

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**August 19, 2020**

### **Call to Order and Roll Call**

The Capital Projects and Bond Oversight Committee meeting was held on Wednesday, August 19, 2020, at 3:00 PM, in Room 171 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; Senators Julian M. Carroll, Christian McDaniel, and Robby Mills; Representative Maria Sorolis.

Guests: Elizabeth Baker, Planning Director, University Budget Office, University of Kentucky; Bart Hardin, Director of Government Relations, University of Kentucky; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Linda Bridwell, Deputy Executive Director, Kentucky Infrastructure Authority; Katie Smith, Commissioner, Department for Financial Services, Cabinet for Economic Development; 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.

### **Approval of Minutes**

Senator Girdler moved to approve the July 22, 2020 meeting minutes. Senator Mills seconded the motion, and the committee approved without objection.

### **Information Items**

Pursuant to KRS 45.760(9), the Office of State Budget Director transmitted its annual report detailing the financial status of open capital projects as of June 30. The report includes executive branch agencies, Kentucky State University, the Kentucky Community and Technical College System, as well as several Eastern Kentucky University and Morehead State University legacy capital projects. The Administrative Office of the Courts and postsecondary institutions managing their own capital construction under KRS 164A.580 are anticipated to report prior to the October 1 deadline.

Pursuant to KRS 45.812(1), ten school districts reported refunding debt issues, seven of which were taxable advance refundings: Barren County, Fayette County, Hardin County, Harlan County, Kenton County, Oldham County, Paducah Independent

(McCracken County), Perry County, Pike County, and Russell Independent (Greenup County).

### **Public-Private Partnership Report from the University of Kentucky**

Ms. Baker and Mr. Hardin submitted the Construct Research/Incubator Facility (Coldstream High-Tech Building) development agreement. Ms. Baker and Mr. Hardin said the project supported the economic development and research enterprise components of UK's, the land grant research university of the commonwealth, mission. Ms. Baker stated that the project is the construction of a \$14 million, 46,000 square foot facility on UK's Coldstream Research Campus for wet laboratories, offices, and flex space for early stage high-tech companies. UK will sign a ground lease with Bull Lea Run, LLC, the partner and developer. Kentucky Technology, Inc., owned by UK Research Foundation, will lease about half of the facility and sublease about half of its space to UK users, including a few offices and the equestrian lab, which provides drug testing for standardbred, with preparations to expand to thoroughbred, horses. Bull Lea Run's rental rate to KTI will be \$31.32 per square foot, which is around the same rental rate that UK pays for other leased laboratory space.

Mr. Hardin said this project was an example of the UK's collaboration not only with the city but also the state and referenced the legislature's expansion of the state's tax increment financing program to include mixed-use development projects in a university research park [House Bill 310 – 2011 Regular Session]. This project is a component of the Coldstream Research Campus Mixed-Use TIF project that was approved for a \$4.6 million rebate. [The Kentucky Economic Development Finance Authority gave final approval to Lexington-Fayette Urban County Government on May 30, 2019 under KRS 154.30-060 for the \$199 million redevelopment project (KRS 154.30-060 limits capital investment to \$200 million)].

Mr. Hardin mentioned three Coldstream success stories. Summit Biosciences started with ten employees in a small incubator space and now employs one hundred and ten people. Piramal Pharma purchased Coldstream Labs, which manufactured sterile intravenous medications, for \$31 million and employs one hundred and twenty-five people at Coldstream. Exstream Software was initially purchased by Hewlett-Packard, and then by OpenText.

UK's Advanced Science and Technology Commercialization Center houses smaller incubator space with some ten by ten offices occupied by two to three employees. The Coldstream High-Tech Building is for companies to house between five and twenty employees prior to occupying their own facility. UK recruited about forty companies with the state's Small Business Innovation Research/Small Business Technology Transfer match funding. However, UK will be unable to recruit more companies until project completion as there is no appropriate incubator space in Lexington. Mr. Hardin clarified

that Bull Lea Run was a single purpose limited liability corporation specifically created by MAg Partners and Woodbury Corporation for this project.

Representative Thomas said the committee will be excited to monitor the project's progress.

Senator Mills moved to approve the project, seconded by Senator Girdler, and approved by unanimous roll call vote.

