

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

May 19, 2022

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee was held on Thursday, May 19, 2022, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Chris Freeland, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Chris Freeland, Co-Chair; Senators Christian McDaniel and Robin L. Webb; and Representatives Jason Petrie and Walker Thomas.

Guests: Bart Hardin, Executive Director of Government Relations, University of Kentucky; Jeff Spoelker, Associate Athletic Director for Finance, University of Louisville Athletics; Kevin Cardwell, Deputy State Budget Director, Office of State Budget Director; Scott Aubrey, Director, Division of Real Properties, Department for Facilities and Support Services; Sandy Williams, Executive Director, Kentucky Infrastructure Authority; Katie Smith, Deputy Secretary and 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; Korey Sallee, Committee Analyst; and Liz Hardy, Committee Assistant.

Approval of Minutes (February 22, 2022, March 15, 2022, and April 13, 2022)

Representative Petrie moved to approve the February 22, 2022; March 15, 2022; and April 13, 2022, meeting minutes. Representative Thomas seconded the motion and the committee approved without objection.

Information Items

Ms. Halloran referenced nine information items. Pursuant to KRS 45.760(5), the University of Kentucky reported a \$206,500 hardware in the loop simulator purchase for its SPARK laboratory with private funds. The University of Louisville reported a \$445,500 sequencing system purchase for its genomics facility with National Institute of General Medical Sciences IDeA Network of Biomedical Research Excellence funding and a \$374,800 imaging reader purchase for its Center for Predictive Medicine biosafety level three facility on the Shelby Campus with National Institute of Allergy and Infectious Diseases funding.

Pursuant to KRS 45.800(4), Eastern Kentucky University's president notified the committee that he proceeded with the Upgrade Building Management System Controls project submitted last month. Pursuant to KRS 45.800(4) and KRS 45.810(4), the secretary of the Finance and Administration Cabinet notified the committee that she proceeded with the cabinet's transactions submitted last month, except for two new Department of Military Affairs' projects on the agenda today.

Pursuant to KRS 45.812(1); ten school districts, none of which needed an additional tax levy to pay debt service, transmitted upcoming debt issues for new projects. The school districts were Covington Independent (Kenton County), Dayton Independent (Campbell County), Franklin County, Hart County, Kenton County, Knox County, Mercer County, Raceland-Worthington Independent (Greenup County), Russell County, and Trigg County.

Pursuant to KRS 45A.180(2), UofL communicated its intent to use the construction management-at-risk project delivery method for its capital asset preservation project portfolio. Exhibit A of the RFP had a list of potential projects.

Pursuant to KRS 56.813(2)(a)3.b., the Division of Real Properties reported four lump-sum leasehold improvements costing between \$1,000 and \$10,000. Pursuant to KRS 56.823(11)(a), the Division of Real Properties reported three under \$50,000 Transportation Cabinet square footage lease modifications.

Pursuant to KRS 164A.600(2), UK reported the \$3 million design phase of its emergency project; replacement of the newly constructed Grain and Forage Center of Excellence in Princeton which was destroyed by the December 10, 2021, tornado.

UK transmitted its Construct Beam Institute I and II project authorization consolidations. The projects were bid together and UK reflected the consolidation in its April 2022 quarterly capital projects report.

The Council on Postsecondary Education communicated its KRS 164.020(11) approval of the Upgrade Building Management System Controls project.

The School Facilities Construction Commission (SFCC) reported previous school district debt issues with SFCC debt service participation between January and April, twenty-three totaling around \$145 million for new projects and three refunding debt issues totaling around \$24 million.

Lease Report from Postsecondary Institutions

University of Kentucky

Senator McDaniel moved to roll the two UK lease transactions into one roll call vote, Representative Petrie seconded the motion, and the committee approved without objection.

Mr. Hardin submitted a new lease and a lease renewal. The College of Social Work's new lease, [5,921 square feet at] \$19.25 per square foot [for a \$113,979 total annual cost through June 30, 2028, including utilities], will be in a Coldstream facility where UK has other lease agreements. Due to the expansion of its largest tenant [Piramal Pharma Solutions], the current lessor is not renewing the lease at the College's present Coldstream location a half-mile away. The College of Dentistry's lease renewal, roughly 13,500 square feet at \$32.67 per square foot [for a \$439,700 total annual cost through June 30, 2030, including utilities], is for clinical space at Turfland Mall on Harrodsburg Road and the new rental rate is consistent with other medical/dental facilities rented by UK in Fayette County.

