

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 15, 2019

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, October 15, 2019, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Walker Thomas, 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; Senator Christian McDaniel; and Representatives Steve Sheldon and Maria Sorolis.

Guests: Dr. Joseph D'Ambrosio, Director of Health Innovation and Sustainability, University of Louisville Trager Institute/Republic Bank Foundation Optimal Aging Clinic; Bobbi Carlton, Lease Administration Manager, University of Louisville; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Scott Aubrey, Director, Department for Facilities and Support Services, Division of Real Properties; Donna McNeil, Executive Director, Kentucky Infrastructure Authority; Lisa Beran, Interim Executive Director, Kentucky Housing Corporation; Tracy Thurston, Managing Director, Multifamily Programs, Kentucky Housing Corporation; 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.

Representative Thomas opened the meeting by inviting members, staff, and guests to join him in reciting the Pledge of Allegiance.

Approval of Minutes (September 17, 2019)

Representative Sheldon moved to approve the minutes of the September 17, 2019 meeting. Representative Sorolis seconded the motion, and the committee approved the minutes by voice vote.

Information Items

Ms. Halloran referenced six information items. The University of Louisville reported a consolidation of project agency bond authorizations for two residence halls under the Belknap Campus New Residence Halls project umbrella.

Pursuant to KRS 26A.168(1), KRS 45.793, and KRS 45.818, the Administrative Office of the Courts; the Finance and Administration Cabinet, with the Commonwealth Office of Technology reporting independently; and postsecondary institutions managing their own capital construction under KRS 164A.580 transmitted quarterly capital projects implementation status reports.

Pursuant to KRS 45.760(9), the Administrative Office of the Courts; the Office of State Budget Director; and postsecondary institutions managing their own capital construction under KRS 164A.580 transmitted annual reports detailing the financial status of open capital projects as of June 30, 2019. Those reports are available on the committee's webpage.

Pursuant to KRS 45.810(6), the Office of Financial Management submitted the annual report of debt principal outstanding as of June 30, 2019 on behalf of state entities, including postsecondary institutions, authorized to issue debt.

Pursuant to KRS 45.812(1), the Monroe County and Robertson County school districts reported upcoming bond issues to finance new projects for which no tax increases were necessary.

Pursuant to KRS 56.863(11), the Kentucky Asset/Liability Commission transmitted, through the Office of Financial Management, its semi-annual report.

Lease Report from the University of Louisville

Dr. D'Ambrosio submitted a new lease for the University of Louisville on behalf of the Trager Institute/Republic Bank Foundation Optimal Aging Clinic. The Trager Institute is a healthcare research and workforce training institute with a primary care and specialized geriatric medicine clinic. The institute operates in rural communities of the state and utilizes two large Health Resources and Services Administration to train a geriatric workforce, about 1,200 to 1,500 students per year. The institute has 40 students embedded within the practice training to provide coordinated care.

Representative Sorolis moved to approve the new lease, seconded by Representative Sheldon, and approved by unanimous roll call vote.

Project Report from the Finance and Administration Cabinet

Senator McDaniel moved to roll the three new projects into one roll call vote, seconded by Representative Sheldon, and approved by voice vote.

Ms. Tomes submitted three new projects. The first was the federally funded \$1,527,681 Department of Military Affairs (DMA), Wendell H. Ford Regional Training Center (WHFRTC) Bridge project in Greenville, the construction of a new bridge over Kentucky Highway 181 connecting WHFRTC property on both sides of the highway in

Greenville. The new bridge will replace the narrow, one-lane existing bridge that cannot accommodate the daily military traffic.

The second was the federally funded \$1,010,365 DMA Unheated Storage and Paint Booth Combined Support Maintenance Shop project in Richmond, the construction of a 4,000 square foot building to relieve the operational deficiencies for equipment storage in the Richmond field maintenance shop and installation of an efficient paint booth in the bay additional area. Currently, the field maintenance shop does not have an on-site storage facility.

The third project is the \$1,226,830 Kentucky Transportation Cabinet, Bullitt County Welcome Center project, funded with 80 percent federal funds and 20 percent from the road fund, that includes underground plumbing, window, and flooring replacement; front lobby vending area and restroom renovations; and landscaping.

Representative Thomas said that he was glad that the new bridge would be constructed at a higher height than the original one.

Senator Girdler moved to approve the three new projects, seconded by Representative Sheldon, and approved by unanimous roll call vote.

Ms. Tomes next reported two pool allocations. The first was for the \$1.779 million Finance and Administration Cabinet, Department for Facilities and Support Services (DFSS) Central Lab Boiler Replacement project, replacement of the boilers at Central Lab plant building in Frankfort. The allocation is from the bond-funded portion of DFSS's 2018-2020 maintenance pool.

