

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

December 19, 2006

The Capital Projects and Bond Oversight Committee met on Tuesday, December 19, 2006, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Elizabeth Tori, Chair, called the meeting to order.

Present were:

Members: Senator Elizabeth Tori, Co-Chair; Representative Mike Denham, Co-Chair; Senators Jerry Rhoads and Dan Seum; and Representatives Robert Damron and Paul Marcotte.

Guests testifying before the Committee: John Hicks, Governor's Office for Policy and Management; Jerry Miller, Commerce Cabinet; Andy Barr, Governor's Office for Local Development; Bob Wiseman and Dall Clark, University of Kentucky; Nancy Brownlee, Finance and Administration Cabinet; and Sandy Williams, Kentucky Infrastructure Authority.

LRC Staff: Nancy Osborne, Shawn Bowen, Kristi Culpepper, Debbie Rodgers, and Lesa Prewitt.

Senator Tori welcomed Lesa Prewitt and introduced her as the new assistant for the Committee. Senator Tori then recognized Debbie Rodgers, the assistant for the Capital Planning Advisory Board, who has assisted the Committee in the absence of an assistant over the last few months.

Senator Tori said Representative Paul Marcotte, a long-standing member of the Committee, would be retiring at the end of the month. She said this would be his last Committee meeting, and she then turned the floor over to Representative Denham for the reading of a resolution in his honor. Representative Denham read the resolution and then made a motion to adopt it by voice vote. The motion was seconded by Representative Damron and approved unanimously by voice vote. Representative Marcotte thanked the Committee. He said the Committee does very important work, and it has been a pleasure working with everyone.

Noting a quorum was present, Senator Tori requested a roll call. Representative Denham made a motion to approve the minutes from the November 21, 2006, meeting. The motion was seconded by Senator Seum and approved by voice vote.

Senator Tori requested that Nancy Osborne, Committee Staff Administrator, review the correspondence and information items included in members' folders. Ms. Osborne said there were three items of correspondence: a follow-up report from the Kentucky Community and Technical College System regarding the sale of bonds associated with the modification of the lease-purchase agreement for the system office in Versailles; information from the Finance and Administration Cabinet in response to the Committee's request regarding the Grocery Store Replacement project for the Green River Lake State Park; and the Kentucky Lottery Corporation's monthly report for October.

Ms. Osborne then briefly reviewed articles in the monthly Staff Update. She said the University of Kentucky has broken ground on the Student Health Facility, the Department of Military Affairs is breaking ground on the Paducah Readiness Center, and the Kentucky Society of the American Institute for Architects recently awarded architectural awards to three construction projects in Kentucky: the University of Kentucky Center for Rural Health in Hazard, the University of Louisville Ekstrom Library Addition, and the Natural Science Building at Northern Kentucky University.

The last item Ms. Osborne brought to the Committee's attention was an October article in the *Bond Buyer* that the Internal Revenue Service has decided to study swap agreements due to exponential growth in the tax-exempt derivatives market and active marketing of swap agreements by bond underwriters. She noted that the Committee has had considerable interest in this area.

Ms. Osborne said the Finance and Administration Cabinet had planned to update the Committee today on the proposed exchange of state property between the Commonwealth and the City of Pineville, but requested that this update be delayed until a future meeting. The City of Pineville has a new mayor elect, and the Cabinet wishes to gather additional information on the project before reporting on it.

Senator Tori asked Bob Wiseman, Vice-President for Facilities Management, University of Kentucky (UK), and Dall Clark, Director of Capital Project Management, UK, to discuss two project reports submitted by the University. Mr. Wiseman said the University is requesting the Committee's approval to consolidate certain authorities for the Biological/Pharmaceutical Complex Building project. He said the General Assembly funded the Biological/Pharmaceutical Complex Building project in two phases, authorizing \$40 million in the 2005 session and \$79,892,000 in the 2006 session. He said over the past year, the University has been doing programming and schematic design work. During the same period of time, the University developed and presented the top twenty business plan, with a significant emphasis on obtaining major growth in research grant dollars. He said a critical component of obtaining these grants is to maximize as soon as possible available research space.

Mr. Wiseman said at this time the University is requesting to consolidate appropriations to several infrastructure pools and the facility construction authorizations from 2004-06 and 2006-08 for the biological/pharmacy project. This will allow the University to add one floor of shell space and shell another half-floor for future research activity. He said the overall project authorization would be approximately \$132,792,000. He explained that UK is using this approach because it will allow them to seek federal grant dollars to finish out that floor. Mr. Wiseman then presented the Committee with a drawing of the building as it is to be completed, and said it was the standard type of architecture that you see on major research buildings.

