

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

May 19, 2020

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, May 19, 2020, at 1:00 PM, in Room 171 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 Julian M. Carroll, Christian McDaniel, and Robby Mills; Representatives Phillip Pratt, Steven Rudy, and Maria Sorolis.

Guests: Katie Smith, Commissioner, Department for Financial Services, Cabinet for Economic Development; Ryan Barrow, Executive Director, Office of Financial Management; and Bart Hardin, Director of Government Relations, University of Kentucky.

LRC Staff: Katherine Halloran, Committee Staff Administrator; Julia Wang, Legislative Analyst; and Jenny Wells Lathrem, Committee Assistant.

Approval of Minutes

Representative Rudy moved to approve the April 14, 2020 meeting minutes. Representative Pratt seconded the motion and the committee approved the minutes by voice vote.

Correspondence Items

The Council on Postsecondary Education reported full council approval of Western Kentucky University's Reconfigure Health Science Classrooms project approved by the committee at the May meeting.

Pursuant to KRS 45.800(2), the committee notified the Finance and Administration Cabinet that it did not approve the lease modification for the Transportation Cabinet's REAL ID driver's license office space in Warren County. Pursuant to KRS 45.800(4), the Finance and Administration Cabinet notified the committee that it renegotiated the lease modification.

Information Items

Pursuant to KRS 45.760(5), UK HealthCare reported an \$800,000 restricted funds purchase of a gamma knife radiosurgical device reload for Chandler Hospital.

Pursuant to KRS 45.812(1), the Barren County school district reported an anticipated \$15.795 million energy conservation debt issue for which energy savings will cover just over half of the debt service. The district did not need to levy an additional tax to pay debt service.

Pursuant to KRS 45A.077(6), the University of Kentucky reported the issuance of a Request for Proposal utilizing the Public-Private Partnership delivery method for the Construct Research/Incubator Facility project on Coldstream Research Campus.

Project Report from the Finance and Administration Cabinet

Pursuant to Part II(4) of the executive branch appropriations bill, the Finance and Administration Cabinet through the Office of State Budget Director, reported a \$2.9 million restricted funds Fees-in-Lieu-of (FILO) Stream Mitigation Projects Pool allocation to the Tourism, Arts and Heritage Cabinet, Department for Fish and Wildlife, for the construction phase of the Ross Creek 20,716 linear feet restoration.

Project Report from the Office of Financial Management Cabinet for Economic Development

Ms. Smith submitted two Economic Development Fund (EDF) grants for the Cabinet for Economic Development (CED). Representative Thomas moved to roll the grants into one roll call vote, seconded by Senator Mills, and approved by voice vote.

The first was \$1.5 million, disbursed annually over four years based upon achieved performance requirements included in the grant agreement, to the Ballard County Fiscal Court for the benefit of Phoenix Paper Wickliffe. The company is restarting a mill in Wickliffe and converting it to a pulp and brown paper packaging facility. CED will review compliance with the job and wage requirements annually beginning December 31, 2023, after which it will disburse the grant funds. The company will be required to create at least 500 new full-time Kentucky resident jobs paying an average hourly wage of \$33, including benefits, by December 31, 2026.

In response to Senator McDaniel, Ms. Smith said the State Property and Buildings Commission issues tax-exempt debt to provide EDF program cash. EDF funds will be disbursed to Ballard County, who will then disburse the funds to Phoenix Paper. If Phoenix Paper has to repay the grant, then the funds will go to Ballard County to avoid SPBC debt arbitrage.

Senator McDaniel said he preferred economic development incentive funding disbursements after the beneficiary meets compliance benchmarks rather than upfront. Representative Rudy said he was very supportive of the project, spanning across two administrations and located in the heart of his district, and that he grew up with the paper mill.

The second was \$500,000 to the City of Elizabethtown for the benefit of the Elizabethtown-Hardin County Industrial Foundation for site work and utilities at T.J. Patterson Industrial Park. The City, in partnership with the Industrial Foundation, will provide a full match for the grant. This project is one of eight recommended by an independent site consultant to receive Kentucky Product Development Initiative program funds, administered in conjunction with the Kentucky Association for Economic Development, to upgrade industrial sites. Disbursements of grant funds will occur on a reimbursement basis to local governments after CED reviews the required supporting documentation.

Senator Mills said that he will be voting no on approval items submitted to the committee to express his disappointment in Governor Beshear's actions in response to the COVID-19 pandemic and stated his intent to either sponsor or cosponsor legislation proposing a constitutional amendment to allow the legislature to call itself into an extraordinary session.

Representative Rudy moved to approve the grants, seconded by Senator McDaniel, and approved by a roll call vote of six yes votes and one no vote.

Municipal Liquidity Facility Overview

Mr. Barrow discussed the Municipal Liquidity Facility (MLF), the Federal Reserve's mechanism to provide cash flow to municipalities in response to delayed revenues, often to the next fiscal year, with the COVID-19 income tax filing deadline extensions. The state as well as Louisville and Lexington may borrow directly. For smaller municipalities, the state would need to borrow and then extend the credit to that municipality. To date, the state has neither secured the debt of nor lent directly to local governments.

Eligible issuers may access the facility through December 31, 2020 to issue the notes, maximum maturity of three years, either on a taxable or tax-exempt basis through either competitive or negotiated sale. Given the MLF's relatively high pricing structure, it is more cost effective for most states, including Kentucky, to issue notes directly through the capital markets. Issuers are also looking to local banks for cash flow. Kentucky can borrow internally between its four investment pools with aggregate balances between three and four billion dollars.

