

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**August 23, 2023**

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

The August meeting of the Capital Projects and Bond Oversight Committee was held on Wednesday, August 23, 2023, at 3:00 PM, in Room 131 of the Capitol Annex. Representative Deanna Frazier Gordon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Rick Girdler, Co-Chair; Representative Deanna Frazier Gordon, Co-Chair; Senators Jason Howell and Robin L. Webb; Representatives Keturah Herron, Jason Petrie, and Walker Thomas.

Guests: Kevin Cardwell, Deputy State Budget Director, Office of State Budget Director; Mark Bowman, Executive Director, Office of Kentucky Veterans Centers, Department of Veterans Affairs; Scott Baker, Executive Director, Office of Facility Development and Efficiency, Department for Facilities and Support Services, Finance and Administration Cabinet (FAC); Natalie Brawner, Director, Division of Real Properties, Department for Facilities and Support Services, FAC; Sandy Williams, Executive Director, Kentucky Infrastructure Authority; Katie Smith, Deputy Secretary and Commissioner, Department for Financial Services, Cabinet for Economic Development (CED); Kylee Palmer, Director of Programs Administration, Department for Financial Services, CED; Tracy Thurston, Senior Director of Financial Management, Kentucky Housing Corporation; and, Ryan Barrow, Executive Director, Office of Financial Management (OFM).

LRC Staff: Katherine Halloran and Spring Emerson.

### **Approval of Minutes**

Senator Girdler moved to approve the minutes of the July 31, 2023 meeting. The motion was seconded by Representative Thomas, and the minutes were approved without objection.

### **Information Items**

Ms. Halloran referenced two information items. Pursuant to KRS 45.760(5); the University of Kentucky reported five restricted funds purchases of medical equipment totaling over \$1.9 million, one for UK Good Samaritan Hospital and four for UK Chandler Hospital. UK also reported a \$1.13 million rotary furnace system purchase for the UK

Center for Applied Energy Research with U.S. Army Corp of Engineers' Engineer Research and Development Center federal funding. Pursuant to KRS 45.812(1), through their fiscal agents; three school districts, none of which needed an additional tax levy to pay debt service, reported upcoming debt issues to finance new projects. The school districts were Hart County, Raceland-Worthington in Greenup County, and Williamsburg Independent in Whitley County.

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

Mr. Cardwell submitted a \$212,500 appropriation increase for the Tourism, Arts, and Heritage Cabinet, Kentucky Horse Park Commission, Barn Repair and Upgrades project. The original appropriation was \$10 million in general fund cash and the 2.2 percent increase, from unbudgeted agency restricted funds, will result in a \$10.215 million project total. Due to time constraints relating to the events and activities at the Horse Park, the Division of Engineering and Contract Administration decided to build a traditional steel-structured building rather than a pre-engineered metal building structure. This will cut approximately six weeks off the construction time. That, coupled with an unanticipated extension of tent rentals into the beginning of next season, led to the need for the appropriation increase.

Representative Thomas moved to approve the appropriation increase; Representative Herron seconded the motion, and the committee approved by unanimous roll call vote.

Mr. Cardwell reported the Emergency Repair, Maintenance, or Replacement Project (Amendment) – General Government Cabinet, Kentucky Department of Veterans Affairs, Radcliff Veterans Center Building Repairs, for which no action was required. The project amount was amended from \$5 million to \$6.012 million and the difference will come from the Emergency Repair, Maintenance, and Replacement account. The money will finance the lowest of the three construction bids and the project included replacement of the roof and siding and repairs to the gutters, soffits, retaining walls, fence posts, concrete sealant, and other related issues. The project is funded with \$5,898,500 from the Emergency Repair, Maintenance, and Replacement account; \$20,000 from KDVA's investment income maintenance pool; and \$2,500 from KDVA's agency restricted funds. Repairs are necessary to maintain operations and correct structural defects.

In response to questions from Representative Thomas, Mr. Bowman said the Radcliff Veterans Center opened in 2017. Mr. Baker added that the normal construction warranty period is two years after completion and most of the system failures happened after the expiration of the warranty period.

In response to a question from Representative Petrie, Mr. Baker confirmed that the amended project amount was twenty percent over the original amount and stated that the

needed materials, particularly roofing systems, had a higher inflation rate than most other building materials.

