

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 20, 2021

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee meeting was held on Tuesday, April 20, 2021, 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 Chris Freeland, Co-Chair; Senators Jason Howell, Christian McDaniel, and Robin L. Webb; Representatives Jason Petrie and Walker Thomas.

Guests: Dr. M. Christopher Brown II, President, Kentucky State University; Craig Turner, Founder and Chief Executive Officer, CRM Companies; Janice Tomes, Deputy State Budget Director, Office of State Budget Director; Sandy Williams, Deputy Executive Director, Kentucky Infrastructure Authority; Sarah Butler, Division Director, Incentive Assistance, Department for Financial Services, Cabinet for Economic Development; and Ryan Barrow, Executive Director, Office of Financial Management.

LRC Staff: Katherine Halloran, Committee Staff Administrator 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. For Senate co-chair, Senator McDaniel nominated Senator Girdler and Senator Howell seconded the nomination. Senator McDaniel moved to cease nominations and elect Senator Girdler by acclamation. Senator Howell seconded the motion, which the Senate members approved without objection. For House co-chair, Representative Thomas nominated Representative Freeland and Representative Petrie seconded the nomination. Representative Thomas moved to cease nominations and elect Representative Freeland House co-chair by acclamation. Representative Petrie seconded the motion, which the House members approved without objection.

Approval of Minutes (March 15, 2021)

Representative Thomas moved to approve the February 23, 2021, meeting minutes, seconded by Representative Freeland, and approved without objection.

Information Items

Ms. Halloran referenced six 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 45.760(5), the University of Louisville reported a \$350,000 research equipment purchase for the Christina Lee Brown Envirome Institute. Pursuant to KRS 45.812(1), the Breathitt, Clay, and Daviess County school districts, none of which needed an additional tax levy to pay debt service, reported upcoming debt issues for new projects and the Clay County school district reported one refunding debt issue. Pursuant to KRS 56.863(11), the Office of Financial Management transmitted the Semi-Annual Report of the Kentucky Asset/Liability Commission. The State Property and Buildings Commission approved the Northern Kentucky University General Receipts Bonds, 2021 Taxable Series A (KERS Cessation Agency Bond Issue) debt issue on March 24. The School Facilities and Construction Commission reported school district debt issues with SFCC participation that closed in the last quarter.

In response to Senator McDaniel, Ms. Halloran said that funds were reallocated for several cancelled projects [in 2018]. In most cases for bond funded projects deauthorized without a reallocation, the debt has not been issued; therefore, there are no funds to return. In response to Senator McDaniel, who alluded to the value of ALCo's semi-annual report, Mr. Barrow said that the interest rates in the report [Bond Buyer 20 General Obligation Index] is one of several factors used to derive the state budget debt service template rate and that rates are still historically low with low tax -exempt supply.

Report from the Kentucky State University

President Brown submitted the Kentucky State University Construct New Residence Hall project [400 plus bed on-campus student housing facility and dining hall] Public-Private Partnership development contract with KSU Campus Housing; referencing, given House Bill 303 [2016 Regular Session], the nexus between enrollment and housing. Current KSU enrollment is 2,290, 2,150 undergraduate and 140 graduate students, with capacity for 866 on-campus beds plus an additional twenty-four for Resident Assistants. KSU received 993 housing applications and was unable to provide on-campus housing for more than 100 students, of which COVID-19 spacing compliance was also a contributing factor. Up to 2005, KSU's enrollment was relatively stable with around a 2,300 student annual average. Between 2006 and 2011, there was an enrollment spike, increasing the annual average to 2,750 students with a high of 2,834 students in 2009. Enrollment declined between 2011 and 2015, bottoming out at around 1,500 students, and returned to stable enrollment of around 2,200 over the last three years. Even with the reopening of "The Halls" [a 319 bed residence hall], there are around 2.6 students per on-campus bed, whether the enrollment is the high of 2,834 students with 1,059 beds; the current 2,290 students with 859 beds, or the low of 1,586 students with 605 beds. In the fall of 2017, KSU began housing students in auxiliary housing, Frankfort hotels. However, KSU has the capacity

for additional on-campus student housing and receives feedback indicating that students, particularly freshmen, would rather be housed on-campus. Addressing the on-campus housing shortage, this residence hall will aid in university recruitment and retention, giving KSU the opportunity to increase the enrollment to its 3,450 student target. Due to housing, KSU currently admits around 685 freshmen when the freshmen target is at least 1,000. During KSU's first year of auxiliary housing, it paid around \$320,000 to house about thirty students and now pays around \$3.4 million to house around 300 students. Also, during the height of the pandemic, KSU did not have any available single rooms for National Guard housing.

In response to Senator McDaniel, Mr. Turner confirmed that he was the sole member of the KSU Campus Housing limited liability corporation and that CRM establishes single purpose LLCs for specific projects.

Senator McDaniel moved to approve the P3 development contract with KSU Campus Housing, seconded by Representative Thomas, and approved by unanimous roll call vote.

