

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

January 16, 2007

The Capital Projects and Bond Oversight Committee met Tuesday, January 16, 2007, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senator Elizabeth Tori, Co-Chair; Senators Jerry Rhoads and Dan Seum; and Representatives Steven Rudy and Jim Wayne.

Guests testifying before the Committee: John Osborne, Western Kentucky University; John Hicks, Governor's Office for Policy and Management; Jim Abbott and Nancy Brownlee, Finance and Administration Cabinet; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Economic Development Cabinet; and Terri Fugate, Office of Financial Management.

LRC Staff: Nancy Osborne, Shawn Bowen, Kristi Culpepper, Bart Hardin, and Lesa Prewitt.

Representative Denham introduced and welcomed Representative Steven Rudy. He said Representative Rudy is a new member of the Committee and will replace Representative Paul Marcotte, who retired in December 2006. Representative Wayne then introduced his student intern, Abbie Ramser, from Spaulding University School for Social Work.

Senator Tori made a motion to approve the minutes of the December 19, 2006, meeting. The motion was seconded by Representative Wayne and approved by voice vote.

Representative Denham asked Nancy Osborne, Committee Staff Administrator, to review the correspondence and information items included in members' folders. Ms Osborne said there were four items of correspondence: quarterly construction reports from the Finance & Administration Cabinet, Murray State University, University of Kentucky, University of Louisville, and Western Kentucky University; a quarterly status report on court facility construction and renovation projects from the Administrative Office of the Courts; correspondence from Deborah Clayton, Commissioner, Department of Commercialization and Innovation, reporting a grant exceeding \$400,000 from the High Tech Investment Pool (US WorldMeds LLC); and the Kentucky Lottery Corporation's financial report for November 2006.

Ms. Osborne noted that Northern Kentucky University is seeking delegation from the Finance Cabinet to manage its own capital construction program, and will begin submitting a separate quarterly construction report in April.

Ms. Osborne then briefly reviewed articles in the monthly Staff Update. She noted that the Department of Parks has awarded a \$25,000 contract to Staves Consulting, Inc. in Billings, Montana to identify economically self-sustaining enhancements at the following state parks: Levi Jackson, Carter Caves, Greenbo, Kincaid Lake, Natural Bridge, Kenlake, My Old Kentucky Home, Kentucky Dam Village, and Blue Licks. [Last month the Committee received a report from Department of Parks Commissioner Miller about the initiatives to look at the state parks and the campgrounds specifically to add value to existing properties.]

Ms. Osborne said members' folders also included a list of proposed legislation relating to the jurisdiction of the Capital Projects and Bond Oversight Committee, and the updated debt issuance calendar.

Representative Denham asked John Osborne, Associate Vice President of Campus Services and Facilities, Western Kentucky University (WKU), to discuss the WKU South Campus Parking and Dining Improvements project. Mr. Osborne said this project was authorized in the 2004-06 budget at a scope of \$7 million (Agency Bonds). He said WKU is requesting approval for a scope increase in the amount of \$1,550,000 for this project. The scope increase will be funded with \$1,050,000 in restricted funds and \$500,000 in private funds to be donated by the Greenview Hospital in Bowling Green. If approved, the revised project scope will be \$8,550,000.

Mr. Osborne said the primary objectives of this project are to expand the academic capacity of the community college, increase the parking, and install dining improvements. He said the first phase of the project, expansion of the parking, was completed in November 2005 at a cost of \$625,000.

Mr. Osborne said if the University's request for a scope increase is approved, the funds will be used to award the construction contract and add 46,450 square feet of academic space and faculty offices to the community college building. The academic space will include 23 classrooms and specialized space for the Health Sciences and Nursing Programs, including laboratories for biology and chemistry, as well as computer labs.

Mr. Osborne said the dining improvements phase is not currently within the scope of work and will have to be deferred to a later date. He said funding the cost of the construction for the expanded academic capacity and the added cost for the specialized nursing space has taken priority over the dining improvements. The University has

certified that the required funding for this scope increase is available. Mr. Osborne said the University expects to complete this project in January 2008.

