ECONOMIC DEVELOPMENT AND FINANCE
STANDING COMMITTEE MINUTES
Monday, October 10, 2022

The meeting of the Economic Development and Finance Standing Committee was held on Monday, October 10, 2022, at 5:00 p.m. The following members were present: Commissioner Burroughs, Chairman; Commissioners Davis, Townsend, McKiernan, and BPU Board Member Haley. Commissioner Stites was absent. The following officials were also in attendance: Debbie Jonscher, Acting Chief Financial Officer; Patrick Waters, Deputy Chief Counsel; Monica Sparks, Acting UG Clerk; and Brittnie MacDonald, UG Clerk's Office.

Chairman Burroughs said before I call the meeting to order, I want to announce that some committee members, staff, and the public are attending remotely via Zoom as well as on-site. All participants joining by phone should mute their phones when not speaking to avoid background noise. During the meeting, please make sure that you announce yourself by name and title every time you speak so the public that is observing knows who is speaking. This is critical given the number of remote participants and is the current guidance from the Kansas Attorney General.

The public is allowed to participate by Zoom or submit comments by email prior to the meeting. Those comments will be included in the record of this meeting. The public may also indicate their intent to provide remote public comments by contacting the Clerk's Office by 5:00 p.m. the Thursday before the meeting. The public also will have the opportunity to provide brief comments either by telephone or via Zoom from the 5th Floor Conference Room of the Municipal Office building.

Chairman Burroughs called the meeting to order. Roll call was taken and all members were present as shown above. There are no revisions to tonight's agenda.

Approval of standing committee minutes from August 8, 2022. **On motion of Commissioner Townsend, seconded by Commissioner McKiernan, the minutes were approved as submitted**. Roll call was taken and there were five "Ayes," Haley, Davis, Townsend, McKiernan, Burroughs.

COMMITTEE AGENDA

Item No. 1 – 212007…RESOLUTION: BPU KDHE LOAN AMENDMENT

Synopsis: A resolution authorizing BPU to obtain a loan from the Kansas Public Water Supply Fund administered by the KDHE, submitted by Debbie Jonscher, Acting Chief Finance Officer, & Angela Lawson, Deputy Chief Counsel.

Debbie Jonscher, Acting Chief Financial Officer, said this is a resolution for the Board of Public Utilities to amend their loan agreement with KDHE. I'm going to go ahead and just turn this over directly to Lori Austin, Chief Financial Officer for the Board of Public Utilities, for her to make introductions.

Lori Austin, Chief Financial Officer, BPU, said I'll just go ahead and make introductions of who I have with us tonight: Bill Johnson, General Manager; Angela Lawson, Legal Counsel with BPU; Phillip Brown, Senior Civil Engineer; Chris Stewart, Director of Civil Engineering; Steve Green, Executive Director of Water.

We're before you tonight to ask for an amendment to our existing KDHE water supply loan. I'd like to give you just a little bit of background on the original loan. The original loan was $25M. Back in March 2021, our BPU Board approved the resolution to move forward the loan to the UG for approval. April 2021, the UG Commission did approve the resolution to go forward with issuance of the loan. We issued the loan in October 2021.

Where we are at today is, we've had some cost increases on these existing projects. KDHE has allowed us to amend the loan to include those increases. I'd like to ask Phillip Brown to kind of go through our short presentation on the projects associated with the loan.

Update Project Cost & Amended Loan Amount

Projects to Complete under Original $25,000,000	Original Cost Estimate	Current Estimate	Difference
•7 MG Argentine Reservoir - Asset Life – 100 years	$10,000,000	$14,500,000	$4,500,000
•Replace 24 inch Main at 12th Street & Kansas River - Asset Life – 75 years	$2,500,000	$6,500,000	$4,000,000
•Electrical Improvements at NWTP & Pumping Stations – Asset Life – 40 years	$1,500,000	$2,500,000	$1,000,000
	Subtotal	**$23,500,000**	
Projects with Amendment			
•T-Main 90th and Parallel to I 435 & France Family Drive – Asset Life – 75 years	$2,000,000	$4,000,000	$2,000,000
•Replace Aging Distribution Mains - 15 miles – Asset Life – 75-100 years	$9,000,000	$12,000,000	$3,000,000
Total Project Cost Summary	$25,000,000	**$39,500,000**	$14,500,000

