

KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
JANUARY 12, 2016

The Kentucky State Property and Buildings Commission (“SPBC” or the “Commission”) meeting was called to order on Tuesday, January 12, 2015 at 1:00 p.m. ET in Room 182 of the Capitol Annex by William M. Landrum III, Secretary of the Finance and Administration Cabinet (“FAC”) and Acting Chair to the Commission. Other members present were Lt. Governor Jenean Hampton; Mark Bunning, proxy for Governor Matt Bevin; Edgar C. Ross, State Controller, Office of the Controller; Tim Back, proxy for Erik Dunnigan, Acting Secretary, Cabinet for Economic Development (“CED”); John E. Chilton, State Budget Director, Office of the State Budget Director; and Holly McCoy-Johnson, proxy for Attorney General Andy Beshear.

The Office of Financial Management (“OFM”) Staff Members Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission, Sandy Williams, Deputy Executive Director, John Brady, Liz Columbia, Denise Pitts, Steve Starkweather, Bethany Couch and Tammy McCall.

Other Guests Present: Katherine Halloran, Legislative Research Commission; Ray Griffith, Legislative Research Commission; Jonathan Eakin, Legislative Research Commission; Carla Wright, Office of the State Budget Director; and Adrienne Southworth, Lt. Governor's Office.

Secretary Landrum asked for a roll call, verified with staff that a quorum was present and that the press had been notified of the meeting.

Secretary Landrum introduced the first item for business, which was approval of the minutes of the November 13, 2015 meeting. A motion to accept the minutes of the November 13, 2015 meeting was made by Mr. Ross and seconded by Ms. McCoy-Johnson. Motion **CARRIED**.

Secretary Landrum introduced Resolution **2016-01**:

RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR THE PURPOSE OF FINANCING A PROJECT AND REFUNDING CERTAIN PRIOR BONDS; SETTING FORTH THE TERMS AND CONDITIONS UPON WHICH SAID REVENUE BONDS ARE TO BE ISSUED AND PROVIDING FOR A NEGOTIATED SALE THEREOF; AUTHORIZING AND RATIFYING ACTIONS OF THE COMMISSION STAFF IN THE STRUCTURING, PLANNING AND PREPARATION OF ALL DOCUMENTATION FOR THE ISSUANCE OF SAID BONDS AND IN PREPARING AND PUBLISHING A PRELIMINARY OFFICIAL STATEMENT AND AN OFFICIAL STATEMENT FOR THE BONDS; RECITING, ACKNOWLEDGING AND APPROVING THE FILING OF AN APPLICATION BY THE FINANCE AND ADMINISTRATION CABINET OF THE COMMONWEALTH OF KENTUCKY FOR REVENUE BONDS TO FINANCE THE PROJECT AND REFUND

PRIOR BONDS PURSUANT TO SECTION 56.450 OF THE KENTUCKY REVISED STATUTES; APPROVING A LEASE OF THE PROJECT TO THE CABINET TO PROVIDE REVENUES FOR THE AMORTIZATION OF THE BONDS; DEFINING AND PROVIDING FOR THE RIGHTS OF THE OWNERS OF THE BONDS AND PROVIDING FOR THE APPLICATION OF THE PROCEEDS THEREOF.