Representative Thomas moved to approve the two UK lease transactions, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

University of Louisville

Mr. Spoelker submitted a new 67 bed [in eighteen apartment units] master housing lease with Louisville Properties I. The units will be in The Province, an off-campus UofL affiliated apartment property, and used primarily by UofL's football team. The term is five years starting with around a \$510,000 annual payment and three percent annual inflationary increases thereafter.

In response to Senator Daniel, Mr. Spoelker stated that the UofL Athletic Association will use its own funds for the rental payments.

Senator Webb moved to approve UofL's new master housing lease, Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

Project Report from the Finance and Administration Cabinet

Representative Petrie moved to roll the six new projects into one roll call vote, Representative Thomas seconded the motion, and the committee approved without objection.

Mr. Cardwell submitted six new projects; four from the Department of Military Affairs', two of which were resubmittals from last month, and two from the Kentucky Department of Fish and Wildlife Resources (KDFWR), and reported three pool allocations.

The first new Department of Military Affairs' project was the federally funded [Military Construction Cooperative Agreement (MCCA)] \$16,120,500 Construct Burlington Field Maintenance Shop. The 25,156 square foot facility, adjacent to the

readiness center and replacing the leased maintenance shop, will provide maintenance services for military vehicles used by the Burlington, Carrolton, and Walton armories.

The second was the \$3.5 million Bowman Field Annex Readiness Center Interior Restoration project, \$3 million in federal funds [MCCA] and \$500,000 from the Department of Military Affairs' 2020-2022 investment income maintenance pool. The interior restoration is a complete interior renovation; with upgrades including latrines, HVAC, lighting, electrical, antiterrorism/force protection windows, flooring, and walls. The readiness center was constructed in 1951 and served as the U.S. Army Reserve Readiness Center until it was replaced by the adjacent new facility. The building has largely laid dormant since 2016 when the acquisition transfer process to the Kentucky Army National Guard began. The Kentucky Army National Guard plans to station a newly assigned 200 soldier divisional artillery headquarters within the renovated facility, which will include Human Resources, Intelligence, Operations, Sustainment, Signal, and Special Staff Sections.

The third was the \$1.2 million Appalachian Challenge Academy (ACA) upgrades project, \$900,000 in federal funds [Youth Challenge Cooperative Agreement] and \$300,000 from Department of Military Affairs' restricted funds for the required twenty-five percent match. The interior renovations to the ACA Facility, formerly a school building, will include men's and women's showers and latrines, HVAC, water heaters, lighting, flooring, and walls.

The final was the \$2 million Boone National Guard Center (BNGC) Rear Access Control Point project, \$1.5 million in federal funds [MCCA] and \$500,000 from Department of Military Affairs' 2020-2022 investment income maintenance pool for the required twenty-five percent match. The modifications will include a security building and changes to lanes, control gates, and fences to better control traffic flow. The current rear access control point is only utilized for emergencies and oversized vehicles. The new access control point will give BNGC a dual entry and exit point for employees and emergency vehicles and will include video monitoring capability, breakroom, restrooms, and offices for security personnel.

The two new KDFWR projects received U.S. Fish & Wildlife Service Pittman-Robertson Wildlife Restoration federal funds.

The first was the \$3.5 million Veteran's Memorial Wildlife Management Area - Public Shooting Range, \$3.15 million in federal funds and \$350,000 from KDFWR restricted funds. The public shooting range, including classroom for conservation/hunter education and four offices, will be in Georgetown. There was a public forum and further community outreach regarding the project.

The second was the \$4.5 million Ballard Wildlife Management Area “Big Pump” project, \$3.375 million in federal funds and \$1.125 million from Ducks Unlimited. The replacement pump will manage water levels on a complex of wetland units for waterfowl hunting. The current pump, with inadequate capacity, has frequent service failures and maintenance/repair requirements, which makes it no longer practical or cost effective to operate.