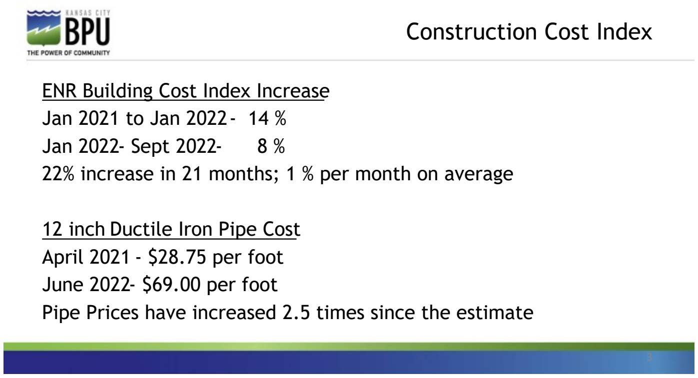
Phillip Brown, Senior Civil Engineer, BPU, said I'm going to be very brief. Some of the projects we identified back in 2021 when we were doing the design in 2020, we have seen significant cost increases. Those projects, in particular, as are shown on the screen, is a seven million gallon Argentine reservoir, which is already under construction. You go out there now, the old reservoir is already gone. This project will be there for the next hundred years.

Another project, which is critical to supplying that reservoir, is our 24" water main across the 12th Street Kansas River. During a study from an engineering firm, as they were examining the river bottom, we discovered that our 24" water main, due to the derogation of the river, was exposed. So, this one became a necessity. We have to do it. Again, this particular water main will last for another 75 years.

Electrical improvements at our Nearman Water Treatment Plant. Every day, electronic components are reaching the end of life. This is critical to make sure we can pump water.

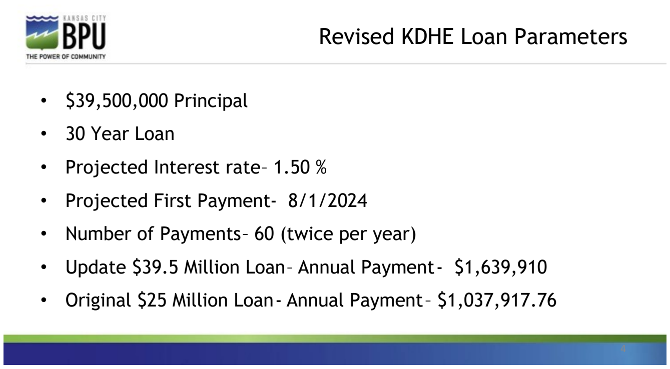
Those top three were in the original loan when we came before you in 2021. We also included the two at the bottom, the transmission main from 90th & Parallel to France Family Drive. That's our water tower. We need to have another route for water, redundancy. Also, replacing our aged and distribution mains. We want to hit about 15 miles. This really impacts—this is the last mile that really gets to the customer. The biggest thing on this one is a lot of times if we have leaks or breaks, when we have to cut open the street, that's really where our citizens, our ratepayers, really notice. By replacing these aged and distribution mains now in a cost effective manner, we reduce those impacts of people's lives over the next 75 – 100 years.

Back in 2021, we did this original estimate. As Ms. Austin said, it was $25M. As you know, as I know, the last time I went to McDonald's, the price of food has increased drastically. Because of that, we're seeing the price around $39M to actually do the same amount of work, which is why we're here before you today. We went from $25M to $39M. That last column all the way to, which is my right, shows you the difference in those estimates compared to what we originally thought.



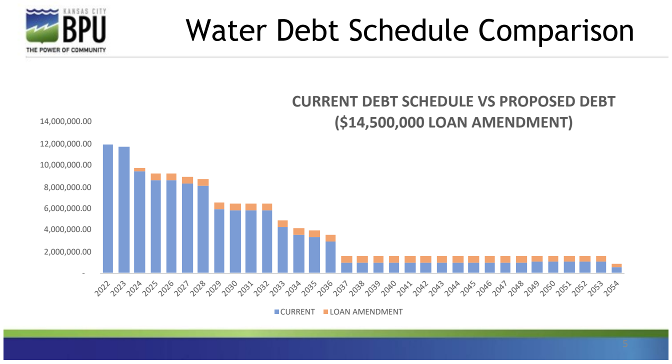
How did we get here? I am an engineer. I do like numbers. We look at the engineer record. As you know, this is just showing our cost increase. Again, I'm going to be quick so just bear with me here. We had a 14% increase in our building cost index from January 2021 to January 2022. We did this back in September; another 8%. So, in essence, a 22% increase over 21 months.

Just for example, we install 12" ductile iron pipes. This is a cost that I track all the time. In April, I was able to order pipes for $28.75 a foot. Back in June we went to do a project; it was $69.00; 2.5 times the cost. This is really impacting the amount of work we can do.