Senator Girdler thanked the presenters and commented that the annual new residence hall and current auxiliary housing costs were about the same.

Project Report from the Finance and Administration Cabinet

Ms. Tomes submitted a new federally funded, Coronavirus Response and Relief Supplemental Appropriations Act, \$1.45 million Kentucky Transportation Cabinet project. The Facilities Technology Modernization project includes phone systems replacement, videoconference upgrades, citizen text messaging applications, and other communication systems improvements to support remote meetings and improve customer service.

Senator McDaniel moved to approve the new project, seconded by Representative Thomas, and approved by unanimous roll call vote.

Report from the Office of Financial Management Kentucky Infrastructure Authority

Representative Freeland moved to roll the ten KIA transactions into one roll call vote, seconded by Representative Thomas, and approved without objection.

Ms. Williams submitted five Clean Water State Revolving Fund (Fund A) Program transactions, three loan increases and two new loans, and five Drinking Water State Revolving Fund (Fund F) Program transactions, two loan increases and three new loans.

The Lexington-Fayette Urban County Government requested a \$15,788,138 Fund A loan increase to implement Phase II of the now \$83,732,326 West Hickman Wastewater Treatment Wet Weather Storage Tanks project. Fund A loans for the first phase totaled

\$67,944,188. For 4,000 gallons, the current monthly residential sewer rate is \$31.44. The loan term is twenty years at a one and three quarters percent interest rate, with around \$5 million estimated annual debt service.

For its \$26.34 million Georgetown/Scott County South Sewer Extension project, the city requested a \$2.14 million director level (200 KAR 17:050) Fund A loan increase to its \$21.4 million aggregate previously approved Fund A loans [of which KIA will apply \$1 million in principal forgiveness] for a \$23.54 million total loan amount. The increase request is due to extension of the ninety-day bid holding period to 150 days, as the contractor had the ability to amend unit prices based on material and labor price changes. [A \$1.075 million state (House Bill 265 - 2012 Regular Session) grant; a \$750,000 federal EPA Section 319 (Clean Water Act) nonpoint source grant; and \$975,000 in local funds (\$475,000 from Lexington-Fayette Urban County Government and \$250,000 each from the City of Georgetown and Scott County) will finance the remaining project costs]. For 4,000 gallons, the current monthly sewer rate is \$25.38. The loan term is thirty years at a half percent interest rate, with around \$855,000 estimated annual debt service.

Due to higher than expected bids, the Paducah-McCracken County Joint Sewer Agency requested a \$2,046,410 Fund A loan increase for its now \$7,216,410 Outfall 003 Fine Screening - Phase I project. For 4,000 gallons, the current monthly sewer rate is \$23.76. The loan term is twenty years at a half percent interest rate, with around \$394,000 estimated annual debt service.

The City of Fleming-Neon, Letcher County, is seeking a \$1,558,120 Fund A loan for its Sewer Rehabilitation project; evaluation, to determine inflow and infiltration sources, and subsequent rehab of the sewer system. For 4,000 gallons, the current monthly sewer rate is \$28.86. The loan term is thirty years at a quarter percent interest rate, with around \$29,000 estimated annual debt service.

The City of Russell Springs, Russell County, requested a \$682,000 Fund A loan for its KY 80 Gravity Sewer Rehabilitation project; rehabilitation of sewer lines to reduce inflow and infiltration. For 4,000 gallons, the current sewer rate is \$38.67. The loan term is twenty years at a quarter percent interest rate, with around \$18,000 estimated annual debt service.

Due to completing a portion deleted by a change order for its Combined Waterline Improvements project, the City of Burnside, Pulaski County, requested a \$100,000 director level (200 KAR 17:070) Fund F loan increase to its \$2.8 million aggregate previously approved Fund F loans [of which KIA will apply \$1,113,500 in principal forgiveness]; the reinstated portion was line work and switching meters. For 4,000 gallons, the current monthly water rate is \$53.58. The loan term is thirty years at a half percent interest rate, with around \$69,000 estimated annual debt service. Senator Girdler mentioned that the project was in his district.

Due to higher pipe prices and, for the elevated storage tank component, fewer bids for its Water Main Replacement project, the Adair County Water District requested a \$134,253 director level (200 KAR 17:070) Fund F loan increase to its previously approved \$1,342,530 [of which KIA will apply \$671,265 in principal forgiveness] Fund F loan. For 4,000 gallons, the current monthly water rate is \$40.90. The loan term is thirty years at half percent interest rate, with around \$30,000 estimated annual debt service.

The City of Fleming-Neon, Letcher County, requested a \$1,191,114 [of which KIA will apply \$595,557 in principal forgiveness] Fund F loan for its Waterline Improvement - Phase I project; replace and modernize water system to address water loss from aging waterlines. For 4,000 gallons, the current monthly city water rate is \$33.13. The loan term is thirty years at a quarter percent interest rate, with around \$22,000 estimated annual debt service.

