

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

January 21, 2021

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Thursday, January 21, 2021, at 2:00 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 Jason Howell and Robin L. Webb; Representatives Chris Freeland and Jason Petrie.

Guests: Sandy Williams, Deputy Executive Director, Kentucky Infrastructure Authority; Ryan Barrow, Executive Director, Office of Financial Management; and David Carlsen, Chief Financial Officer, Kentucky Higher Education Assistance Authority/Kentucky Higher Education Student Loan Corporation.

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

Introduction of New Committee Members and House Co-Chair Election

Representative Thomas introduced new committee members; Senators Jason Howell and Robin Webb and Representatives Chris Freeland, Reginald Meeks, and Jason Petrie. Pursuant to KRS 45.790(1), House committee members elected a co-chair to fill the remaining term. Representative Petrie nominated Representative Freeland and Representative Thomas seconded the nomination. Representative Petrie moved to cease nominations and elect Representative Freeland by acclamation. Representative Thomas seconded the motion, which the House members approved by voice vote.

Approval of Minutes

Senator Girdler moved to approve the December 16, 2020, meeting minutes. Representative Freeland seconded the motion, and the committee approved without objection.

Information Items

Ms. Halloran referenced five information items. 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 164.580, transmitted quarterly capital status reports.

Pursuant to KRS 45.812(1), the Kentucky Interlocal School Transportation Association reported its forthcoming annual debt issuance to finance the acquisition of school buses and the Boone, Lewis, and Washington County school districts, none of which needed an additional tax levy to pay debt service, reported upcoming debt issues to finance new projects. The Carter County school district reported an upcoming refunding debt issue.

Pursuant to KRS 48.111(6)(a), the Finance and Administration Cabinet's Division of Real Properties reported an invitation to lease office space in Louisville for the Kentucky Commission on Human Rights.

Pursuant to KRS 56.813(2)(a)3.b. and KRS 56.823(11)(a), the Division of Real Properties reported leasehold improvements under \$10,000 and square footage lease modifications under \$50,000 for the prior quarter.

The School Facilities and Construction Commission reported school district debt issues with SFCC participation that closed in the last quarter.

Representative Thomas complimented committee staff, referencing the staff analysis sheets.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Ms. Williams submitted a Clean Water State Revolving Fund (Fund A) program loan increase and a Drinking Water State Revolving Fund (Fund F) program loan. The City of Hopkinsville, for the benefit of the Hopkinsville Water Environment Authority, requested a \$5 million Fund A loan increase, to the \$9 million previously loaned, for the multi-phased \$48.3 million Hammond-Wood Wastewater Treatment Renovation and Expansion project. KIA plans to lend \$45 million in total from the Fund A program. For 4,000 gallons, the current monthly sewer rate is \$32.70. The loan term is twenty years at a .50 percent interest rate.

Representative Freeland moved to approve the Fund A loan increase, seconded by Senator Girdler, and approved by unanimous roll call vote.

The City of Albany requested a \$2.5 million Fund F loan for the Devall Valley Area Water System Improvements project, which will alleviate area water shortages; around 30,000 linear feet of replacement waterline (existing waterline is undersized), pump station

upgrade, and 500,000 gallon storage tank. For 4,000 gallons, the current monthly water rate is \$29.02. The loan term thirty years at a 0.25 percent interest rate with estimated \$92,799 annual debt service.

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

Office of Financial Management New Debt Issue

Mr. Barrow submitted a new debt issue, University of Kentucky General Receipts (Forward Delivery) Refunding Bonds, Series 2022. This estimated \$25.7 million agency fund supported debt issue will forward refund 2014 Series B debt which financed the Expansion of the Gatton College of Business and Economics project. [A forward delivery will allow UK to close the transaction within ninety days of the April 1, 2022 prior debt's earliest redemption date; thereby keeping the transaction tax-exempt]. The municipal markets have been receptive towards forward delivery transactions. Similar to the Eastern Kentucky University transaction approved by committee, UK will receive its \$2.2 million, or 8.1 percent, net present value savings upfront and apply the monies towards identified capital projects around campus.

Representative Freeland moved to approve the new debt issue, seconded by Senator Girdler, and approved by unanimous roll call vote.

