

SPBC Bond Counsel & SM/FA RFP Questions & Answers

Request for Proposals (“RFP”) to Serve as Bond Counsel to the Kentucky State Property and Buildings Commission During Fiscal Year 2014

None

Request for Proposals (“RFP”) to Serve as Senior Managing Underwriter and/or Financial Advisor to the Kentucky State Property and Buildings Commission During Fiscal Year 2014

1. **Section III** - A. - For structuring analysis purposes, what portion of the \$100mm in anticipated issuance should we assume is tax-exempt and what portion would be taxable?

ANSWER: Assume the entire issuance to be tax-exempt.

2. **Section III** A. - For clarification, aside from providing a fee proposal, what (if anything) is the Commonwealth requesting us to prepare/analyze from a structuring standpoint in preparing our response to this question?

ANSWER: For each opportunity identified in Section III A (General Fund Supported Revenue Bonds, Agency or Road Fund Supported Revenue Bonds, and Refunding Bonds) the Commonwealth would like to see a synopsis of the Underwriter’s financing structure, including a clear indication of the spread assumptions, outlined in the body of the proposal. Preliminary cash flows, a sources and uses schedule, a debt service schedule, a bond statistics page, a pricing schedule, and any additional relevant schedules you think necessary should be provided in an Appendix to the proposal.

3. **Section III** - A. - What per bond COI and UD assumptions would you like us to use for the maturity-by-maturity refunding and 25bps rate sensitivity analysis requested?

ANSWER: Please use the Costs of issuance identified in section III A 1.

4. Is it the OFM's intention to budget and appropriate debt service at 7.5% (tax-exempt) and 8.5% (taxable) over a twenty year period and to use the portion of the budgeted/appropriated amount not required to service debt to redeem bonds **or** is it the OFM's intention to simply retire the debt as early as possible using the budgeted/appropriated amount?

ANSWER: Neither. The appropriation of debt service at 7.5% (tax-exempt) and 8.5% (taxable) is for authorized but unissued debt and new project debt service appropriation requests. Once bonds are issued for the specific projects, debt service will be requested at actual amounts in future budgets. Unused budgeted debt service for authorized but unissued General Funds debt will be lapsed to the General Fund at the end of each fiscal year.

5. With respect to the Costs of Issuance question, does OFM provide the \$5 Takedown amount simply as a point of reference **or** as the Takedown component of the Underwriter's Discount to be used in determining the responder's fee proposal?

ANSWER: Please use a \$5 takedown as a component in the Underwriter’s fee.

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6. With regard to **Question III**. A. 1 relating to hedging strategies, the ISDA August 2012 Dodd-Frank Protocol institutes certain safe harbors between entities that will allow Swap Dealers to discuss future derivative ideas with End Users. This includes anything from executing new swaps, restructuring existing ones, or unwinding. Unfortunately, without these safe harbors, Swap Dealers may be hesitant to discuss swap ideas with the Commonwealth. ISDA worked with a few of the industry's legal firms to draft a standard safe harbor side letter agreement that can be executed by the End User (the Commonwealth), the Swap Dealer, and the Qualified Independent Representative (a certain registered swap advisor). Once the agreement is executed, and the safe harbors are in place, Swap Dealers would then be able to include potential interest rate swap strategies in response to the Commonwealth's questions regarding hedging. Would the Commonwealth be in a position to execute the side letter in advance of the RFP due date?

ANSWER: The Commonwealth will not be in a position to execute a standard safe harbor side letter agreement prior to the RFP due date. Please disregard the request to discuss potential interest rate swap strategies.

7. **Section III** of the RFP asks that we discuss any interest rate hedging techniques. Would the Commonwealth like respondents to discuss derivatives and swaps? Has the Commonwealth completed the ISDA swap protocol that went into effect on May 1, 2013? It is the position of this firm General Counsel that we are not allowed to discuss derivatives or swaps with a client unless they have completed the ISDA swap protocol or signed a letter allowing us to discuss derivatives. It is our preference that we be allowed to discuss these topics as part of our comprehensive plan of finance, but, in order to do so, we need to know if the Commonwealth has completed the protocol or is willing to sign the letter. We have attached a copy of the Dodd-Frank Safe Harbor Letter that, if countersigned by the Commonwealth, will allow us to discuss swaps with you as part of this RFP and thereafter."

ANSWER: See answer 6

8. Has the Commission completed the Dodd-Frank ISDA Protocol allowing firms to provide tailored derivative solutions in response to the RFP?

ANSWER: See answer 6

9. For the structuring question, what portion of the debt should we assume is issued on a taxable and tax-exempt basis?

ANSWER: See answer 1