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

Ms. Brawner submitted a lease modification of at least \$50,000, Justice and Public Safety Cabinet, Department of Corrections, Jefferson County, PR-5586. The lease modification was to add forty parking spaces at a facility operated by the Parking Authority of River City at a \$106 per space per month rental rate. The agency currently leases forty-four spaces in that facility at a \$95 per space per month rental rate. The annual rental rate will increase by \$50,880 from \$50,160 to \$101,040.

In response to questions from Chair Frazier Gordon, Ms. Brawner said that DOC staff prefers the PARC facility because of security, including carded access.

Senator Howell moved to approve the lease modification; Representative Thomas seconded the motion, and the committee approved by unanimous roll call vote.

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

Ms. Williams submitted a Clean Water State Revolving Fund (Fund A) Program loan, an Infrastructure Revolving Fund (Fund B) Program loan, and a Cleaner Water Program grant reallocation. Senator Howell moved to roll them into one roll call vote, Co-Chair Girdler seconded the motion, and the committee approved without objection.

The Louisville and Jefferson County Metropolitan Sewer District (Jefferson County) requested a \$1.118 million Fund A loan for its \$233.28 million Paddy's Run Flood Pumping Station (FPS) and Capacity Improvements project. The existing FPS, designed by the U.S. Army Corp of Engineers and put into service in 1953, will be decommissioned. The FPS routinely pumps combined sewer overflows during wet weather events when the Ohio River is elevated, further protecting the public and many critical assets within MSD's sewer system. In addition to providing critical flood protection, the FPS serves as essential wastewater infrastructure for combined sewer overflow control and is a required project in MSD's federal consent decree. This project will also help protect critical infrastructure within Rubbertown; which could have a catastrophic consequence if flooded, releasing volatile chemicals and emerging contaminants into the Ohio River. The loan is funded under the Bipartisan Infrastructure Law's new Emerging Contaminants funding and will receive one hundred percent principal forgiveness.

The City of Bowling Green requested an \$8.616 million Fund B loan for its Bowling Green Municipal Utilities North Industrial Park Force Main project; construction of around 8,500 linear feet of 24-inch force main in the Kentucky Transpark as well as ancillary equipment and an odor control station. The project is one of several in the area being driven by substantial growth. New facilities; including the Envision Battery Plant, Ol Glass

Manufacturing, and Tyson Foods have recently broken ground in the industrial park and the current infrastructure is incapable of meeting future demand. The loan term is twenty years at a half percent interest rate.

The Cleaner Water Program Round Two grant reallocation was for a sewer project in Springfield.

In response to questions from Representative Herron, Ms. Williams said that she would send a copy of MSD's federal consent decree and that the new flood pump station would alleviate odors due to flooding.

Senator Howell moved to approve the Kentucky Infrastructure Authority transactions, Co-Chair Girdler seconded the motion, and the committee approved by unanimous roll call vote.

**Report from the Office of Financial Management  
Cabinet for Economic Development – Economic Development Fund (EDF)  
Grants**

Ms. Smith and Ms. Palmer submitted five Kentucky Product Development Initiative EDF grants. Representative Herron moved to roll them into one roll call vote; Senator Howell seconded the motion, and the committee approved without objection.

The Kentucky Product Development Initiative program administered in conjunction with the Kentucky Association for Economic Development and codified in House Bill 745, uses EDF monies for industrial site upgrades. An independent site selection consultant identified the infrastructure projects as having potential for future economic development opportunities. CED disburses funds to the project applicants through the local government entities on a reimbursement basis upon review and approval of supporting documentation including invoices, proof of payment, matching funds, and progress reports. CED is submitting Round One grants and the consultant is evaluating Round Two grant applications.