Representative Denham asked if price increases in the construction market contributed to the need for a scope increase. Mr. Osborne said the scope increase is due primarily to the increase in construction costs and the specialized lab space needed for the nursing program. He explained that a medical simulation lab is being constructed for the nursing program and will be funded through the private donation. The lab is a set-up where hospital room stations are completely reproduced in a classroom-type environment. The cost of the lab has added significantly to the cost of the project.

Senator Tori asked if the University had the funding necessary to fund the dining improvements. Mr. Osborne said eventually they will have the funding available to complete the dining improvements, but at this time they do not, given that they have already increased the project scope to the maximum 15% that is allowed.

In response to questions from Senator Tori, Mr. Osborne said the dining improvements are estimated to cost approximately \$500,000 to \$600,000. He said the current project account does include a 10% contingency to fund change orders or other unanticipated increases.

Representative Wayne asked why the WKU Community College is not under the jurisdiction of the Kentucky Community and Technical College System (KCTCS). Mr. Osborne said at the time KCTCS was formed Western had a community college already in place, and it was decided to leave it as is.

Senator Seum asked if there was a community college in Bowling Green other than this one. Mr. Osborne replied that KCTCS administers the Owensboro Community & Technical College in Bowling Green. He said the two community colleges are not a duplication of programs or degrees, and KCTCS focuses primarily on technical and vocational education in Bowling Green.

Senator Rhoads made a motion to approve the project. The motion was seconded by Senator Seum and passed unanimously by roll call vote.

Representative Denham asked John Hicks, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Jim Abbott, Commissioner, Department for Facilities and Support Services, to present the monthly project report submitted by the Finance and Administration Cabinet. Mr. Hicks presented the Committee with an updated full report of the allocations from the \$35 million Parks Renovation Pool that were financed from the 2004-2006 budget. He said the list included over 170 individual projects, almost all of which are underway or completed. He said a less detailed project list was reported to the Committee in August 2005. No action was required for this item.

Mr. Hicks next reported that the Department of Natural Resources, Division of Forestry will acquire approximately 2,200 acres and 48,000 feet of streams in Metcalfe County to be known as the Marrowbone State Forest. He said the Department will utilize a \$2 million federal grant from the Forest Legacy Program, as well and \$532,000 from the Kentucky Heritage Land Conservation Fund.

Representative Wayne made a motion to approve the project. The motion was seconded by Senator Rhoads and passed unanimously by roll call vote.

Representative Denham asked Nancy Brownlee, Director for the Division of Real Properties, to discuss three lease reports. Ms. Brownlee first reported an emergency lease in Franklin County (PR-4823) for the Environmental and Public Protection Cabinet (EPPC). Ms. Brownlee said EPPC occupies office space at Reilly Road consisting of six buildings and 108,789 square feet. She said three of the six buildings are located in the 100-year floodplain and have experienced numerous issues with flooding and associated indoor air quality complaints from staff. In September 2006, water damage occurred in the three buildings due to a catastrophic rain event that overwhelmed the drainage system in that complex. She said EPPC has now requested emergency permanent replacement space under KRS 56.805 for relocation of EPPC staff housed in Building Three. The emergency lease approach was taken based on the need to find immediate replacement space for agency staff and equipment.

Ms. Brownlee said alternative replacement space was located in the former Unisys building, which is adjacent to the Fair Oaks Complex on Fair Oaks Lane. The new lease includes 23,176 square feet of office space at a rental rate of \$8.00 square foot excluding utilities and janitorial with a term expiring June 30, 2012. She said the Unisys building was selected based on its immediate availability, its close proximity to Reilly Road and the Capital Plaza Tower where EPPC also occupies space, its rental rate that is lower than the average Frankfort rental rate, and the length of the proposed lease term.

Senator Seum asked Ms. Brownlee if this was a temporary lease. Ms. Brownlee said this lease will serve as permanent replacement space.