Representative Freeland and Senator Webb expressed their support for the project. Senator Webb mentioned the [Senate Bill 217] implementation and encouraged the Finance and Administration Cabinet and KDFWR to follow the intent of the legislature, remarked on hunting at Ballard, commented on the importance of federal law compliance for federal funds receipts, referenced taxation on sporting items [ammunition, firearms, and archery equipment] as the Wildlife Restoration fund source, and noted Ducks Unlimited’s presence at one of the Kentucky Sportsmen's Caucus meetings and its outreach.

Representative Petrie moved to approve the six new projects, Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

The first pool allocation was for the Finance and Administration Cabinet, Department for Facilities and Support Services, \$2,063,900 Library and Archives HVAC Replacement project, funded from DFSS’s 2020-2022 bond-funded maintenance pool. The project will upgrade, modify, and otherwise modernize the HVAC system and temperature controls in the 150,000 square foot facility that stores and archives historically significant documents.

The second was for the \$1,752,300 Kentucky Community and Technical College System, Land Acquisition, Somerset Community College, funded from KCTCS’s restricted funded 2020-2022 Property Acquisitions Pools. The acquisition was two buildings at 580 and 610 Valley Oak Drive for several SCC programs including heavy equipment operations, welding, customized business, industry training, and electrical technology.

The final was for the \$5,133,000 KDFWR Little Sexton project, funded from the Fees-in-Lieu-of Stream Mitigation Projects Pool. This project, authorized by the U.S. Army Corps of Engineers, will restore and protect over 26,000 linear feet of Little Sexton’s Creek and other headwater tributaries in the Sexton’s Creek watershed in Clay and Jackson Counties and fulfill an obligation of approximately 9,300 EIU advanced stream credits in the Upper Kentucky River Service Area.

Lease Report from the Finance and Administration Cabinet

Senator Webb moved to roll the three lease submittals into one roll call vote, Representative Thomas seconded the motion, and the committee approved without objection.

Mr. Aubrey submitted a Kentucky Department of Highways (KDOH) lease modification, Cabinet for Health and Family Services lease renewal, and new KDOH lease with modification and reported a KDOH emergency lease with modification.

The KDOH lease modification in Jefferson County will reduce the leased area by 33,545 square feet for a total leased area of 151,938 square feet with a \$341,860.52 annual rental cost through June 30, 2025.

The CHFS lease renewal in Bourbon County is under the same terms and conditions; \$13.20 per square foot with a \$109,230 annual rental cost through June 30, 2024.

The KDOH new lease, \$14,000 per month through June 30, 2025, and lease modification in Whitley County involves 37,239 square feet of warehouse space; 2,355 square feet of office space, and six acres of land. Kentucky Transportation Cabinet (KYTC) will surplus its current maintenance facility [adjacent to Firestone Industrial Products which is conducting the \$51 million, 68,000 square foot expansion of its Williamsburg air springs production facility] to the Whitley County Industrial Development Authority pursuant to a memorandum of agreement between KYTC, the Whitley County Industrial Development Authority, and Firestone. This lease will be needed until the anticipated 2025 completion of the new maintenance and salt storage facility [reauthorized in House Bill 241]. The modification will amortize \$84,600 in improvements through the lease expiration including the installation of washout pit with oil and water separator and antifreeze hydrant as well as the construction of a drainage ditch, retention pond, and salt storage areas. Division of Real Properties received one estimate [from the lessor] for the improvements.

Senator Webb moved to approve the three lease submittals, Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

The emergency KDOH lease with modification in Graves County was to house travel trailers [KYTC purchased 200 with House Bill 5 proceeds for the Commonwealth Sheltering Program] for families whose primary residences were majorly damaged, destroyed, or not habitable due to the December 2021 tornadoes. The site has utility hookups for the non-congregate shelters/trailers; therefore the lease was procured through non-competitive negotiation at \$350 per lot per month. The lease is month-to-month, initially for ten lots and modified to add an additional thirty lots.