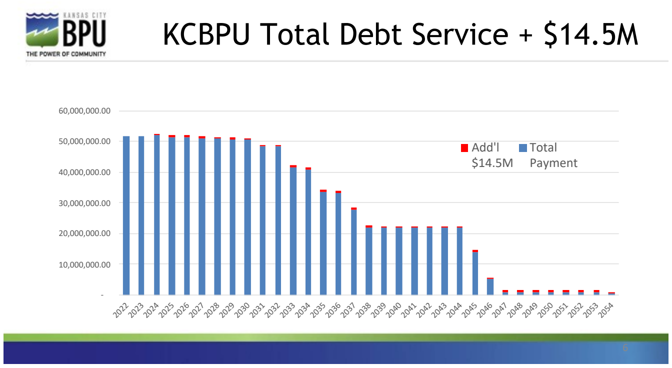


How does this impact our loan? Like I said before, the principal, we're going to increase to $39M. It's a 30-year loan. It is a projected rate. I don't know if you've had a loan recently, but we will receive this rate at 1.5%. If we went out for a new loan, for instance, just recently we contacted the state of Kansas. They're over 2% and it's only projected to continue to increase. So, doing this would not only save our ratepayers money today, but also our children in the future because it is a 30-year loan.

When is our projected first payment? That's going to be August of next year. It is a semi-annual payment so we pay it twice a year. Previously, I'll jump to the very bottom, our annual payment was about a million dollars, and now it's $1.6M, so a $600,000 increase. How does that really impact us? Probably just ask the financial people for this one.



Ms. Austin said this looks at our water only debt. The overall debt and the impact of the $14.5M increase is what we call the loan amendment there in the orange color. That's the impact over that time. We can take our loan out 30 years. It begins in 2024. It will carry out until 2054.



I went ahead and added a slide here as to the overall utility debt and the impact of the $14.5M, the overall utility. Water principal and interest payments are secured under the revenue from the Water Division.

I'll ask if you have any questions.

Chairman Burroughs asked, committee, any questions?

Commissioner Davis said, Ms. Austin, if you can kind of explain, and I'm fairly new to this arrangement between the relationship between the Board of Public Utilities and the Unified Government as it relates to issuing debt. In other words, why couldn't BPU just unilaterally do this themselves?

Angela Lawson, Legal Counsel, BPU, said that's a great question. The BPU has its own governing body, as you know, but there are certain things that it cannot do on its own. It can acquire property, but it cannot dispose of real property without the Commission approval. The Commission has to approve the debt. The Board of Public Utilities approves the rate increases. That's by charter ordinance because it's an administrative agency of the Unified Government. It is secured with the water revenue. This would be secured with the water revenue. It's not secured with the Unified Government property taxes.

Commissioner Davis said okay because I was (inaudible). The next question is kind of how we can pay for the—if we can go to—just one more question chair, if we can go to the previous. As I understand this—I just want to make sure I get this correctly—the bars that we are seeing, that is the amount, that is what the BPU is expected to pay year after year for the entirety of our bond portfolio for water? **Ms. Austin** said this one is strictly on water. It is the full principal and interest payments associated with the debt that we currently have.

Commissioner Davis said go to the following slide, the one we were just on. This would be the exact same thing, but now we're including electricity. **Ms. Austin** said exactly.

Commissioner Townsend asked, are the projects that are supposed to be covered by the original loan and the amendment in progress or is it waiting funds? **Mr. Brown** said some aspects of the projects are in progress, but not all of them. Started some of the design work. For example, the reservoir is already under construction. For the 24" main, we've got some of the preliminary design and we're getting closer on those things.

Commissioner Townsend asked, so without the additional funding, you simply can't go forward with these? **Mr. Brown** said with the current funding, we'll get the top three. We will be able to finish the Argentine Reservoir, the 24" main, and electrical improvements, but we will not be able to finish the two at the bottom which are the aging distribution mains and the transmission main.

Commissioner Townsend asked, what would be the consequences not moving on right now? **Mr. Brown** said if we do not do the transmission main, that reduces our amount of redundancy for water suppling. If something was to happen to our main transmission main along Parallel, we wouldn't be able to supply water efficiently. For the aging distribution mains, if we do not replace those, we're already having significant impacts throughout the city, whether that is amount of loss water that we're paying for, that's just going down the drain, but also, it's just the impact to the service life to customers. They deserve not to have their water service interrupted for us to repair a water main.