The Louisville Water Company requested a \$537,850 [of which KIA will apply \$268,925 in principal forgiveness] Fund F loan for its \$1,075,700 Roe Hill Road Area Water Main Extension and Pump Station project [northwestern Bullitt County]; around 13,000 linear feet of four-inch water main and booster pump station to provide water to thirty-seven unserved residences. A Community Development Block Grant will finance the other half of the project cost. For 4,000 gallons, the current monthly water rate is \$26.67. The loan term is twenty years at a quarter percent interest rate, with around \$14,000 estimated annual debt service.

The City of Augusta, Bracken County, requested an \$80,000 Fund F loan for its Augusta Lagoon Cleaning project; removing accumulated solids from the system's two lagoons to address a state notice of violation. For 4,000 gallons, the current monthly water rate is \$27.25. The loan term is twenty years at a one percent interest rate, with around \$5,000 estimated annual debt service.

Senator McDaniel noted that there are more infrastructure projects, due to increased federal funding. Project costs may continue to be underestimated due to a variety of factors including construction materials price increases. Senator Girdler concurred with Senator McDaniel and Senator Webb added that she anticipates increased federal monitoring, referencing wastewater, and that the committee was fortunate to have KIA's expertise.

Representative Freeland moved to approve the ten KIA transactions with the Adair County increase contingent upon Public Service Commission approvals, seconded by Representative Thomas, and unanimously approved by roll call vote.

Report from the Cabinet for Economic Development

Ms. Butler submitted a \$500,000 Economic Development Fund grant, City of Bowling Green for the benefit of Ball Metal Beverage Container, to be applied towards an

over \$300 million investment in a Bowling Green production plant. In 2019, the company, operational for over a century with more than 10,000 employees and above one hundred locations worldwide, produced about 48 billion recyclable aluminum beverage containers across North America, nearly forty-two percent of all aluminum beverage containers produced there that year. The grant agreement includes job and wage requirements, 198 jobs at a \$45 average hourly wage with benefits, measured annually over four years beginning December 30, 2024. If the company does not meet the annual compliance benchmarks, then the job penalty repayment provision is \$631 for each job not created or maintained and the wage penalty repayment provision is a pro rata formula-based portion of the grant. The company will provide a letter of credit as security for the \$125,000 maximum job and wage penalty repayment for any compliance year.

Representative Thomas moved to approve the EDF grant, seconded by Representative Freeland, and approved by unanimous roll call vote.

Office of Financial Management New Debt Issue

Mr. Barrow submitted the State Property and Buildings Commission, Revenue Refunding Bonds, Project No. 125 Series A, Series B (Federally Taxable), Series C, and Series D. The Series A is a current refunding [within ninety days of the prior debt's earliest redemption date], the Series B is a taxable advance refunding, and the Series D is referenced but will only be executed to replace Series B and C if the advance refunding tax-exemption is reinstated prior to the debt issuance. Series C will be a tender, rather than a taxable advance refunding, to redeem prior debt that is not within ninety days of the earliest redemption date. Bondholders can either exchange the new tax-exempt bonds for the prior bonds, sell the prior bonds back to the commonwealth, or hold the prior debt. An additional ten years of call protection, as well as low supply, would incentivize bondholders to exchange the debt and a premium would incentivize bondholders to sell the debt back. The State Property and Buildings Commission approved a tender in 2008; however, market conditions became unfavorable prior to execution. There were recent successful tender transportation transactions.

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

Office of Financial Management Previous Kentucky Housing Corporation Conduit Debt Issues

Mr. Barrow reported three previous KHC conduit debt issues, which 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 Conduit Multifamily Housing Revenue Bonds (Winterwood II Portfolio), Series 2021; [properties in multiple counties], net proceeds around \$16.8 million and total project cost just over \$51 million. The second was the KHC Conduit Multifamily Housing Revenue Bonds (Jefferson

Landing), Series 2021; 240 units in Louisville, \$35 million net proceeds and total project cost just over \$62.1 million. The last was the KHC Conduit Multifamily Housing Revenue Bonds (New Hope Properties), Series 2021; nine properties in Hopkinsville, \$36 million net proceeds and total project cost just over \$76 million.

Office of Financial Management
School District Debt Issues with School Facilities Construction Commission
Debt Service Participation

Senator Webb moved to roll the four debt issues with SFCC participation into one roll call vote, seconded by Representative Freeland, and approved without objection.

Mr. Barrow submitted four debt issues with SFCC participation; three for new projects and one to refinance debt. For new projects, the Calloway County, Hardin County and Scott County school districts, none of which needed an additional tax levy to pay debt service, planned issuances totaling \$119.42 million; district debt service supporting just over \$115 million, 96.6 percent, and SFCC debt service supporting around \$4 million, 3.4 percent. The Boyd County school district planned a \$450,000 refunding issuance, with SFCC debt service supporting the entire amount.

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

Senator Girdler announced the upcoming 1:00 p.m. May 18, 2021 meeting.

With there being no further business the meeting adjourned at 1:51 p.m.