In response to questions from Senator Seum, Mr. Brownlee said with this action, three divisions, the Office of the Commissioner, the Division of Compliance Assistance, and the Division of Enforcement Control, will be relocated to the Unisys building and the lease for Building Three at Reilly Road will be cancelled. She said there is the possibility that the remaining EPPC offices at the Reilly Road location will be moved to space at Fair Oaks that would occur after the newly renovated State Office Building comes online; the Fair Oaks space will be freed up by the relocation of other state agencies to the State Office Building.

Senator Seum asked if the flooding experienced at the Reilly Road location was a result of being in the floodplain, or some other occurrence. Ms. Brownlee said the flooding was from the deluge that occurred in September 2006 when it rained six inches in just a few hours. She said EPPC had implemented flood prevention measures, but it did not prevent the flooding. Additionally, EPPC staff has reported numerous air quality complaints.

Representative Wayne asked Ms. Brownlee if the new office building was in a floodplain also. Ms. Brownlee responded that the Unisys building was not in the 100-year floodplain. Mr. Abbott added that the Unisys building is in the 200-year floodplain, about the same elevation as the two buildings at Fair Oaks that are leased by the state. A portion of the Unisys building's parking lot is actually in the 100-120 year floodplain.

Mr. Abbott added that all state leasing contracts have a thirty-day cancellation clause and, in this case, the state exercised its right to cancel the portion of the lease contract for EPPC Building Three that was vacated.

Senator Tori asked what the dollar value of the loss was when Building Three was flooded last September. Ms. Brownlee said she would review the records to get a total figure. Mr. Abbott added that it costs approximately \$35,000-\$40,000 to relocate equipment, and said there was an immeasurable loss in terms of staff productivity since staff were doubled up in other offices.

Ms. Brownlee noted that EPPC was checking with the Department of Insurance to see if the temporary equipment storage space is covered under their insurance policy.

Senator Tori asked if the state had insurance coverage for the flood damage. Mr. Abbott responded that he believed they had full coverage for the damage. He said they are in the process of trying to recover that payment. No action was required by the Committee for this project.

Ms. Brownlee next discussed a lease modification report for the Cabinet for Health and Family Services (PR-3099) in Breathitt County. She said this lease modification will amortize \$3,471 for the conversion of a smoking room to office space and construction of new office space to accommodate additional staff. Ms. Brownlee said the cost of the renovations will be amortized over the remaining lease term (June 30, 2010). No action is required by the Committee for this project.

Ms. Brownlee next discussed a lease modification report for the Department of Labor (PR-1069) in Franklin County. She said this lease modification will amortize \$60,698 for substantial renovations to the agency's leased space. The improvements are needed to increase the amount of usable office space to accommodate the consolidation of the Division of Worker's Compensation with the Department of Labor Office of

Occupational Safety and Health (PR-3575). She said in addition to the improvements, the lessor agreed to install carpet and paint at his expense and extend the lease terms for two years. Once the improvements to the facility are completed, PR-3575 will be cancelled, in effect saving the state \$74,925 annually in leasing costs. Since the modifications exceed \$50,000, action by the Committee was required.

Representative Rudy made a motion to approve the lease modification report. The motion was seconded by Senator Seum and passed unanimously by roll call vote.

Representative Denham next welcomed Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA). Ms. Williams said KIA is requesting approval of three new loans and three grants. The first loan presented was a Fund A loan to the City of Bowling Green in the amount of \$5,130,190 for the construction of sewer line extensions. The loan has a term of 20 years with an interest rate of 1%.

Ms. Williams next discussed a Fund B loan in the amount of \$3,038,700 and a Fund B grant for \$550,000, both for the City of Jamestown. Proceeds from the loan and the grant will be used to expand the City's water treatment plant. The loan has a term of 30 years with an interest rate of 0.40%.

The remaining three projects Ms. Williams presented were KIA assistance agreements for water and wastewater projects to support the expansion of Custom Foods in the Bath County Industrial Park. The projects included: a Fund B Loan for \$338,997 to the City of Owingsville. The loan has an interest rate of 0.40% and a term of 30 years. The proceeds from the loan will be used to assist the City with construction of a new wastewater treatment plant; a Fund B Grant of \$50,000 to the City of Owingsville to assist the City with the upgrade of its existing telemetry system; and a Fund B Grant of \$250,000 to the Bath County Fiscal Court to construct a new water storage tank.