Representative Denham made a motion to approve the consolidation of project authorizations for the Biological/Pharmaceutical Complex Building project. The motion was seconded by Senator Rhoads and passed unanimously by roll call vote.

Mr. Wiseman then reported that the University plans to use the Construction Management-at-Risk project delivery method for the Biological/Pharmaceutical Complex Building project that was previously discussed. No action was required for this item.

Senator Tori asked John Hicks, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), to present the monthly project report submitted by the Finance and Administration Cabinet. Mr. Hicks introduced Jerry Miller, Commissioner of the Department of Parks, who joined him at the table.

The first item Mr. Hicks discussed was the allocation of the \$60 million Commerce Cabinet - Department of Parks, Parks Development Pool appropriated by the 2006 General Assembly. There were 21 allocations from the pool in excess of \$400,000 each, the threshold specified in the budget bill for reporting projects from pools to the Committee. He said one allocation went to establish a minor campground improvements pool for projects costing less than \$400,000 each.

Mr. Hicks said this \$60 million development pool followed the \$35 million Parks Renovation Pool appropriated by the 2005 General Assembly that financed hundreds of small renovation projects vital to maintain the quality of the park system. He said the \$60 million pool will assist in developing the park system, retaining the quality and the business at the state parks, and expanding the services and the facilities.

Mr. Hicks said included in the Parks Development Pool are funds for upgrades at Lake Barkley and Kentucky Dam Village lodge complexes, two of the most visited parks in the state. Funds from the pool have also been allocated to complete the golf course at General Burnside, to provide matching funds for EP Tom Sawyer Conference Center, and to help renovate and develop the Benham Lynch property in Southeast Kentucky. He said among the most notable allocations from the pool are a series of commitments to infrastructure financing that will be used in conjunction with potential private

development at a number of parks, including Yatesville Lake, Mineral Mound, Lake Malone, and Kincaid. The state will utilize a two-step process to solicit the private development. A Request for Information (RFI) is issued to access potential interest, and based upon the responses received, a Request for Proposal (RFP) is then prepared to solicit bids for the project. He said four of the RFPs are due out in the next quarter for this fiscal year.

Mr. Hicks said there is a substantial campground upgrade element to this \$60 million pool, split out according to major and minor upgrades. He said the Parks Department had solicited the services of a consultant to advise the Cabinet as to the best investment that they could put into the campgrounds since a lot of the campgrounds currently are not modernized for RV camping. The Cabinet and the Department are trying to decide which campgrounds could receive some of this investment in order to be modernized where the Parks Department could continue to take advantage of the reservation system initiated in the past year, and expand its campground business. Funds from the minor campground upgrade pool will be used to address life safety and code update issues at numerous parks.

Commissioner Miller said \$15 million of the \$60 million pool will be dedicated to providing infrastructure for private development of accommodations at seven state parks that currently do not have lodging. He said the second largest allocation was for the renovation of Kentucky Dam Village and Lake Barkley, at \$3,475,000 and \$5,540,000 respectively, the two largest state resort parks in terms of accommodations. He said construction is underway on the lodges. One-half of the lodge rooms at Kentucky Dam Village will be completed and, when that is done, they will close the other half for renovation. At Lake Barkley, because of the antiquated heating/ventilating air-conditioning system, lodge rooms will have to close until completion scheduled for March.

Commissioner Miller said the third largest element is funding for campground improvements. He said \$2,700,000 will be used for minor campground upgrades, and \$5,800,000 will be used for major campground upgrades. The minor campground pool will be used for safety, sanitation, convenience, and enhancement of campsites at all 31 Kentucky state park campgrounds, and the major campground pool will be used to improve some of the busiest campgrounds. He said Levi Jackson and Greenbo State Parks have money from other sources for their projects, but it is not an adequate amount. He added that there would be some major renovations and additions at Taylorsville Lake, Green River, and Carter Caves.

Commissioner Miller said \$6 million will be used to upgrade the acoustics at the Lake Cumberland Conference Center and Dale Hollow State Park received \$5,400,000 for cottage development. He noted that Dale Hollow has perhaps the best golf course and is the most profitable, but the park has no cottages.

Commissioner Miller said a total of \$3.8 million from the pool is allocated for land acquisitions: \$2.5 million for Big Bone Lick, and \$1.3 million for Fort Boonesborough, John James Audubon, Blue Licks Battlefield, and Cumberland Falls. He said they have appraisals ordered on potential acquisitions at these parks.

Senator Tori asked Commissioner Miller to explain the \$2,500,000 allocation in pool funds for equipment. Commissioner Miller said \$2,500,000 has been allocated for replacement of old outdated equipment such as tractors and mowers for all the parks. He said the older equipment is expensive to maintain and utilizing old equipment jeopardizes employee safety. He said they have purchased approximately one-half of the equipment this year, and the remainder will be purchased next year.