The second was for the \$1,792,753 DMA Leitchfield Readiness Center Assembly Hall Addition. The \$135,500 design portion has a 75 percent federal/25 percent state split and the \$1,657,253 construction portion has a 50 percent federal/50 percent state split. The allocation is from the federal and bond-funded (state) portion of DMA's 2018-2020 Armory Modernization Pool.

Lease Report from the Finance and Administrative Cabinet

Representative Sheldon moved to roll the three lease renewals into one roll call vote, seconded by Senator Girdler, and approved by voice vote.

Mr. Aubrey submitted three lease renewals under the same terms and conditions. The first was for the Unified Prosecutorial System in Fayette County; 12,072 and 600 square feet of office and storage space at \$9.24 and \$2.50 per square foot costing \$113,045 annually, through June 30, 2021.

The second was for the Department of Juvenile Justice in Franklin County; 19,536 square feet of office space at \$9.41 per square foot costing \$183,834 annually, through June 30, 2021.

The third is for the Department of Workforce Investment in Franklin County; 14,645 square feet of office space at \$7.80 per square foot costing \$114,231 annually, through June 30, 2025.

In response to Representative Thomas, Mr. Aubrey said that many lessors are renewing for one year, possibly due to a one versus five or six year amortization for any lessee requested improvement costs.

In response to Senator McDaniel, Mr. Aubrey said that many leases in Franklin County were originated 20 to 30 years ago and are renewed at lower rental rates, the reason for the \$7.16 per square foot county average for commonwealth leased space in Franklin County. Franklin County leases originated within the last four to five years are around \$10 to \$11 per square foot. The 300 Building's, on Sower Boulevard, rental rate is higher than the \$10 to \$11 range, as it was a built-to-suit project. Moving state agencies from the Buffalo Trace complex, some of which ended up in the 300 Building, increased the state's overall annual leasing costs. Mr. Aubrey said that he would provide the state's projected further overall annual leasing cost increases over the next biennium. Mr. Aubrey expected rising costs due to state agencies' occupancy of the Mayo-Underwood Building, another built-to-suit project.

Senator McDaniel moved to approve the three lease renewals, seconded by Representative Sheldon, and approved by unanimous roll call vote.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Ms. McNeil spoke about KIA's initiatives. She referenced her demonstration of KIA's Water Resource Information System (WRIS) dashboards, accessed through the WRIS portal on KIA's website, during the committee's April 2019 meeting. Three dashboards display Kentucky's water and wastewater infrastructure state and federal funding requests over the next 20 years totaling \$4.94 billion for 2,746 projects, \$2.26 billion for 1,603 drinking water projects and \$2.68 billion for 1,143 wastewater projects. For 954 of those projects, funding requests total \$2.5 billion over the next two years. Two dashboards, one of which is optimized for phone or tablet use, filter by region. Users can filter down as far as the 15 Area Development Districts (ADD), the community, or even the project. The third dashboard allows users to filter by Senate or House Legislative District. The WRIS is recognized nationally as a transparent water and wastewater planning database, with dynamic, real time information. Consistent with KRS 224A.300, ADD staff compile and update planning information through a contract with KIA and prepare projects

for review and approval by the Water Management Planning Councils as established under KRS 151.601.

In July, the Environmental Systems Research Institute (ESRI) presented KIA staff with a Significant Achievement in GIS (SAG) award at its annual user conference in San Diego.

KIA included a \$25 million request for the next three biennial budgets in its six-year capital plan to recapitalize the Infrastructure Revolving Fund (Fund B) program to help meet the funding requests, targeting communities with water loss, failing infrastructure, or unsustainability.

In November, KIA staff will be presenting the WRIS and internal loan processes at the Council of Infrastructure Financing Authorities State Revolving Fund Workshop. Ms. McNeil conducted a webinar with the same information for Tennessee's SRF director and staff. Tennessee is in the planning stages of designing a database, with Florida and Georgia also expressing interest, similar to the WRIS. During a conference call, U.S. Environmental Protection Agency Region 4 enforcement staff referenced the WRIS as it has information on whether a utility is under enforcement action and if the utility either has a project underway to address the enforcement action or declined a KIA loan invitation, often due to lack of funds, for a project.

Three years ago KIA started giving H2O Awards for completed drinking and clean water projects. This year's drinking water and clean water recipients were the City of Fleming-Neon, Letcher County, for the Fleming-Neon-Water Treatment Plant Upgrade and the Regional Water Resource Agency in Owensboro, Daviess County, for the Max Rhoads Wastewater Treatment Plant UV Project.

KIA plans to complete conversion of its loan tracking from spreadsheets to an electronic database by the end of December, ensuring execution of assistance agreements after committee approval.