Representative Denham asked if Custom Foods plans to hire additional staff after this expansion. Ms. Williams said the loan and grants will help Custom Foods expand and meet the company's wastewater needs. In addition, the assistance will help the company keep its existing jobs and increase jobs as well.

Senator Tori made a motion to approve the KIA loan and grant agreements. The motion was seconded by Senator Seum passed unanimously by roll call vote.

Ms. Williams concluded by saying members' folders included information regarding 20 grants for coal producing counties, 21 grants for tobacco producing counties and one community development grant.

Representative Denham next asked Ms. Katie Smith, Deputy Commissioner for the Department of Financial Incentives, Cabinet for Economic Development, to report on a proposed Economic Development Bond (EDB) grant.

Ms. Smith reported a proposed grant of \$200,000 to the City of Winchester for the benefit of Sekisui S-LEC America LLC. The grant will be used to assist Sekisui in the construction of a 76,000 square foot manufacturing facility on 23 acres in Winchester. In return for the grant, the company will be required to create 80 permanent full-time jobs for Kentucky residents within three years of completion of construction and occupancy of the facility, and they will be required to pay these jobs an average hourly wage of not less than \$25.44 excluding benefits. They will also be required to maintain the 80 jobs paying these wages at the facility for an additional three years. If Sekisui fails to create or maintain the required number of jobs, they will be required to pay the City of Winchester the sum \$625 for each job not created or maintained. Also, if they fail to pay the average hourly wage of \$25.44, they will be required to pay a pro rata portion of EDB grant based on a formula to be included in the agreement.

Representative Denham noted this project had a total cost of \$44 million, yet the facility is only 76,000 square feet. He asked why this was the case. Ms. Smith explained that the facility contains very expensive specialized equipment that will be operated by skilled workers.

The second EDB grant Ms. Smith presented was a \$125,000 grant to the Hart County Fiscal Court for the benefit of Sister Schubert's Homemade Rolls, Inc. She said Sister Schubert's is constructing a new 92,000 square foot manufacturing facility on 25 acres in Horse Cave, Kentucky. This project entails the construction of the necessary building, fixtures, and equipment to enable the company to manufacture, package and distribute frozen dinner rolls. EDB funds will be used to help off-set the cost associated with the project.

Ms. Smith said in consideration of this grant, the company will be required to create 298 permanent full-time jobs for Kentucky residents within three years of completion of the project. Sister Schubert's will be required to pay employees an average hourly wage of not less than \$11.16 excluding benefits, and they will also be required to maintain the 298 jobs paying these wages at the facility for an additional three years. Under the terms of the grant agreement, if Sister Schubert's fails to maintain or create the jobs, they will be required to pay the Hart County Fiscal Court the sum of \$104.87 for each full-time job not created or maintained. Also, if they fail to pay the average hourly wages of \$11.16, they will be required to pay a pro rata portion of the EDB grant based on a formula to be included in the agreement.

Ms. Smith said with both projects, if the companies close, shut down, or cease operations at any time, the full amount of the grant will be repayable.

Representative Denham asked who will own these buildings after construction is complete. Ms. Smith said buildings will be leased to the company by a local entity and at the end of the lease term the company will own the buildings.

Representative Wayne said the Sekisui project is very encouraging and positive. In reference to the Sister Schubert's EDB project, Representative Wayne said the state is subsidizing and catering to a company that does not even paying a living wage. He said he realized the state's poor condition as far as education, poverty levels, and job skills is unfortunate, and does present a challenge.