Senator Tori asked Commissioner Miller if all of the campgrounds charge a standard fee for the use of their facilities. Commissioner Miller said the fees vary based on the product they are delivering and the season. He said in the off-season the fee at all parks is \$12 per night, and during the prime season, the fees range from \$17 to \$21. He said there was no uniform fee because each state park offers different amenities. As an example, he said Cumberland Falls does not have a view and the campsites are very old and short for recreational vehicles of today that are 45 to 55 feet long. He said they try to match the price and the value.

Commissioner Miller said 15% of the campground sites will be significantly upgraded and another 25% of the sites will be upgraded, but not as high as the super-deluxe campsites. He said these campground sites will be given a higher value and the fees will increase. The remainder of the sites, 60%, will not be subject to a rate increase and the value will be kept at the same level.

In response to another question from Senator Tori, Commissioner Miller said the price increases will not cause the state parks to price themselves out of business. He said people will pay for quality and value. He added that the consultant said the super-deluxe campsites are the first to be chosen because they have a patio, deck, or furniture.

Representative Denham thanked Commissioner Miller for his dedication to improving the state park system and to the Commonwealth. He also thanked him for mowing the grounds surrounding the wooden covered bridge in Fleming County, an historical landmark. He then asked Commissioner Miller the percentage of completion of these projects. Commissioner Miller said they were not far along with the completion of the projects authorized from the \$60 million Parks Development Pool. He said money is still being expended on many of the projects authorized under the \$35 million Parks Renovation Pool. Many of these projects are still in various phases of issuing contracts, identifying consultants, and design. He said other than the equipment purchases, the Kentucky Dam Village and Lake Barkley projects are the furthest along. He said the

architect for the Lake Cumberland Conference Center has been chosen, and once the design is completed, the contract will be bid. Commissioner Miller said they were much further along with projects authorized from the \$35 million Parks Renovation Pool. He said contracts have been issued on an overwhelming majority of that money.

Representative Denham asked Commissioner Miller what percentage increase in park visitors could be expected once these projects are completed. Commissioner Miller said that it was difficult to say, but by just having a more competitive product they would see a substantial increase in visitors to the campgrounds. He said the occupancy at Lake Barkley and Kentucky Dam Village has been sliding for years due to the deterioration of those facilities. He said there will be a period where confidence will have to be earned and that will be done through press releases and some targeted mailings.

In response to another question from Representative Denham about why funds hadn't been allocated as initially planned for the Benham Lynch and the Buckhorn Lake marina projects, Commissioner Miller said the Benham Lynch project is being addressed with funds from the \$60 million pool, and that the primary issue with the marina at Buckhorn was the lake level. The lake needs to be dredged and funds for doing that are being sought. He said they have tried to get the Corps of Engineers to raise the level of the lake for the winter pool but it seems unlikely to be successful due to the long study processes that have to be completed.

Commissioner Miller then thanked Representative Denham for his kind words, and acknowledged that Mike Crane of his staff was the person responsible for mowing the property in Fleming County.

Senator Tori asked Commissioner Miller to present to the Committee at its next meeting an updated list of the \$35 million Parks Renovation Pool. Commissioner Miller responded that he would.

Mr. Hicks next reported two allocations from the Community Development Fund Projects authorization. The 2006-08 budget allocated \$96,308,000 in FY 2007 and \$8,453,000 in FY 2008 for Community Development Fund projects. The fund is administered by the Governor's Office for Local Development (GOLD). Both grants being reported were in excess of \$400,000, the threshold for reporting projects to the Committee.

The first grant reported was a \$500,000 grant to the City of Cynthiana to assist with the construction of a pump station that will serve the Cynthiana/Harrison County Industrial Park. The project has a scope of \$850,000 and the City of Cynthiana will administer this project.

In response to a question from Senator Tori, Mr. Hicks said this was not an emergency project.

Mr. Hicks then reported the \$500,000 Community Development Fund grant to the City of Beattyville to assist in a cost overrun for the City-County Water Treatment Plant Construction project. To date, the project has received state funding of \$1,000,000 in the form of a 2003 coal development grant. The project has a total scope of \$5,096,900, and the City of Beattyville will administer the project.

Representative Denham asked how the GOLD application process was proceeding and how many of those projects have been approved through GOLD. Mr. Hicks said he did not know about the account, but there was an application process to initiate the memorandum of agreement process between GOLD and the Kentucky Infrastructure Authority for those pools and the intended recipient for those funds. Mr. Hicks said because of the way the debt service was appropriated for these projects, not all of the funds were available early in this fiscal year. However, he said they were able to arrange some cash flow management to release some of the funds. He said because of this process they have been moving forward on a number of bond-funded projects and General Fund financed projects.