Commissioner Townsend said so, we're already having problems. **Mr. Brown** said yes. We're definitely already having problems, but we did this before. We did this a few years ago and we noticed a huge increase just in reducing the number of problems by doing this cycle project.

Commissioner Davis asked, could we go back to the chart graph? Has there been any discussion by the Board on how this would be paid for? I guess what I'm getting at is, by us approving this, this will not mean a higher rate at which BPU customers are given to receive water. The rates will stay the same. You all have just stretched out the repayment of the loan a little bit further. Is that what the current plan is or how is the revenue going to take care of this increase?

Ms. Austin said the plan is that we would take care of it in current rates. We are undergoing a cost of service study on both our electric and water side. We'll fold this into that plan as well. Without any rate increase, we wouldn't be able to handle this increase.

Commissioner Davis said gotcha. So, there would have to be a water rate increase in order to afford this increase and loan amount? **Ms. Austin** said no, I don't believe so. We are going through that cost of service study. If we didn't approve the $14.5M, we would also put that in our cost of service study to be able to afford it over time, which probably would be a higher interest rate.

Mr. Brown said if I can add something to that quickly. If you look at all the capital projects, no different than the Unified Government projects. A lot of what we do are paid for by cash and that cash is generated by the revenue we bring in. But, there's also things that have and make sense to finance over a period of time. So, we go out and take advantage of the low interest loan that the state offers. On some of these projects, it may have 75 to 100 year lifespan, and if we're doing that year by year and paying cash, that would increase the need for rates even faster because here we're talking about just paying for the annual loan payments, not for the entire cost of the project year by year. That would be a huge cost increase for the utility, which would end up going directly back to our citizens, if we have to pay everything through our cash financing piece.

Unified Government goes out for bonds. Those bonds are 25, I would imagine, 30-year bonds. Utility goes out for that type of thing on the electric side. The water side, we go out for a revolving loan for the state of Kansas. A little bit the same thing, it's just here's infrastructure that's going to last for a generation, and we spread the cost out over time to help us get through having to manage our way through all of our capital improvement plans year after year after year.

Commissioner Townsend said based on what's been shared already with the Commission and the Commission has undertaken surveys of our infrastructure, not just roads as we've heard Mr. Brown talk about supplying water to the community and needs to do that, I would move to approve the loan as requested.

Action: **Commissioner Townsend made a motion, seconded by Commissioner Davis, to approve the loan as requested**.

Chairman Burroughs said thank you for the motion and the second. First and foremost, I have to ask if there's any members of the public that have sent any comments. **Ms. Sparks** said no comments received.

Chairman Burroughs said I do have one other question. I noticed that it's $39.5M is the request, but the original construction costs were $23.5M. I can't find my paperwork here. The numbers didn't add up to the $30..they only added up to $38; oh, the current estimate now is $23.5M. I'm assuming that $1.5M has been spent somewhere else and you're rolling that over into the refinancing.

Ms. Austin said if you look at the very bottom, all five of those projects were in our original submission. You see $25M at the bottom there. I think the breakout of the slide was, if we didn't get the increase, these three projects at the top would be what we would be spending the majority of that $25M. If we get the $14.5M additional, we'll be able to complete all of these five projects.

Chairman Burroughs said so, you're saying that initially, the current estimate of $23.5M on those is different than the original $25M from the project? The numbers just added up differently to me.

Ms. Austin said the original cost estimate, that very first column, those five projects were $25M. That's what we went out for the original loan. Then, after they've done the cost estimate, the additional $14.5M would be, under the current estimate, would be the original $25M plus the current estimate, for the $39.5M. We're just saying if we didn't get the $14.5M, we would only be able to do those three projects at the top, plus a little bit of the $1.5M remaining.

Chairman Burroughs said the numbers just didn't add up. That's what I was trying to get at. You have a current estimate of $23.5M plus $14.5M is $38M. So, there's a $1.5M difference. **Ms. Austin** said oh, I see. **Chairman Burroughs** said so, I was just curious. Are you refinancing maybe contractual work, engineering work? Is there a part of the project that's already started that you're refinancing?

Mr. Brown said that additional $1.5M that you're talking about that's missing from the $25M, we would, for example, like those small diameter mains that we have that we want to do 15 miles, we wouldn't be able to do the full 15. We'll have $1.5M left over that we could put toward those items, for instance. We're not refinancing that $1.5M. It's not enough to finish those two projects at the bottom in full totality.

Chairman Burroughs said I'm still a little confused. The numbers just didn't add up. That's all it was. Debbie, maybe you can help me.