Senator Seum asked how the hourly wage for Sister Schubert's (\$11.16) was formulated. Ms. Smith said this figure is an average, based on what the company is paying for skilled, semi-skilled, or managerial positions for all employees. She said the 298 full-time jobs will be management level and lower. Ms. Smith said the project also received incentives under the Kentucky Industrial Development Act (KIDA) and, as such, the company must meet KIDA-defined minimum wages for the county. She said she was not aware of the minimum wage KIDA had set for Hart County, but the minimum wage for any county according to that wage schedule would be \$7.

Representative Wayne made a motion to approve the EDB projects. The motion was seconded by Senator Rhoads and passed unanimously by roll call vote.

The next report was provided by Terri Fugate, Deputy Executive Director, Office of Financial Management. The first item Ms. Fugate presented was a new bond issue report: Kentucky Housing Corporation (KHC) Single Family Housing Revenue Bonds, 2007 Series C, D, and E, or additional series as may be designated in an amount not to exceed \$100 million. The proceeds of this bond issue will provide mortgage financing for first-time low and moderate income Kentucky homebuyers.

Representative Wayne made a motion to approve the new bond issue. The motion was seconded by Senator Tori and was passed unanimously by roll call vote.

The next item Ms. Fugate presented was a preliminary new bond issue report for the State Property and Buildings Commission (SPBC) Revenue and Revenue Refunding Bonds, Project No 87 in a principal amount not to exceed \$300,000,000. She said these bonds will refund and convert to permanent financing \$100 million of outstanding 2005 Asset/Liability (ALCo) Project Notes; refund and convert to permanent financing \$5 million of outstanding 2005 ALCo Agency Fund Project Notes; refund \$4.335 million of outstanding SPBC Revenue and Refunding Bonds, Project No. 57; and provide permanent financing for projects authorized in the current and previous budgets.

Representative Wayne noted that the project list for this bond issue report was provided after the deadline for receipt of meeting materials. (The statutory deadline is two weeks before the Committee meeting.) He explained that the Committee members receive agency submissions and LRC staff analyses one week prior to the meeting and need time to review the materials. He requested that information such as this be provided to staff in a more timely fashion in the future. Ms. Fugate pointed out that when they prepared the preliminary new bond issue report they were comfortable with the refunding of \$100,000,000 of General Fund bonds. She added that OFM thought there would be an opportunity for more new money projects and as they received more EMARS information and information from the Budget Office the project list grew from about \$160,000,000 to \$278,000,000. She said these projects either have expended money or in the near future will expend money, so they are ready to permanently finance them through Project 87.

Senator Rhoads made a motion to approve the new bond issue. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Senator Rhoads explained his Yes vote. He said this bond issue will allow for a better trained workforce, in that it funds several higher education technical center projects which will train and equip Kentucky's workforce to command higher paying jobs. He said a better trained workforce will also lure new industry to the state and allow for the expansion of additional industry.

Ms. Fugate next presented one follow-up report for a previously approved bond issue: Western Kentucky University General Receipts Bonds, 2006 Series A, \$10,000,000. This bond issue was approved by the Committee at its November 2006 meeting, and no further Committee action was required.

Ms. Fugate presented nine new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Corbin Independent (Laurel Co.), Daviess County, Estill County, Kenton County, Magoffin County, Pendleton County, Science Hill Independent (Pulaski Co.), Scott County, and Taylor County.

Ms. Fugate noted that the Science Hill Independent School District passed the nickel growth tax for its school bond issue last fall, but the others did not require any local tax increase.

Senator Seum asked for clarification of the debt service funding for the school bonds. Ms. Fugate said bonds issued by the School Facilities Construction Commission for the most part are a combination of state General Fund supported debt service and local debt service. She said school districts that issue 100% locally funded bonds receive assistance from the School Facilities Construction Commission in the issuing of its bonds, but there are no state funds to pay the debt service, it is purely 100% local money.

Representative Wayne made a motion to approve the school bond issues. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Ms. Osborne said there were three locally-funded school bond issues submitted to the Committee for review this month for the Kentucky Interlocal School Transportation Association (KISTA) and the Daviess County School District (2). She said all disclosure information has been filed, and no further action on the bond issue is required.

With there being no further business, the meeting adjourned at 2:00 p.m.