Ms. Liz Columbia, Financial Analyst, OFM, presented for review and approval Resolution 2016-01, SPBC Revenue Bonds Project No. 112, Series A and Revenue Refunding Bonds, Project No. 112 Series B. Ms. Columbia informed the Commission that staff worked with Citigroup, the Senior Managing Underwriter, to produce a preliminary financial analysis, determined which refunding candidates should be included in the proposed transaction and how to price and structure part of the transaction that included the University of Kentucky ("UK") Research Building project. She explained the bond resolution outlined the purpose for the financing and upon execution would allow staff to structure and plan the issuance as well as prepare, approve and execute legal documents required for the transaction. The preliminary new bond issue report provided a summary of the preliminary financial information. The purpose of the issuance is to: 1) provide permanent financing for \$132.5 million of a general fund supported capital project for the construction of a Research Building at the University of Kentucky as authorized in House Bill 298 (2015 Regular Session); 2) refund certain outstanding SPBC Bonds (Projects 87, 88, 89, 90 and 93) for present value savings; and 3) pay costs of issuance. The total principal amount is not to exceed \$750 million. If approved by the Commission, the transaction will be presented to the Capital Projects and Bond Oversight Committee on January 19, 2016. The transaction will be a tax-exempt negotiated sale scheduled for March 2, 2016 and underwritten by Citigroup. Bond Counsel is Dinsmore & Shohl, LLP. The term is 20 years with a final maturity date of August 1, 2036, and an estimated all-in true interest cost of 2.53%. Staff recommended approval.

Lt. Governor Hampton asked for clarification of the typical lead time to receive details on transactions that were to be presented before the Commission. Ms. Columbia responded that preliminary discussions between OFM and the underwriter were initiated two to three months ahead of pricing to establish the financing schedule and evaluate the structure of a transaction. The amount of the transaction was known since its authorization. The Office of the State Budget Director informed OFM that UK would need the funds around March 2016, which created the current timeline. The refunding candidates were added to the transaction only one week before this meeting.

Mr. Bunning asked if the refunding portion of the transaction went out into the market and the predicted savings were not realized, would only the \$132 million new money portion be funded. Mr. Barrow answered that refunding transactions are market and interest rate driven. Bonds may be pulled out of the transaction if market rates go against the Commonwealth. Mr. Barrow confirmed that the new money portion for construction of the UK Research Building was guaranteed to move forward, and most of the refunding candidates would proceed unless something strange happened in the marketplace.

Secretary Landrum called for a motion to approve **Resolution 2016-01**. Mr. Bunning made a motion and was seconded by Mr. Ross. There being no further discussion, the motion **CARRIED** and Resolution 2016-01 was **ADOPTED**.

Secretary Landrum introduced **Resolution 2016-02**:

RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE APPLICATION OF THE SECRETARY OF THE CABINET FOR ECONOMIC DEVELOPMENT TO IDENTIFY AND SPECIFY CERTAIN ECONOMIC DEVELOPMENT PROJECTS TO BE FINANCED FROM THE PROCEEDS OF ECONOMIC DEVELOPMENT REVENUE BONDS TO BE ISSUED BY THE COMMISSION TO MAKE A GRANT TO THE LOGAN COUNTY FISCAL COURT FOR THE BENEFIT OF CHAMPION PETFOODS USA, INC. (CHAMPION) FOR \$500,000.

Mr. Tim Back, Staff Assistant, OFS, CED, presented Resolution 2016-02 requesting the use of \$500,000 in Economic Development Bond (EDB) funds for the purpose of making a grant to the Logan County Fiscal Court for the benefit of Champion Petfoods USA Inc. (Champion). Champion is Canada's largest independent manufacturer of pet foods. The company is establishing a 300,000 square foot facility on 84 acres of land in Logan County. This will be Champion's first pet food manufacturing facility in the U.S. The proposed EDB grant funds will be used to offset the costs associated with the project. Champion will be required to create 100 new, permanent, full-time Kentucky resident jobs in Logan County with an average hourly wage of not less than \$20.00, including benefits, within three years of KEDFA's approval. The jobs are required to be maintained for an additional three years. The disbursement of funds will occur after the annual compliance reporting has occurred. There will be payment reduction provisions outlined in the grant agreement that will take effect if Champion fails to create or maintain the required jobs and/or fails to pay the foregoing wages by the measurement dates. KEDFA approved the grant request on December 10, 2015. Staff recommended approval.

Secretary Landrum asked for confirmation that the funds received by the grantee would require no payback. Mr. Back responded that Champion would not receive the funds until performance requirements were met by four annual measurement dates. If requirements were not met, there would be a reduction of funds paid out.