Ms. Jonscher said you're looking at the sheet and how the numbers go down. **Chairman Burroughs** said I'm looking at the sheet as presented, yes. **Ms. Jonscher** said for the top three projects, they were showing that the current estimate was $23.5M. With the two projects at the bottom, if you'll notice the current estimate, the total is $16M, not $14.5M. So, your extra $1.5M is down there. The total current estimate does add to the $39.5M.

Chairman Burroughs said that explains it. I was just curious as to why the numbers didn't add up when you look at them across the sheet.

Chairman Burroughs said we have a motion and a second. I'd ask the Clerk to please call roll.

Roll call was taken and there were five "Ayes," Haley, Davis, Townsend, McKiernan, Burroughs.

Chairman Burroughs said congratulations for 1.5%. That's tremendous.

Item No. 2 – 212010…RESOLUTION: AMENDING BROTHERHOOD BANK MULTI-PURPOSE COMMERCIAL PROJECT INDUSTRIAL REVENUE BONDS

Synopsis: A resolution amending Resolution No. R-30-22 previously adopted determining intent to issue industrial revenue bonds in the amount not to exceed $28,000,000 to provide sales tax exemption on the Brotherhood Bank (753 State Ave. & 736 Minnesota Ave.) multi-purpose commercial project, consisting of office uses, multi-family units, and parking facilities for the benefit of KDG LLC, submitted by Katherine Carttar, Director of Economic Development.

Patrick Waters, Deputy Chief Counsel, said this item is related to the renovation of the Brotherhood Bank building. You saw this several months ago, and it received approval from the standing committee and the full Commission.

The developer contacted us and realized that they had not included the cost of labor in their estimate. Sales tax on new construction is already excluded under Kansas law. It is not excluded for a renovation project; therefore, including it within this IRB resolution would allow the developer to receive that exemption on the cost of labor. They have requested that we amend the previous resolution, which had the industrial revenue bonds at $12M, to $28M to accurately reflect the full cost of their project.

I would just remind the Commission; the Unified Government is under no obligation with these bonds. These will be paid for—these will be purchased by the developer, so we're not at risk for any of this additional request.

Chairman Burroughs said if I may, I would just state that this is normal practice across the community in the metropolitan area in reference to the sales tax and IRBs. Any questions from the committee? Seeing none, I'll ask the Clerk if there were any members of the public on line? **Ms. Sparks** said no comments received; no hands raised.

Chairman Burroughs asked, is there anyone in the audience that wishes to speak to this? Let the record show, no one step forward. I'd entertain a motion.

Action: **Commissioner McKiernan made a motion, seconded by Commissioner Townsend, to approve as submitted**.

Chairman Burroughs said we have a motion and a second. I'd ask the Clerk to please call roll.

Roll call was taken and there were five "Ayes," Haley, Davis, Townsend, McKiernan, Burroughs.

ADJOURN

Chairman Burroughs entertained a motion to adjourn.

Action: **Commissioner McKiernan made a motion to adjourn.**

BPU Board Member Haley said a point of information. Last meeting, there was some discussion regarding the budget, regarding the PILOT, the payment in lieu of taxes with the BPU. Several questions were asked around. I was just wondering if there was any follow-up in terms of the length of the PILOT, its inception. It was a roundtable discussion. I certainly recall that. I'm just wondering if we could still entertain, at some point, getting some more information, disseminate the inception, the length, and the way the PILOT, the payment in lieu of taxes, is collected because the BPU does dovetail with our overall budget.

It was mentioned last meeting; just wanted to bring it up again and see if we can kick the can down the road a little bit more in lieu of where we are on that, but just to bring it up again, if I might, Mr. Chair.

Chairman Burroughs said I would just state that we've worked on the budget. The budget has been approved for the year. The PILOT discussion, I think where some of the confusion may be with the PILOT is a PILOT is used in economic development and then there's a PILOT issued by the BPU. The unfortunate side of that is they're both called a PILOT. I think there's some confusion in reference to that. I would ask staff to maybe get back with us in the next handful of days and give Senator Haley some guidance; BPU Board Member also, to give him some guidance as to what we need to do in reference to the questions he may have.

Mr. Waters said we'd be happy to do that. **BPU Board Member Haley** said I appreciate that.

Action: **BPU Board Member Haley seconded the motion to adjourn that was made by Commissioner McKiernan.**

Chairman Burroughs said we do have a motion and a second for adjournment. Clerk, please call roll.

Roll call was taken and there were five "Ayes," Haley, Davis, Townsend, McKiernan, Burroughs.

The meeting was adjourned at 5:28 p.m.
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