

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

May 14, 2019

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, May 14, 2019, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Rick Girdler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Rick Girdler, Co-Chair; Representative Walker Thomas, Co-Chair; Senators Christian McDaniel and Robby Mills; Representatives Steven Rudy and Maria Sorolis.

Guests: Elizabeth Baker, Planning Director, University Budget Office, University of Kentucky; Bart Hardin, Director of Government Relations, University of Kentucky; Katherine Stevenson, Director, Technical Architecture and Computing, University of Louisville; Chris Brumett, Director of Asset Management, Kentucky Community and Technical College System; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Donna McNeil, Executive Director, Kentucky Infrastructure Authority; and 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.

Election of Co-Chairs

Pursuant to KRS 45.790(1), committee members elected Senate and House committee co-chairs.

Senator McDaniel nominated Senator Girdler for the position of Senate co-chair. Senator Mills seconded the nomination. Senator McDaniel moved that nominations cease and that Senator Girdler be elected Senate co-chair by acclamation. Senator Mills seconded the motion and Senate committee members elected Senator Girdler by acclamation.

Representative Sorolis nominated Representative Thomas for the position of House co-chair. Representative Rudy seconded the nomination. Representative Sorolis moved that nominations cease and that Representative Thomas be elected House co-chair by acclamation. Representative Rudy seconded the motion and House committee members elected Representative Thomas by acclamation.

Approval of Minutes (April 16, 2019)

Representative Rudy moved to approve the minutes of the November 20, 2018 meeting. Senator Mills seconded the motion and the committee approved the minutes by voice vote.

Correspondence and Information Items

Ms. Halloran referenced two information items. Pursuant to KRS 45.812(1), the Ballard County, Bracken County, Gallatin County, and Owensboro Independent (Daviness County) School Districts reported bond issues with locally-funded debt service to finance new projects. Pursuant to KRS 56.823(11)(a), the Division of Real Properties submitted its Quarterly Square Footage Lease Modifications report.

Reports from Postsecondary Institutions

University of Kentucky

Ms. Baker submitted a new lease for the University of Kentucky (UK) Markey Cancer Center at Lexington Clinic, 1221 South Broadway, for 10,433 square feet, and an annual cost of \$321,011. Collaboration between UK and Lexington Clinic will expand comprehensive cancer care and provide more convenient treatment locations with parking.

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

Mr. Hardin submitted UK's Public-Private Partnership (P3), Improve Campus Parking and Transportation System (Parking Structure #5/Winslow Street Site Redevelopment) project. Mr. Hardin stated that campus parking is one of UK's major challenges, with primarily perimeter parking and limited core campus parking. The project, connecting to Parking Structure #5 and increasing parking by 918 spaces, is located on the same site as the demolished old Kennedy bookstore and Fazoli's restaurant. The structure's first floor will have about 22,000 square feet of mixed-use space; 10,000 square feet of retail space, to be occupied by Kentucky-based companies, and 12,000 square feet of innovation space. The trustee will issue certificates of participation to finance the project, paid from the university's enterprise revenues.

In response to a query from Senator McDaniel, Mr. Hardin said that the streets surrounding the project are controlled by Lexington-Fayette Urban County Government (LFUCG) and that UK is working with LFUCG to develop a traffic impact study. While UK anticipates that the area will receive more campus traffic, due to the 40 percent increase in parking spaces (from around 1,900 to around 2,800) associated with this project and the construction of the nearby Core Spaces off-campus housing complex with a small-format Target, campus traffic is typically staggered.

Senator McDaniel referenced Moody's January 2019 Credit Opinion, noting that one of UK's credit strengths was no direct exposure to defined benefit pension plans and that one of its credit challenges was the potential impact to its budgetary allocations from

the state due to the state's large unfunded pension obligations. Senator McDaniel further commented that the unfunded pension liabilities is the largest issue that the commonwealth confronts as nearly every policy of the commonwealth is impacted by finance and that all state agency ratings reports have mentioned the unfunded pension obligations.

A motion was made by Representative Rudy to approve the project's Development Agreement which included the Facilities Lease, seconded by Representative Thomas, and approved by unanimous roll call vote.

