreciation to Ms. McNeil for her efforts, and stated that the committee's job is to oversee. While retroactivity is not generally supported, the committee does not want to inconvenience the City of Mayfield.

A motion was made by Senator Carroll to approve the Fund B loan, seconded by Representative Horlander, and approved by a roll call vote of 6 yeas, 1 nay.

The City of Bowling Green, Bowling Green Municipal Utilities in Warren County requested a \$740,000 Fund C (Governmental Agencies Program) loan increase for the engineering fees portion of the Water Treatment Plant Expansion project. The original loan was approved in September 2017 and the revised loan amount is \$4,540,000. The construction portion, to be funded with bond proceeds; includes the addition of a filter building, two flash mix units, four flocculation and sedimentation basins, and expansion of an existing raw water pump station. The plant's current capacity of 30 million gallons per day will be expanded by either 7.5 million gallons or up to 15 million gallons. The inside city rate, effective in July 2018, is \$22.57 and the outside city rate is \$31.56 for the first

4,000 gallons. The expansion will meet the anticipated growth and redundancy needs in the city, which has over 22,000 customers, and the Warren County Water District, which has 25,000 customers and will carry approximately 85 percent of the debt. The term is 20 years with a 3 percent interest rate.

A motion was made by Representative Rudy to approve the Fund C loan increase, seconded by Representative Horlander, and approved by unanimous roll call vote.

Follow-up for Previously Approved Bond Issue

Mr. Barrow reported the previously approved Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Revenue Bonds, Series 2018-1. The \$85 million funded KHESLC's Advantage Loan Programs; student, parent, and refinancing. The negotiated transaction with Bank of America closed in July and the true interest cost was around 4.5 percent.

School District Bond Issues with School Facilities Construction Commission (SFCC) Debt Service Participation

Mr. Barrow submitted three school district bond issues with School Facilities Construction Commission (SFCC) debt service participation [for projects in Carlisle County, Corbin Independent (Whitley County), and Pike County]. The total estimated issuance amount is \$8.65 million, with SFCC debt service participation of just over 15 percent. No tax increases were necessary to fund any of these projects.

A motion was made by Representative Rudy to approve the school district bond issues, seconded by Representative St. Onge, and approved by unanimous roll call vote.

With there being no further business the meeting adjourned at 1:28 p.m.