The Kentucky Economic Development Finance Authority approved a \$1,580,600 KPDI EDF grant to the City of Somerset on behalf of the Somerset-Pulaski Economic Development Authority for due diligence, infrastructure extensions, site preparation, and road improvements at the Commerce Park. Matching funds are a local grant via the EDA for a \$11,832,500 total project cost. KEDFA approved a \$204,200 KPDI EDF grant to the Bracken County Fiscal Court on behalf of the Augusta-Brooksville-Bracken County Industrial Development Authority to improve waterlines within the Bracken County Industrial Park. Matching funds are IDA monies for a \$408,300 total project cost. KEDFA approved a \$366,600 KPDI EDF grant to the Fleming County Fiscal Court on behalf of the Flemingsburg-Fleming County Industrial Development Authority for a Build-Ready Pad and road improvements within the Industrial Park. Matching funds are a utilities grant and

IDA monies for a \$733,100 total project cost. KEDFA approved a \$1.104 million KPDI EDF grant to the Hopkins County Fiscal Court on behalf of the City of Madisonville to transform a 72-acre property on Rose Creek Road into the largest shovel-ready site in Hopkins County. Matching funds are municipal bonds and the city's sewer and water revenues for a \$21,791,500 total project cost. KEDFA approved a \$148,600 KPDI EDF grant to the Menifee County Fiscal Court on behalf of MMRC Regional Industrial Development Authority for infrastructure improvements at the John Will Stacy MMRC Regional Industrial Park. This was a regional project with support from Menifee, Morgan, and Rowan Counties. Matching funds are a local grant via the IDA for a \$404,800 total project cost.

Co-Chair Girdler moved to approve the five KPDI EDF grants, Senator Howell seconded the motion, and the committee approved by unanimous roll call vote.

**Report from the Office of Financial Management**  
**Office of Financial Management**  
**Kentucky Housing Corporation Debt Overview**

Ms. Thurston provided an overview of the Kentucky Housing Corporation's (KHC) debt structure. Typically, OFM submits KHC multi-family conduit debt issues to the committee for approval that are not KHC obligations. KHC serves first-time home buyers through low-rate mortgages and down payment assistance. From 1973 until about 2010 or 2011 when interest rates declined, KHC used single-family mortgage revenue bonds to fund those mortgages. Over the last decade, KHC pooled its loans and delivered them to the secondary market. With rising interest rates (and rising spreads between taxable and tax-exempt rates) and increased housing costs, KHC believed it was the best option to return to issuing single-family mortgage revenue bonds. Since 1973, KHC issued \$6 billion of single-family mortgage revenue bonds and approximately \$167 million is outstanding as of June 30.

**New Debt Issues**

Mr. Barrow submitted two new debt issues. Senator Howell moved to roll them into one roll call vote, Co-Chair Girdler seconded the motion, and the committee approved without objection.

The first was the Kentucky Housing Corporation Single Family Mortgage Revenue Bonds, 2023 Series A. The estimated issuance amount is \$97.77 million with an estimated net interest cost of just over five percent and is a limited obligation of KHC, payable only by assets under the indenture. The second was the State Property and Buildings Commission Revenue Bonds, Project No. 128 Series A to finance \$200 million of the \$2.861 billion general fund debt supported projects authorized in the 2010 through 2022 appropriations bills. The Office of State Budget Director estimates the cash flow needs for projects on the authorized but unissued debt list for the next six to eighteen months and allocates the bond proceeds based upon the projects' progression. Fitch, in May, and S&P,

in June, upgraded the state's credit rating by one notch. With the lower cost of capital, one can either keep the debt issuance at the same amount; resulting in lower debt service, or increase the debt issuance (if authorized in the budget) with the debt service at the budgeted amounts. The estimated all-in true interest cost is 4.156 percent.

There being no questions, Senator Howell moved to approve the new debt issues, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

**Report from the Office of Financial Management  
School District Debt Issues with School Facilities Construction Commission  
Debt Service Participation – New Projects**

Mr. Barrow submitted six school district debt issues with SFCC debt service participation totaling \$57.01 million for new projects; over ninety percent with locally supported debt service and under ten percent with SFCC debt service participation. Senator Howell moved to roll the six issues into one roll call vote, Senator Webb seconded the motion, and the committee approved without objection.

The school districts, none of which needed an additional tax levy to pay debt service, were Cumberland County, Grant County, Ludlow Independent (Kenton County), Menifee County, Science Hill Independent (Pulaski County); and, Somerset Independent (Pulaski County).

Senator Howell moved to approve the six school district debt issues with SFCC debt service participation, Senator Webb seconded the motion, and the committee approved by unanimous roll call vote.

**Adjournment**

The next meeting is scheduled for September 27, 2023 at 3:00 PM. There being no further business before the committee, the meeting was adjourned at 3:36 PM.