



Lexington-Fayette Urban County Government
OFFICE OF THE MAYOR

Linda Gorton
Mayor

June 10, 2026

Secretary Holly Johnson
Kentucky Finance and Administration Cabinet
200 Mero Street, 5th Floor
Frankfort, KY 40622

Commissioner Matt Sawyers
Department of Local Government
100 Airport Road, 3rd Floor
Frankfort, KY 40601

Dear Secretary Johnson and Commissioner Sawyers,

The Lexington-Fayette Urban County Government is pleased to submit this public-private partnership agreement for the design, build, and financing of a new Government Center for consideration and approval by the Kentucky Local Government P3 Board. A third-party analysis conducted by Commonwealth Economics has found that our P3 approach will save LFUCG approximately \$2.2 million in costs over the traditional project delivery model, accelerate delivery by approximately 12 months, and provide meaningful protections against cost overruns through a guaranteed maximum price contract.

The Need for a New Government Center

LFUCG has operated out of a converted hotel at 200 East Main Street for roughly four decades. The building was never designed for permanent governmental use. Over those years, it has accumulated more than \$55 million in identified deferred maintenance needs and has a deteriorating parking structure. LFUCG has spent millions in recent years simply to maintain basic operations. Each additional year of delay exposes the City to continued seven-figure annual maintenance costs on a facility that does not meet modern accessibility, safety, security, or public engagement standards.

This project has been studied methodically over six years, across five mayoral administrations, and is supported by a 2023 Program and Space Needs Study and Downtown Market Study. The current

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plan represents a right-sized, fiscally disciplined approach to a long-overdue reinvestment in the City's core civic infrastructure.

The Project

The proposed Government Center is located at 200 West Vine Street, a 1.7-acre downtown site that includes an existing office building and a recently remodeled 286-space parking garage. The site was selected through an open, competitive RFP process (RFP #51-2024) that produced multiple proposals, involved over ten selection committee meetings, and included proposal presentations and site visits.

The project involves the acquisition and adaptive reuse of the existing building, including a substantial interior renovation and a modest addition, to create approximately 100,000 square feet of modern civic space. The design prioritizes accessible, welcoming public areas on the first two floors – including a new council chamber roughly twice the current size – along with modernized employee workspace, improved security, and sustainability features intended to reduce long-term operating costs. The total estimated project cost is approximately \$86.7 million, which includes site acquisition (\$23.6 million), construction and design (\$47.5 million), contingency (\$7.1 million), and soft costs including financing, additional contingency, and developer fees (\$8.4 million).

The P3 Structure

On December 2, 2025, the Lexington-Fayette Urban County Council voted to authorize the Mayor to enter into a public-private partnership with the Lexington Opportunity Fund (the "Developer") for the design, build, and financing of the Government Center. The P3 utilizes a Design-Build-Finance delivery model in which:

- LFUCG contributes \$30 million from its existing Capital Reserve Fund toward the acquisition of the site and initial construction costs;
- The Developer secures a private construction loan to finance the balance of the construction, and its design-build team (architect/engineer and general contractor) delivers the project under a to-be-negotiated guaranteed maximum price (GMP);
- Upon completion, the Developer is expected to issue tax-exempt Certificates of Participation (COPs) as permanent financing, structured as a lease-back to LFUCG with estimated annual payments of approximately \$3.4 million over 35 years; and

LFUCG retains all operations and maintenance responsibilities, avoiding the need to pay a private operator's risk premium.

The P3 agreement documents preserve LFUCG's flexibility to adjust its financing approach, including the option to purchase the completed facility and issue General Obligation Bonds directly if market conditions warrant. LFUCG intends to work closely with its Financial Advisor (Baird) and Legal Advisor (FBT Gibbons) to determine the optimal permanent financing structure at the appropriate time.

The P3 Agreement Documents

The P3 agreement, for purposes of KRS 65.028, includes the following documents, all of which were solicited and negotiated through the P3 RFP process:

- **Development Agreement:** governs the design-build scope, GMP process, timeline, contingency, and Developer obligations.
- **Purchase and Sale Agreement:** governs LFUCG's acquisition of the property from the Developer.
- **Ground Lease:** LFUCG ground-leases the site back to the Developer during the construction and financing period.
- **Facilities Lease:** establishes the lease-back structure under which LFUCG makes annual payments to service the COP financing, and includes LFUCG's option to purchase the facility and take full ownership at any time.