Mr. Hicks said GOLD works with the recipient of the grant on the scope of work, the draw down schedule, and the memorandum of agreement. After those agreements are reported to the Government Contract Review Committee, GOLD initiates action with GOPM to make funds available. Mr. Hicks said all of the intended grant recipients were contacted early in the fiscal year and the grant process was made clear, and is going smoothly.

Andy Barr, General Counsel, GOLD, said in the case of these two particular projects being reported today, grants were needed to supplement funding for already existing projects. The funds will be used to cover project cost overruns.

In further response to the question from Representative Denham, Mr. Barr said GOLD has received applications from various communities in a timely manner so that the projects could be developed and completed. He said all the grant recipients were initially notified early on in the process that they were the recipients of these line-item allocations. He said the local governments are then required to write a resolution accepting the funds and the scope of work. Mr. Barr said GOLD then negotiates the terms of the memorandum of agreement when the scope of work is consistent with the language in the line-item. GOLD then enters into a memorandum of agreement with the grant recipient for further processing of the grant. This item did not require Committee action.

Senator Tori introduced Nancy Brownlee, Director for the Division of Real Properties. Ms. Brownlee reported a lease modification for the Personnel Cabinet (PR-

3876) in Franklin County. She said the Cabinet plans to complete renovations to its facility to enhance security and control access to certain areas of the building. The renovations will cost \$13,487, and will be amortized over the remaining term of the Cabinet's lease (June 30, 2010). No action was required for this item.

Senator Tori next welcomed Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA). Ms. Williams said KIA is requesting approval of two new loans. The first request was for a Fund A loan for the Northern Madison County Sanitation District to construct a regional wastewater treatment plant. She said the Sanitation District is requesting a \$1.5 million increase to its existing \$6,606,622 Fund A loan. The increase stems from a change of funding sources and is not a result of project changes or cost overruns. If approved, the revised loan amount will be \$8,104,622.

The second KIA loan request was an \$11,235,775 Fund A loan for the City of Nicholasville. The funds will be used for the construction of a new interceptor sewer and to improve the Jessamine Creek wastewater treatment plant.

Representative Damron made a motion to approve the two KIA loans. The motion was seconded by Representative Denham and passed unanimously by roll call vote.

Ms. Williams concluded by saying members' folders included information regarding 22 grants to coal producing counties, 19 grants to tobacco producing counties, and two community development grants. No action was required for these reports. Ms. Williams then congratulated Representative Marcotte on his upcoming retirement.

The next report was provided by Ms. Terri Fugate, Deputy Executive Director, Office of Financial Management (OFM). Ms. Fugate said there was one follow-up report included in members' folders for a previously approved bond issue: Kentucky Housing Corporation Housing Revenue Bonds, 2006 Series U (AMT), 2006 Series V (Taxable), and 2006 Series W (Taxable) (Variable Rate), \$90,000,000. This bond issue was approved by the Committee at its November 2006 meeting, and no further Committee action was required.

Representative Denham asked Ms. Fugate if the swap rate on these bonds was 5.72% and if the bonds were taxable. Ms. Fugate said there were three different series in the \$90 million issue, one being the Series W, which was taxable. She said there was a swap against that series, and the fixed rate is the 5.318%.

Representative Denham asked why these bonds were not tax free. Ms. Fugate responded that there is often a portion of the bond issue that needs to be taxable for the Kentucky Housing Corporation. She said there is an Alternative Minimum Tax portion and the V and the W Series were both taxable portions.

Ms. Fugate presented one information item. She said the Kentucky Higher Education Student Loan Corporation (KHESLC) entered into a revolving line of credit between \$40 million to a maximum of \$120 million. She said KHESLC has had a line of credit before but they re-bid and went with JP Morgan Chase. It is a one-month LIBOR with 17.5 basis points on top of that, and currently that is about 5.5%.

Ms. Fugate presented six new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Greenup County, Jackson Independent (Breathitt Co.), Mercer County, Montgomery County, Owsley County, and Pike County. She noted that the Pike County school bond issue included Urgent Need School Trust Funds of approximately \$7 million, and the Mercer County school bond issue included a growth nickel that was levied in August 2005.

A motion was made to approve the new school bond issues with SFCC debt service participation. The motion was seconded and passed unanimously by roll call vote.

Ms. Osborne said there were two locally-funded school bond issues submitted to the Committee for review this month: Kentucky Interlocal School Transportation Association and Walton-Verona Independent (Boone Co.). All disclosure information has been filed, and no further action on the bond issues was required.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 1:50 p.m.