Lt. Governor Hampton asked when the project would get started. Mr. Back informed her that the project had already started and that this grant was just one of several incentives for which Champion was eligible.

Mr. Bunning asked if the overall financial return to the Commonwealth was considered when the total incentives given to a company were analyzed. Mr. Back confirmed that CED uses an internal return on investment model for analysis. Mr. Bunning asked if there were requirements that had to

be met before incentives were awarded. Mr. Back stated he wasn't involved in that side of the analysis and didn't know the required goals, but confirmed that those figures were used.

Secretary Landrum called for a motion to approve Resolution 2016-02. Mr. Bunning made a motion, and was seconded by Ms. McCoy-Johnson. There being no discussion, the motion **CARRIED** and Resolution 2016-02 was **ADOPTED**.

Secretary Landrum introduced Resolution 2016-03:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS
COMMISSION OF THE COMMONWEALTH OF KENTUCKY
APPROVING THE ISSUANCE OF APPROXIMATELY \$8,470,000 OF
MURRAY STATE UNIVERSITY GENERAL RECEIPTS REFUNDING
BONDS, 2016 SERIES A.**

Mr. Starkweather stated Murray State University ("MSU") was seeking approval to issue General Receipts Refunding Bonds in a principal amount of approximately \$8.47 million to partially advance refund the outstanding MSU General Receipts Bonds 2007 Series A and pay costs of issuance. MSU received original authorization in HB 380 of the 2006 Regular Session to acquire, construct, install and equip an approximately 91,000 square foot residential student facility to provide housing for approximately 300 students. The project was also known as Richmond Hall. The 2016 Series A issuance will partially advance refund the 9/1/18 through 9/1/27 maturities of the 2007 issuance. The refunding is expected to yield a savings of nearly \$700,000 or about 8% to MSU over the remaining life of the bonds. The all-in true interest cost of the transaction is anticipated at 2.4%. Upon approval of the Commission and the Capital Projects and Bond Oversight Committee, the transaction will be competitively bid on January 21, 2016, with Hilliard Lyons serving as Financial Advisor and Dinsmore and Shohl, LLC as Bond Counsel. Staff recommended approval.

Mr. Chilton asked if the scheduled principal payments were similar to what they were under the previous interest rates and would the term be extended. Mr. Starkweather stated that the specific principal and interest payments would change but would be similar but there would be a net present value savings of about 8%. He also stated that the term would not be extended. Secretary Landrum asked if there was any new money involved. Mr. Starkweather stated there was none.

Mr. Bunning asked if the refunding was going from a 4.3% interest rate to a 2.4% interest rate. Mr. Starkweather responded that the 2.4% rate was an all-in true interest cost which covers the entire the life of the bonds. Some of the earlier coupons could be lower than 2.4% and the maximum coupon allowed in this transaction may be as high as 4%.

Mr. Chilton asked if staff could report back to the Commission the actual results of the bond sales after the financing. Mr. Starkweather stated that OFM sends an approval letter to the Secretary of the Finance and Administration Cabinet which contains a summary of the final numbers and closing date of each transaction. The approval letter is also presented to the Capital Projects and Bond Oversight Committee. He also mentioned there were restrictions within the sales term of this transaction so if something unfavorable were to happen in the market, the deal could be pulled. Mr.

Bunning asked if the Commonwealth has to pay costs associated with legal work if the market conditions were to change drastically right before the deal closed and the transaction was not financed. Mr. Starkweather stated there would be no costs. Mr. Barrow further clarified that the payment of fees was contingent upon closing of the transaction.

Secretary Landrum called for a motion to approve Resolution **2016-03**. Mr. Ross made a motion, and was seconded by Mr. Back. There being no further discussion, the motion **CARRIED** and Resolution **2016-03** was **ADOPTED**.

With no further business before the Commission, Secretary Landrum made a motion to adjourn and was seconded by Mr. Back. The meeting stands adjourned.

Respectfully submitted,



Ryan Barrow
Secretary