For the current funding cycle, KIA will have 25 loan requests totaling \$55.7 million, with \$4.3 million in principal forgiveness, from the Drinking Water State Revolving Fund (DWSRF) program and 32 loan requests totaling \$73 million, with \$6 million in principal forgiveness, from the Clean Water State Revolving Fund (CWSRF) program. KIA plans submittal of the drinking and clean water loans to the committee by June 2020.

The 2021 Call for Projects is open for the DWSRF and CWSRF programs from October 14 through December 16. KIA anticipates funding of \$30 million for DWSRF and \$75 million for CWSRF projects.

Several governmental agencies have asked about gas transmission project funding. However, Fund B program funds are limited. KIA plans to present a \$596,000 loan application to its Board in November for a gas transmission project, co-funded with a \$1.5 million U.S. Economic Development Administration (EDA) grant, in an Eastern Kentucky industrial park. Also, in support of a \$5 million KIA loan request, KIA received a preliminary engineering report for a \$7.7 million Northern Kentucky natural gas expansion project. Co-funding is anticipated from EDA and local funds. If KIA commits to funding this project, then there will be no available Fund B program funds through next year. With aging gas infrastructure, KIA anticipates more Fund B program gas transmission project loan requests.

Representative Thomas thanked Ms. McNeil for her hard work and congratulated her on the SAG award, commenting that she was a pioneer and that imitation was the best form of flattery.

Ms. McNeil said that the WRIS project has been continuing for over twenty years and that KIA, constantly looking to improve its processes, wishes to make it better with more transparency for future generations.

Senator McDaniel moved to roll the CWSRF (Fund A) loans and the DWSRF (Fund F) loan into one roll call vote, seconded by Representative Sheldon, and approved by voice vote.

Ms. McNeil submitted three KIA loan requests. The City of Burkesville, Cumberland County, requested a \$2,831,370 Fund A loan, which includes the \$251,000 previously approved planning and design loan, for the construction portion of its Wastewater Treatment Plant Improvements project. This funding package also includes \$1,000,000 each in principal forgiveness and a Community Development Block Grant. The project will upgrade several treatment plant components to meet current regulatory requirements and includes equipment, electrical, and process improvements. For 4,000 gallons, effective October 19, 2018, the sewer rate is \$32.62 and, effective October 19, 2018, the inside and outside city water rates are \$31.41 and \$45.83. The term is 30 years at a 0.5 percent interest rate.

The City of Nicholasville, Jessamine County, requested a \$910,000 Fund A planning and design loan for the Nicholasville Wastewater Treatment Plan Expansion project. The loan will finance a facility plan to increase the wastewater treatment plant's design capacity. The average daily flow for the past year has exceeded the plant's design capacity, with peak flow over five times the design capacity. For 4,000 gallons, effective September 1, 2019 the inside and outside city sewer rates are \$25.75 and \$37.29 and, effective August 1, 2019, the inside and outside city water rates are \$22.97 and \$33.37. The term is five years at a 2.5 percent interest rate.

The City of Lebanon, Marion County, requested a \$1,855,457 Fund F loan increase, for a total loan amount of \$4,497,137, for the Lebanon Water Works System Improvements project. The city realized the need for the increase during the design phase of the project and the additional items are to further improve water quality and energy efficiency. Construction includes replacing about 22,000 linear feet of two, four, and six inch cast iron mains with six inch polyvinyl chloride pipe in the western section of the city and various upgrades and modifications to the water treatment plant. The loan amount reflects the final bid for this project. For 4,000 gallons, effective July 8, 2019, inside and outside city water rates are \$26.19 and \$28.82. The term is 30 years at a 0.5 percent interest rate.

Senator McDaniel thanked KIA, being a vital organization of the commonwealth as there are few policies that do not involve finance, for its ongoing work. He appreciated KIA's generation of policy ideas and its transparency. The committee sees the final loan analysis versus KIA's operational work and interaction with the local community during the loan submittal process.

Senator McDaniel moved to approve the Fund A loans and the Fund F loan, seconded by Senator Girdler, and approved by unanimous roll call vote.

Kentucky Housing Corporation

Ms. Beran gave an overview of the Kentucky Housing Corporation, the state's housing finance agency created in 1972 with enabling legislation. KHC is a quasi-governmental, de jure municipal corporation administratively attached to the Finance and Administration Cabinet. Its board is comprised of five ex-officio state government officials and ten private members appointed by the Governor. KHC is self-supporting, primarily through selling mortgages in the secondary market. KHC does receive a portion of county clerks' recording fees for the Affordable Housing Trust Fund, which it administers throughout the state on a competitive basis.