Previous Debt Issues

Mr. Barrow reported three previous debt issues. The first was the Morehead State University General Receipts Refunding Bonds, 2020 Taxable Series A. The \$4.87 million agency fund supported debt issue, 2.29 percent true interest cost [twelve year term], advance refunded [2012 Series A debt, which financed the Renovate West Mignon Residence Hall project, and Series 2013 A debt, which financed the renovation of Mignon Residence Hall]. For economic savings, under the Governmental Leasing Act [KRS 65.940 to 65.956], MSU renegotiated two outstanding bank leases [an energy savings performance contracting agreement lease and a 2020 Kentucky Bank lease consolidating its 2015 information technology network and campus security upgrade financing lease and its 2019 lease that refunded outstanding 2008 Series A debt. The renegotiated 2020 lease also refunded outstanding Series 2011 A debt.] The three transactions resulted in \$1.3 million aggregate net present value savings.

The second was the Kentucky Higher Education Student Loan Corporation Student Loan Asset-Backed Notes, Senior Series 2020-1-A-1A (Fixed Rate), Senior Series 2020-1-A-1B (Floating Rate), and Subordinate Series 2020-1-B (Floating Rate). KHESLC used the proceeds from the \$422.64 million asset-backed [backed by student loan repayments] transaction to purchase/restructure outstanding Federal Family Education Loan Program debt [loans under the PNC trust and Series 2010-1, 2013-1, and Series 2013-2 floating rate

notes]. The transaction was taxable [due to inclusion of out-of-state student loans], issued at an aggregate 1.6 percent true interest cost, with the floating rate components indexed to the one-month London Interbank Offered Rate. [Market floating rate note transactions such as this typically have not involved tax-exempt financing since 2010, although direct purchase floating rate notes transactions, such as KHESLC's DPN 2016, 2017, and 2019 transactions have.] Mr. Carlsen said that while the FFELP program, one of KHESLC's two loan programs, was discontinued in 2010 for new originations, those loans remained on the balance sheets of lenders, such as KHESLC. KHESLC also acquires rehabilitated FFELP loans weekly from the Kentucky Higher Education Assistance Authority, its guarantee agency, with short-term financing. FFELP loans, guaranteed by the federal government, are rehabilitated after a default when the borrower makes nine on-time payments within a ten month period. The restructuring component of this transaction was to allow alternate floating rate benchmarks with the upcoming LIBOR termination [as well as release liquidity]. The purchasing component was long-term financing, typically done annually or biennially, of the weekly FFELP acquisitions.

The third was the Kentucky Asset/Liability Commission Project Notes, 2020 Federal Highway Trust Fund First Refunding Series A (GARVEEs). The \$59.405 million grant anticipation revenue vehicles [any sort of financing instrument for which federal-aid highway funds are used to reimburse the state for debt service payments], issued at a .51 percent true interest cost (final maturity is September 1, 2022), current refunded [issuance is after the September 1, 2020 prior debt's earliest redemption date] the 2010 Federal Highway Trust Fund First Series A notes. With historically low rates, the net present value savings was \$2.9 million, or 4.74 percent, over just two maturities. The Transportation Cabinet can reprogram the savings for transportation projects. Representative Thomas remarked that, over a couple of years, the savings were sizeable.

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

Representative Petrie moved to roll the five debt issues with SFCC participation into one roll call vote, seconded by Senator Girdler, and approved without objection.

Mr. Barrow submitted five debt issues with SFCC participation; three for new projects and two to refinance debt. For new projects, the Hopkins County, McLean County, and Todd County school districts planned debt issuances totaling \$28 million, with the SFCC and the districts paying around 17 percent and 83 percent of the debt service. The school districts did not need an additional tax levy for debt service.

Augusta Independent (Bracken County) and Washington County planned refunding debt issuances totaling approximately \$11.8 million, with the SFCC and the districts paying around 12 percent and 88 percent of the debt service.

Representative Petrie moved to approve the five debt issues with SFCC participation, seconded by Representative Freeland, and approved by unanimous roll call vote.

Representative Thomas announced the upcoming February 17 and March 16 meetings, would be upon adjournment of both chambers. He said it was an honor to serve as committee co-chair.

With there being no further business the meeting adjourned at 2:38 p.m.