Key Findings of the P3 Study

In conformity with 200 KAR 5:355 § 2, LFUCG designated Commonwealth Economics to conduct the required written determination analyzing the qualitative and quantitative aspects of the proposed P3 delivery. That study, enclosed with this submission, finds:

- **Faster Delivery.** The Design-Build-Finance P3 structure is expected to save approximately 12 months compared to a traditional Design-Bid-Build procurement by combining the design and construction solicitations into a single process and allowing construction to begin before final designs are complete.
- **Cost Savings.** The P3 structure is estimated to produce approximately \$2.2 million in cost savings through reduced change orders, avoided inflation, and design-build collaboration; savings that would not be available under a traditional delivery model.
- **Risk Transfer.** The GMP contract allocates significant construction cost risk to the Developer and its team, protecting LFUCG from cost overruns that would otherwise be borne by the City under a traditional approach. Industry data indicates that design-build projects experience 3.8% less cost growth and 1.7% less schedule growth than traditional delivery.
- **Financing Flexibility.** The P3 structure provides LFUCG with flexibility to time the permanent financing to market conditions and to select between COP and G.O. Bond structures depending on which is most advantageous at the time of issuance.
- **Feasibility.** LFUCG can afford an annual lease payment of up to \$3.5 million without making tradeoffs in other areas of the City budget. The estimated payments are currently below this amount. LFUCG finds this Project is economically and financially feasible under KRS 65.028(12)(a)(2).

Statutory Threshold and Board Approval

The total cost of this Project exceeds 30 percent of LFUCG's general fund revenue receipts, thereby requiring approval of the Local Government P3 Board under KRS 65.028(12). LFUCG respectfully requests that the Board review and approve this agreement.

Written Determination Under 200 KAR 5:355 § 2

On September 25, 2024, prior to issuing RFP #51-2024, I made a written determination that it is most advantageous for LFUCG to utilize the public-private partnership method of procurement under KRS 65.028 to deliver this Project. In making that determination, all appropriate departments and divisions of the government were consulted, the regulatory analysis required by 200 KAR 5:355 was undertaken, and I designated the Division of Procurement and the Department of Finance to lead the additional quantitative analysis required under the law. A copy of that original determination is enclosed.

Since that time, LFUCG has solicited and evaluated proposals through a competitive process, successfully negotiated this P3 agreement, and completed both the quantitative analysis and an independent qualitative assessment of the prescribed regulatory factors through the enclosed P3 Study. Based on that work, I hereby reaffirm and renew my determination that the P3 delivery method is more advantageous than traditional procurement for this Project pursuant to 200 KAR 5:355 § 2. The enclosed P3 Study, prepared by Commonwealth Economics Partners, addresses each of the factors prescribed by the regulation.

Enclosed Documents

The following documents are enclosed for the Board's review:

1. This cover letter;
2. P3 Study from Commonwealth Economics;
3. Index Memorandum identifying the location of statutory and regulatory requirements within the enclosed documents;
4. Development Agreement, which includes the RFP and Developer's Proposal as exhibits; Purchase and Sale Agreement;
5. Ground Lease;
6. Facilities Lease; and
7. Mayor's Written Determination dated September 25, 2024.

Conclusion

This project represents a careful, deliberate, and fiscally responsible approach to solving a problem that five successive mayors and decades of study have identified: LFUCG's current government center is not sustainable. The P3 structure enables the City to deliver a modern, right-sized

civic facility faster, at lower risk, and with greater cost certainty than would be available through traditional procurement, while preserving the flexibility to optimize financing as market conditions evolve.

LFUCG has worked closely with its legal and financial advisors throughout this process to ensure compliance with Kentucky's P3 law. We are hopeful the Finance Cabinet, Department for Local Government, and Local Government P3 Board will find that this submission meets the standards for approval.

We welcome any questions and are prepared to present to the Board at its earliest convenience. Please do not hesitate to contact my office or LFUCG's legal counsel at FBT Gibbons if we can provide any additional information.

Sincerely,

A handwritten signature in black ink that reads "Linda Gorton". The signature is written in a cursive, flowing style.

Linda Gorton
Mayor