Office of Financial Management

Kentucky Infrastructure Authority (KIA)

Senator McDaniel moved to roll the Infrastructure Revolving Fund (Fund B) Program loan and Drinking Water State Revolving Fund (Fund F) Program loan into one

roll call vote, Representative Thomas seconded the motion, and the committee approved without objection.

Ms. Williams submitted a Fund B and Fund F loan. The South Woodford Water District requested a \$2.23 million Fund B loan for its \$2.705 million Comprehensive System Rehabilitation project, the rehabilitation of two storage tanks and a pump station as well as the replacement of all water meters. [The district received a \$225,000 Cleaner Water Program grant approved by the committee in March and a \$250,000 American Rescue Plan Act county allocation.] The loan term is twenty years with a two percent interest rate. The city of Cynthiana requested a \$3,370,700 Fund F loan for its \$4.64 million Industrial Park Water Tank and Water Treatment Plant Upgrade project, new 750,000 gallon elevated water storage tank and booster pump station and replacement of failed valves, installation of UV disinfection units on the filter effluent, and various electrical upgrades. [The city received a \$269,300 CWP grant approved by the committee in March and a \$1 million ARPA county allocation.] The loan term is thirty years with a quarter percent interest rate.

In response to Senator McDaniel, Ms. Williams said that all projects with KIA assistance agreements require bid bonds.

Senator McDaniel moved to approve the Fund B and Fund F loans, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

Cabinet for Economic Development

Senator McDaniel moved to roll the three Economic Development Fund (EDF) grants into one roll call vote, Representative Petrie seconded the motion, and the committee approved without objection.

Ms. Smith submitted three EDF grants. The first two are for infrastructure improvements [part of the Kentucky Product Development Initiative (KPDI) program which, administered in conjunction with the Kentucky Association for Economic Development and codified in House Bill 745, uses EDF monies for industrial site upgrades. Recipients are required to match funds on a dollar-for-dollar basis.]. The KPDI improvements were identified by an independent site consultant as prospective infrastructure projects with the potential for future investment/location of an economic development project. The Cabinet for Economic Development (CED) disburses KPDI program funds to the local government entity on a reimbursement basis after review and approval of supporting documentation including invoices, proof of payment, matching funds, and progress report. The \$212,500 EDF grant to the Rowan County Fiscal Court on behalf of the Menifee-Morgan-Rowan County Regional Industrial Development Authority is for the construction of a 150,000 square foot pad ready site on Lot 10 of the MMRC Park. The \$300,000 EDF grant to the Mason County Fiscal Court on behalf of the Maysville-Mason County Industrial Development Authority is for renovations at 1151

Morton Lane [former Federal Mogul facility] in Maysville. The industrial development authorities are providing the matching funds. The \$150,000 EDF grant to the city of Williamsburg on behalf of Firestone will be applied towards the \$51 million expansion referenced in the above new KDOH lease with modification. FSIP and its affiliates are manufacturers of air spring and related products for commercial trucks and trailers, cars, SUVs, light trucks, minivans, motorhomes, buses, etc. The grant agreement includes investment, job, and wage requirements; 250 new full-time jobs for employees subject to Kentucky individual income taxes at a \$29 average hourly wage including benefits, measured annually from December 31, 2025, through December 31, 2028. CED did not require collateral because disbursements will occur after each of the annual compliance measurement dates, with the amount based upon the achieved performance metrics.

In response to Representative Petrie, Ms. Smith explained that the independent site consultant/site selection group selected the submitted KPDI projects prior to the passage of House Bill 745, which included annual reporting requirements. She said she would request the site selection group's reports detailing its grant recommendations from the Kentucky Association for Economic Development.

Representative Thomas moved to approve the three EDF grants, Representative Petrie seconded the motion, and the committee approved by unanimous roll call vote.

Office of Financial Management

Representative Petrie moved to roll the three new debt issues into one roll call vote, Representative Thomas seconded the motion, and the committee approved with no objection.

Mr. Barrow submitted three new debt issues and reported three previous debt issues. The first new debt issue was the Kentucky Housing Corporation (KHC) Conduit Multifamily Housing Revenue Bonds (The Prestonian), Series 2022; \$50 million net proceeds with a \$117.5 million project cost for the acquisition, construction, and equipping of 343 units in Louisville.