University of Louisville

Ms. Stevenson submitted an appropriation increase, due to a small increase in scope, for the Purchase Computer Processing System and Storage project, which will replace approximately 80 percent of the University of Louisville's (UofL) core technology infrastructure. UofL purchased the current equipment; which runs a variety of critical business systems including payroll, student records, and university financials, between 2012 and 2014 and planned for the equipment to last about five years. Over the past eight months the university identified replacement hardware and received proposals from Dell EMC and Cisco Systems. The UofL plans to select Cisco Systems due to technological compatibility with existing infrastructure and best cost value. The proposed price is \$2,149,689, 7.5 percent over the \$2 million authorized in the 2018-2020 biennial budget. Combining the backup system, projected to run out of capacity later this year, and the new infrastructure will allow UofL to cancel a \$100,000 software contract.

A motion was made by Representative Rudy to approve the appropriation increase, seconded by Representative Thomas, and approved by unanimous roll call vote.

Kentucky Community and Technical College System

Mr. Brumett submitted a new lease for Maysville Community and Technical College (MCTC). The annual rental cost is \$420,000 for 35,600 square feet at \$11.80 per square foot. MCTC will relocate its programs from a leased facility to the MMRC industrial park, near the MCTC Rowan campus building constructed in 2017.

In response to a question from Senator McDaniel, Mr. Brumett affirmed that KCTCS reviews all leasing agreements on behalf of KCTCS colleges.

A motion was made by Representative Thomas to approve the new lease, seconded by Representative Rudy, and approved by unanimous roll call vote.

Project Report from the Finance and Administration Cabinet

Ms. Tomes reported two projects under HB 200 (2018-2020 biennial budget bill), Part II, subsection 4. The first was the \$1,181,500 Department of Military Affairs, London Readiness Center Renovation project, funded with 50 percent federal and 50 percent bond funds from the 2018-2020 Armory Modernization Pool. This project was an interior and

exterior modification; including HVAC and lighting upgrades, direct digital control upgrades, latrine modifications, and ceiling replacement.

The second project was the \$1.1 million Department for Facilities and Support Services, Cold Harbor Floor Repairs, funded from its 2018-2020 Maintenance Pool.

Report from the Office of Financial Management Kentucky Infrastructure Authority

A motion was made by Representative Rudy to roll the Clean Water State Revolving Fund (Fund A) loan assumption, Infrastructure Revolving Loan Program (Fund B) loan, and Drinking Water State Revolving Fund (Fund F) loans into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

Ms. McNeil submitted a loan assumption and three new loans. The Louisville Metropolitan Sewer District (MSD), Jefferson County, requested to assume the City of Crestwood's, Oldham County, \$1,103,340 Fund A loan balance due to MSD's acquisition of Crestwood's wastewater collection system which MSD operated and maintained since September 3, 1996 through an interlocal agreement. Crestwood monthly's sewer rate, effective since August 1, 2018, for 4,000 gallons is \$57.96, including the debt service surcharge of \$12.14. MSD's monthly sewer rate, effective since August 1, 2018, for 4,000 gallons is \$45.82. Once the transfer of assets is complete, Crestwood customers will transition to the MSD rate structure through the elimination of the debt service surcharge. Two and a half years remain on the term of the loan at a 3.8 percent interest rate.

The City of Richmond, Madison County, requested a \$10.142 million Fund A loan which includes \$660,000 in principal forgiveness. The Silver Creek Outfall Sewer Phase 1 project is divided into four components [Divisions A – D] designed to eliminate sanitary sewer overflows and provide additional capacity in the collection system primarily on the south side of Richmond. Division A involves converting the Silver Creek Wastewater Treatment Plant (WWTP) to an wet weather flow equalization basin as well as construction of a new 1,500 gallon per minute pump station at the WWTP site along with 14,500 linear feet of 16-inch force main to divert all flows into existing 14-inch force main discharged at the Pavilion pump station. The Pavilion pump station will be decommissioned and all flows will be diverted to new Taylor Fork gravity sewer, Division B, and end up at the Otter Creek WWTP. Division B, the construction of 15,000 linear feet of 30-inch and 24-inch gravity sewer along with about 49 additional manholes along Taylor Fork, will allow Division A flows to discharge into the Wilgreen pump station on the west side of I-75. Division C, the replacement of approximately 4,050 linear feet of 15-inch and 12-inch gravity sewer along with 25 manholes, will address wet weather overflow issues in three primary locations. Division D, the extension of 4,900 linear feet of 12-inch force main from the Wilgreen pump station to parallel the existing force main, will result in additional capacity. Effective since July 1, 2018, for 4,000 gallons, the monthly water rates are \$18.89 inside the city and \$23.88 outside the city. Effective the same date, for 4,000 gallons, the

monthly sewer rates are \$45.24 inside the city \$90.49 outside the city. The term is 20 years at a .50 percent interest rate.