### **Project Report from the Finance and Administration Cabinet**

Ms. Tomes submitted three new federally funded projects and reported a pool allocation. The first of the new projects was the \$4.8 million Unemployment Insurance System Citizen Improvements - Response to COVID-19 information technology project, utilizing Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Fund (CRF) payments. This project will improve the claims/benefit processing areas of the UI system including citizen-facing platform, security, operating, and capacity upgrades; citizen access through mobile devices; scalability based on claims; and out-of-date legacy voice response system replacement. This project was requested separately from the active \$48 million [restricted funds] Replace Unemployment Insurance System project since the CRF only covers expenditures through December of this year. The \$48 million project was to be funded from a surcharge set aside by the general assembly [House Bills 252 and 487 – 2018 Regular Session]. The [Service Capacity Upgrade Fund] has about \$15.4 million and, due to the status of the UI Trust Fund, is not expected to accumulate enough funds for the \$48 million project. The current UI system, built in the 1970's, uses outdated codes and is overburdened.

Ms. Tomes confirmed to Representative Thomas that the \$4.8 million project will not eliminate the current system's COBOL programs, yet would still be helpful.

Ms. Tomes confirmed to Senator McDaniel that the \$4.8 million project is the commencement of the House Bill 352 [2020 Regular Session] \$48 million project, which was a reauthorization of \$10.4 million [from the original 2018 authorization] with \$37.6 million additional expenditure authority.

Senator Girdler moved to approve the project, seconded by Senator Mills, and approved by unanimous roll call vote.

Ms. Tomes next submitted two new Department of Military Affairs (DMA) projects. The first was the \$1.996 million Harold L. Disney Training Site Mobile Operations Urban Training Site Enhancement; utilizing Department of Defense Cooperative Army Operations and Maintenance funds to construct an urban assault training mini-city for the Kentucky National Guard, state and local law enforcement, and SWAT teams from multiple states.

Senator Carroll moved to approve the project, seconded by Senator Girdler, and approved by unanimous roll call vote.

The second DMA project was the \$2.5 million Kentucky Emergency Management Conditioned Storage/Multi-Purpose Building; utilizing CARES Act CRF payments to construct a facility with restrooms, showers, open space, and storage. The facility will eliminate the need for temporary office trailers or leased space, as it will also be used for Kentucky Emergency Management Operations supply distribution, during major events such as earthquakes, pandemics, and tornadoes.

Senator Mills moved to approve the project, seconded by Representative Sorolis, and approved by unanimous roll call vote. Representative Thomas commented that both DMA projects were important endeavors.

Ms. Tomes reported pool allocations for the \$1,716,944 Justice and Public Safety Cabinet, Department of Corrections, Green River Correctional Complex Security Control for Buildings project; using about \$1.4 million from the 2020-2022 [Adult Correctional Institutions] Maintenance Pool and \$280,300 from the 2018-2020 [Adult Correctional Institutions] Maintenance Pool to replace the security control system. The control system, outdated with discontinued parts, consisted of cameras, door access and lighting controls, fire alarms, intercoms, and smoke evacuation.

### **Report from the Office of Financial Management Kentucky Infrastructure Authority**

Ms. Bridwell submitted one Clean Water State Revolving Fund (Fund A) Program loan and one Drinking Water State Revolving Fund (Fund F) Program loan. Rates for both applicants have been effective since 2016.

The City of Bedford, Trimble County, requested a \$909,500 Fund A loan for its \$1.819 million Wastewater System Improvements project; replacement of three pump stations and various rehabilitations. A Community Development Block Grant will cover the remaining half of the project costs. For 4,000 gallons, the monthly sewer rate is \$44.85. The term is thirty years at a 0.50 percent rate.

In response to Representative Thomas, Ms. Bridwell said that one of the pump stations serves the county [elementary] and high school and that the school district revenues help keep rates stable.

Senator Mills moved to approve the Fund A loan, seconded by Representative Sorolis, and approved by unanimous roll call vote.

The Lyon County Water District requested a \$2,094,675 Fund F loan for its Water System and Storage Tank Improvements project; which includes rehabilitation of two tanks and looping and upsizing of lines. For 4,000 gallons, the monthly water rate is \$46.24 and the district will need Public Service Commission approval of an eighteen percent rate increase. The term is twenty years at a 2.50 percent interest rate.

Senator Mills moved to approve the Fund F loan contingent upon applicable PSC approvals, seconded by Senator Girdler, and approved by unanimous roll call vote.