In response to Senator McDaniel, Mr. Barrow said the state can borrow within a fiscal year without general assembly action [KRS 56.866(3)] through the Kentucky Asset/Liability Commission. Through the MLF program, eligible notes are bond anticipation notes, revenue anticipation notes, tax anticipation notes, tax and revenue anticipation notes, and other similar short-term notes. Mr. Barrow said that if the state

borrowers to extend credit to municipalities, then it would be obligated to repay the debt if the municipality defaults.

New Debt Issues

Mr. Barrow submitted two new debt issues. Representative Rudy moved to roll the new debt issues into one roll call vote, seconded by Representative Thomas, and approved by voice vote.

The first debt issue was for the SPBC Revenue Bonds, Project No. 124 to finance \$150 million of various remaining capital projects authorized in appropriations bills. The \$150 million is consistent with other SPBC capital project financings. The estimated all-in-true interest cost is 3.13 percent; however, interest rates are volatile.

The second debt issue was the University of Louisville General Receipts, 2020 Series A and B. The estimated \$87 million aggregate competitively financed transaction will finance two residence halls and associated costs of issuance. Series A, comprised of about half of the \$87 million, will finance the first residence hall (replacement of Miller Hall – Phase I) at 3.54 percent. Series B, comprised of the other half of the \$87 million, will be sold at a later date to finance the second residence hall (replacement of Threlkeld Hall – Phase II). The issuance will be thirty rather than twenty years with interest capitalized during construction, to lessen student fee increases. A postsecondary debt transaction typically takes at least three months to execute; therefore, UofL is obtaining the usual approvals despite COVID-19, particularly as the existing facilities are obsolete.

Senator McDaniel referenced Moody's fall 2019 credit opinion which mentioned endowment amounts, increased risk with its KentuckyOne Health asset acquisition, thin liquidity, and narrow operating margins. He said that while the president is doing good things, he is concerned about the university potentially overcommitting itself.

Senator Carroll moved to approve the debt issues, seconded by Representative Rudy, and approved by a roll call vote of six yes votes and two no votes.

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

Mr. Barrow submitted four new school district (Barren County, Fayette County, Harlan Independent (Harlan County), and Jefferson County) debt issues with SFCC debt service participation, for which none of the school districts needed to levy an additional tax to pay debt service. Representative Sorolis moved to roll the school district debt issues into one roll call vote, seconded by Representative Rudy, and approved by voice vote.

Of the just above \$194 million total anticipated issuance amount for new projects, SFCC \$19 million participation around 9.7 percent and \$175 million local participation

around 90 percent. Harlan Independent's transaction has a \$735,000 refunding component, SFCC participation around 37 percent and local participation around 63 percent.

Senator McDaniel said he was voting no due to the current economic environment, noting Jefferson County Public School's \$23 million projected occupational tax revenue loss due to COVID-19.

Representative Thomas moved to approve the school district debt issues, seconded by Representative Rudy, and approved by a roll call vote of six yes votes and two no votes.

Lease Report from the University of Kentucky

Mr. Hardin submitted three new UK HealthCare leases. Representative Rudy moved to roll the leases into one roll call vote, seconded by Senator Carroll, and approved by voice vote.

The first lease was for UK HealthCare Philanthropy, consolidating existing and additional staff. The \$188,600 annual rental cost will be paid from hospital and philanthropy revenues.

The second lease was for UK HealthCare eICU, providing increased space as the virtual ICU project moves from the demonstration phase to full implementation with 24/7 remote monitoring (detecting changes in patient status) of all ICU patients, enhancing patient care and augmenting staffing.

The third lease was for UK HealthCare Bluegrass Care Clinic, expending funds generated by the Kentucky AIDS Drug Assistance Program [housed in UK's Retail Pharmacy Department] through 340B Program pricing savings and insurance payments in conjunction with the Kentucky Department of Public Health. UK is expanding the Bluegrass Care Clinic to accommodate the 30 percent increased patient demand. [The Clinic will also provide Kentucky Income Reinvestment Program, established to improve healthcare for existing HIV patients and prevent new HIV infections, services]. The space is located in Beaumont Center off of Harrodsburg Road with a \$634,500 annual rental cost.

In response to Representative Thomas, Mr. Hardin said that, factoring COVID-19, all three leases will benefit UK Healthcare; Philanthropy due to decreased revenues, eICU due to potential increase in patients, and Bluegrass Care Clinic as pharmaceutical AIDS treatment is still a necessity.

Senator McDaniel noted that UK HealthCare continues to be a bright spot throughout the commonwealth. In response to Senator McDaniel, Mr. Hardin said UK, anticipating a surge in COVID-19 cases, contracted for leased equipment and services to convert Nutter Field House into a field hospital and that UK HealthCare planned to provide the doctors, nurses, staff, and laboratory services. UK procured bids and Emergency

Disaster Services was the only respondent able to provide a turnkey facility without having to subcontract. EDS also set up field hospitals in several other states. UK requested reimbursement from the federal government for expenses.

In response to Representative Pratt, Mr. Hardin said that he was fairly certain that the UK HealthCare team and personnel evaluating the bids made the final decision to contract with EDS. EDS may have submitted the lowest bid even though it did not have to subcontract.

In response to Senator Carroll, Mr. Hardin said that EDS was the only vendor to submit a bid for full services.

In response to Senator Girdler, Mr. Hardin said the final amount to EDS will be around \$6.7 million. If UK extended the contract, then there would have been substantial increases.

Senator Carroll noted the statistical justification for field hospitals based upon the trajectory of the virus. Senator Girdler noted the overall expenditures based upon the statistical models.

Senator McDaniel moved to approve the new leases, seconded by Senator Carroll, and approved by a roll call vote of seven yes votes and one no vote.

Senator Girdler announced upcoming meeting dates and times: June 25, 2020, 12:00 p.m.; July 22, 2020, 12:00 p.m.; and August 19, 2020, 3:00 p.m.

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