The City of Hickman, Fulton County, requested a \$397,000 Fund B loan for the Hickman Water Treatment Plant Modification project, the plant's modification and upgrade for iron and manganese removal to comply with a Kentucky Division of Water agreed order. Effective July 1, 2019, for 4,000 gallons, the monthly water rates will be \$24.74 inside the city and \$36.51 outside the city. Effective since July 1, 2017, for 4,000 gallons, the monthly sewer rate is \$23.90. The term is 20 years at a .50 percent interest rate.

The City of Danville, Boyle County, requested a \$4,918,257 Fund F loan for the Danville – Perryville Standpipe Replacement and Water Main project, the replacement of an existing 10,000 gallon storage tank with a 750,000 gallon elevated tank. The project also includes 17,500 linear feet of 12-inch line on the east side of Perryville along Perryville Road. Effective since July 28, 2018, for 4,000 gallons, the monthly water rates are \$19.84 for Danville and \$32.31 for Junction City and Perryville. Effective the same date, for 4,000 gallons, the monthly sewer rates are \$28.90 for Danville, \$55.56 for Junction City, and \$73.54 for Perryville. The term is 20 years at a two percent interest rate.

In response to Senator McDaniel's queries, Ms. McNeil said that KIA finances broadband loans, mainly for last-mile, from its Fund B program and that the last broadband financing was in the prior year. KIA has about \$1.4 billion in assets, about one percent of which is in broadband. Only one piece is middle-mile and there were no KIA financings for KentuckyWired.

A motion was made by Senator McDaniel to approve the KIA loans, seconded by Senator Mills, and approved by unanimous roll call vote.

Previously Approved Debt Issues

Mr. Barrow reported three previously approved debt issues. The first was the Kentucky Housing Corporation (KHC) Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Westminster Village), Series 2019. Mr. Barrow verified that the transaction did not extend the balance sheet of the commonwealth. The project is located on Versailles Road in Lexington. The \$8.5 million issue priced on March 19.

The second item is the Kentucky Higher Education Student Loan Corporation (KHESLC) Student Loan Revenue Bonds, Series 2019. The approximately \$95 million issue for the Advantage Loan programs priced April 4.

The last transaction is the State Properties and Buildings Commission (SPBC) Revenue Refunding Bonds, Project No. 121. SPBC is the commonwealth's flagship issuer. The approximately \$13.2 million bond issue current refunded the outstanding SPBC Project No. 93 debt; producing savings of approximately 14 percent, just over \$2 million.

Proceeds provided refunding and retiring outstanding SPBC, Project No. 93. The issue was priced about a month ago with a true interest cost of 2.636 percent.

In response to a query from Senator McDaniel, Mr. Barrow stated that if interest rates increase, then the differential in borrowing costs will increase between states with higher credit ratings and states with relatively lower credit ratings.

Senator McDaniel referenced Moody's April 2019 Credit Opinion, noting that one of the commonwealth's credit strengths was the demonstrated willingness to cut expenditures to balance the budget and that one of the commonwealth's credit challenges was the high adjusted net pension liabilities with ongoing challenges to implementing meaningful pension reform. Senator McDaniel commented that the rating agencies' assessment of pension funding will impact the commonwealth's financing costs.

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

A motion was made by Senator McDaniel to roll the school district bond issues into one roll call vote, seconded by Senator Mills, and approved by voice vote.

Mr. Barrow submitted six school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for new projects [Bracken County, Harlan County, Leslie County, Metcalfe County, Owensboro Independent (Daviess County), and Rowan County school districts]. The total estimated borrowed amount is \$26.8 million, with under 25 percent SFCC participation. No tax increases were necessary to finance the projects.

A motion was made by Senator McDaniel to approve the school district bond issues, seconded by Senator Mills, and approved by unanimous roll call vote.

Senator Girdler announced meeting dates as follows: June 18, July 23, August 27, September 17, October 15, and November 14. All meetings will be at 1:00 p.m. in Annex Committee Room 169.

With there being no further discussion the meeting adjourned at 1:42 p.m.