### **Cabinet for Economic Development**

Ms. Smith submitted two Economic Development Fund (EDF) grants. Senator Mills moved to roll the grants into one roll call vote, seconded by Representative Sorolis, and approved without objection. Both EDF grants were for projects among the eight recommended by an independent site consultant to receive Kentucky Product Development Initiative program funds for industrial site upgrades, administered in conjunction with the Kentucky Association for Economic Development. Disbursements of grant funds will occur on a reimbursement basis to local governments after the Cabinet for Economic Development reviews the required supporting documentation.

The first EDF grant was \$500,000 to the City of Hopkinsville for the benefit of the Hopkinsville Industrial Foundation. The Industrial Foundation and the Southwestern Kentucky Economic Development Council plan to construct a speculative building on a 22-acre Build-Ready site in Commerce Park. The Industrial Foundation, which owns the site, funded site preparations and will, along with the city and county, collectively guarantee the associated \$2.3 million bank loan interest payments. [A \$400,000 TVA grant will also cover project costs].

The second EDF grant was \$250,000 to the County of Knox for the benefit of the Southeast Kentucky Industrial Development Authority, extending water and sewer to Speculative Building #4 in the industrial park [Southeast Kentucky Business Park in Corbin]. SKIDA has committed funding for the match.

Senator Girdler moved to approve the two EDF grants, seconded by Senator Mills, and approved by a roll call vote of five yes votes and one no vote.

Senator McDaniel cast a no vote, referencing increased judicial facility construction costs discussed in an earlier committee meeting that day; stating that with the pandemic, it is premature to approve speculative buildings.

Senator Girdler moved to approve the two EDF grants, seconded by Senator Mills, and approved by a roll call vote of five yes votes and one no vote.

### **Office of Financial Management**

### **New Kentucky Housing Corporation Conduit Debt Issues**

Senator Mills moved to roll the two new KHC conduit debt issues into one roll call vote, seconded by Representative Sorolis, and approved without objection.

Mr. Barrow submitted two new KHC conduit debt issues with mid-September projected sale dates. KHC conduit debt issues are applied towards the state's private activity volume cap but affect neither the commonwealth's nor KHC's financials as the developer pays the debt service. The first was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Christian Towers), Series 2020; 142 units in Fayette County (Versailles Road), net proceeds of around \$19.8 million, and a just over \$54 million project cost. The second was the KHC Tax-Exempt Conduit Multifamily Housing Revenue Bonds (Overlook at Elkhorn Creek Apartments), Series 2020; 156 units in Scott County, net proceeds of \$21 million, and a just over \$33.8 million total project cost.

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

### **Previous Debt Issue**

Mr. Barrow reported the State Property and Buildings Commission Revenue Bonds, Project No. 124 Series A; general fund supported debt with \$150 million in proceeds deposited in the capital projects account administered by the Office of State Budget Director to fund ongoing projects authorized by various acts of the general assembly over a number of budget cycles [\$491.3 million remaining projects authorized, with general fund supported debt, in the 2010 through 2020 appropriations bills before this debt issuance]. Capital projects [from tax-exempt general fund supported debt proceeds] are typically funded on a pooled basis about once a year. This was the first tax-exempt debt issue [OFM reported a completed taxable debt issue to finance the \$35 million KEDFA loan to UofL Health to the committee last month] after the commonwealth launched its investor relations site. With a historically low interest rate environment, the true interest cost was just over 2.38 percent and, even with uncertain revenues, the state maintained its credit ratings.

Representative Thomas said that OFM's previous debt issue report segues into the School Facilities Construction Commission's submittal as many school districts are planning refinancings [low interest rate environment].

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

Senator Mills moved to roll the SFCC debt issues into one roll call vote, seconded by Representative Sorolis, and approved without objection.

Mr. Barrow submitted six SFCC debt issues, one for a new project and five to refinance debt. The Bowling Green Independent (Warren County) school district, which

did not need an additional tax levy to pay debt service, submitted an estimated \$17.7 million debt issue for high school improvements with less than one percent SFCC and over ninety-nine percent district debt service. Five school districts submitted refunding debt issues, four of which were taxable advance refundings, totaling just over \$59 million with around twenty percent SFCC and eighty percent district participation: Campbell County, Eminence Independent (Henry County), Fayette County, Henry County, and Pulaski County. With the historically low interest rates, more taxable advance refundings will meet SFCC parameters [which include seventy percent efficiency ratio (gross undiscounted savings less negative arbitrage (the loss on the escrow)), then divided by gross undiscounted savings) and five percent net present value savings].

Senator Mills moved to approve the SFCC debt issues, seconded by Senator Girdler, and approved by unanimous roll call vote.

With there being no further business the meeting adjourned at 3:50 p.m.