The second was the Kentucky Economic Development Authority Revenue Refunding Bonds (Masonic Homes of Kentucky). The debt issue, not to exceed \$75 million, is a refinancing of the [Series 2012 debt issue and five First Midwest Bank commercial loans. The Series 2012 refinanced Series 2009 and Series 2010 debt for construction of the Sam Swope Center on Masonic's main campus in Saint Matthews as well as a \$1.8 million PNC loan for facilities improvements on the Shelbyville campus. The Series 2012 also financed a new entrance to the health care center on the Shelbyville campus and conversion of administrative area to adult day care center on the Saint Matthews campus. The commercial loans were for financing and refinancing facilities improvements on the Saint Matthews, Shelbyville, and Taylor Mill campuses.]

The KHC and KEDFA new debt issues, as conduit debt issues, are applied towards the state's private activity volume cap for the tax-exemption and affect neither the Commonwealth's nor the agencies' financials.

The final new debt issue was the University of Kentucky General Receipts (Forward Delivery) Refunding Bonds, 2024 Series A, a forward refunding [settling the transaction within ninety days of the prior debt's earliest redemption date] of certain 2014 Series A debt. With the increase in interest rates, it is economically feasible to refund only \$21.720 million [of the \$155.435 million eligible to be refunded] of the prior debt. The estimated all-in true interest cost is 4.24 percent with estimated 6.23 percent net present value savings, [or \$1.353 million]. However, interest rates are volatile.

Senator McDaniel stated that tax issues between the City of Taylor Mill and Masonic Homes were ongoing and that the city specifically voted not to exempt Masonic Homes from local ad valorem taxation after the passage of legislation [House Bill 351, 2020 Regular Session].

Representative Petrie moved to vote on the Masonic Homes debt issue separately, Representative Thomas seconded the motion, and the committee approved without objection.

Representative Thomas moved to approve the KHC and UK debt issues, Senator Webb seconded the motion, and committee approved by unanimous roll call vote.

Representative Thomas moved to approve the Masonic Homes debt issue, Senator Webb seconded the motion, and the committee did not approve the debt issue with five nay votes.

The first previous debt issue was the \$85.365 million State Property and Buildings Commission Revenue Bonds, Project No. 126, Series A; general fund appropriation-supported debt to fund \$100 million of projects in various appropriations bills. The all-in true interest cost was just above three percent in the negotiated transaction with Citigroup.

The second was the \$56.875 million Turnpike Authority of Kentucky Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2022 Series A; a road fund appropriation-supported forward refunding for economic savings which priced in September. The all-in true interest cost was 1.561 percent with just over 25 percent net present value savings, or \$17.787 million. The over 25 percent savings was a record for state appropriation-supported debt [the net present value savings for the non-state appropriation-supported \$185.3 million Kentucky Public Transportation Infrastructure Authority refinancing was above 32 percent].

The final was the \$284.435 million KEDFA Hospital Revenue Refunding Bonds, Series 2022 A-1 and Series 2022 A-2 (Baptist Healthcare System Obligated Group) conduit debt issue.

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

Senator Webb moved to roll the two SFCC debt issues with SFCC participation into one roll call vote, Senator McDaniel seconded the motion, and the committee approved without objection.

Mr. Barrow submitted two school district debt issues with SFCC participation to finance new projects. The Jackson Independent (Breathitt County) and Taylor County school districts, neither of which needed an additional tax levy to pay debt service, planned debt issuances totaling \$9.5 million, over 96 percent with locally supported debt service and just under four percent with SFCC debt service participation. The Taylor County Schools was a resubmission as the bids came in higher than anticipated [SFCC guidelines for resubmittal are forty percent increase in debt issuance size].

In response to Representative Freeland, Mr. Barrow stated that SFCC referenced new projects of about \$450 to \$475 per square foot, which are substantially higher, and the Taylor County project was about \$350 per square foot.

Representative Thomas moved to approve the three EDF grants, Representative Freeland seconded the motion, and the committee approved by unanimous roll call vote.

Next Meeting Date and Adjournment

Representative Freeland announced Thursday, June 23 as the next meeting date. With there being no further business the meeting adjourned at 2:45 p.m.