Ms. Beran highlighted KHC's business areas. KHC acts as a mortgage company, albeit servicing rather than originating mortgages targeting first-time buyers through its lending partners. KHC has Specialized Housing Programs, executed through its Housing Contract Administration, for homeless shelters and other specific non-profit housing needs. That department manages most of the statewide, competitive programs financed by the federal government. KHC administers Department of Housing and Urban Development funding, except for Community Development Block Grants, working with non-profits and other partners statewide. KHC operates Section 8 and project-based rental assistance as well as rental housing production programs in counties that do not have their own housing authority, including those with a housing authority in the main city, currently 118.

Ms. Beran referenced the fiscal year 2019 impact to families and individuals on the last page on the handout and Ms. Thurston gave an overview of the multifamily rental housing programs. KHC's largest resource for the preservation of existing or development

of new multifamily affordable housing is the nine percent low income housing tax credit (LIHTC). The LIHTC program is oversubscribed with KHC receiving two to three times more applications than the annual state LIHTC allocation, based upon a per capita amount, available to developers. Therefore KHC has redirected its bond volume under the annual private activity bond volume cap from tax-exempt debt for single family loan originations towards tax-exempt conduit multifamily housing debt. KHC will issue tax-exempt conduit debt on behalf of multifamily housing developers who will then receive a four percent credit, which does not count against the state's annual LIHTC allocation, under certain thresholds. Multifamily tax-exempt conduit debt is best for projects of at least one hundred units, some of which will have up to 500 units. In rural areas, developers will often combine small projects to make the debt issuance financially feasible, such as one of the debt issues submitted today for eight projects. Over the last two years, KHC was able to double the multifamily housing production amount with tax-exempt debt transactions.

Representative Thomas mentioned a mortgage broker who had done 110 KHC down payment assistance transactions, which was helping the local community. Representative Sheldon mentioned that he utilized KHC forty years ago as a first time homebuyer and also expressed appreciation for KHC's work.

Ms. Beran said that KHC will celebrate its 50th anniversary in 2022 and that she would provide contact information for KHC's housing constituent referrals designee.

Office of Financial Management New KHC Conduit Debt Issues

Senator McDaniel moved to roll the two new KHC conduit debt issues into one roll call vote, seconded by Representative Sorolis, and approved by voice vote. Before submitting the two new KHC conduit debt issues with October 31 projected sale dates, Mr. Barrow said that if KHC were to resume loan originations, then OFM would assist in the selection of the financing team as well as other aspects of the non-conduit debt issuance for financing the loan originations. KHC's can use a portion, obtained via application process, of the state's private activity bond allocation, capped at \$105 per citizen, for both conduit and non-conduit debt. Neither the Commonwealth nor KHC is responsible for repayment of the debt service for KHC conduit bond issues.

For this month, KHC's first conduit debt submittal was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Abel Court and Dudley Court), Series 2019 to finance 48 units in Bowling Green and 96 units in Paducah. The net proceeds and the total project cost will be \$15 million and over \$26 million.

The second was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Volunteer Management and Development Portfolio II), Series 2019. The portfolio is eight properties in six counties. The net proceeds and the total project cost will be \$12.8 million and over \$34 million.

Senator Girdler moved to approve the two new conduit debt issues, seconded by Representative Sorolis, and approved by unanimous roll call vote.

Previous Debt Issues

Mr. Barrow reported two previous debt issues. The first was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (McDeane Apartments), Series 2019 to finance 198 units in Louisville. The issue sold September 11 with net proceeds of about \$18 million for a total project cost of \$33.5 million.

The second was the Eastern Kentucky University General Receipts Refunding Bonds, 2019 Series A that sold August 27. The current refunding generated \$588,000, or 10.3 percent, in net present value savings. The double digit percentage savings are due to low supply and historically low rates and refundings may generate about three percent net present value savings when rates return to normal.

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

Senator McDaniel moved to roll the six school district bond issues into one roll call vote, seconded by Representative Sheldon, and approved by voice vote.

Mr. Barrow submitted four school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for new projects in the Kenton County, Knott County, Science Hill Independent (Pulaski County), and Union County school districts with a total anticipated issuance amount of \$22.36 million; 26 percent SFCC funds and 74 percent local funds. No tax increases were necessary to finance the projects. Mr. Barrow also submitted two current refunding bond issues for the Leslie County and Paintsville Independent (Johnson County) school districts with an anticipated issuance amount of \$2.6 million; 35.3 percent SFCC funds and 64.7 percent local funds.

Senator McDaniel commented on Kenton County's local effort for its security improvements, \$15.9 million local funds and \$1.6 million SFCC funds, with respect to funding Senate Bill 1 which passed earlier this year.

Senator Girdler moved to approve the school bond issues, seconded by Representative Sorolis, and approved by unanimous roll call vote.

Representative Thomas announced the remaining 2019 meeting dates: Thursday, November 14, 2019, Senator Girdler, chair; and Tuesday, December 17, 2019, Representative Thomas, chair.

With there being no further business the meeting adjourned at 1:54 p.m.