STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
OCTOBER 3, 2008

The State Property and Buildings Commission was called to order on Monday, October 3, 2008 at 2:00 p.m. in Room 182 of the Capitol Annex by Jeff Mosley, General Counsel, Finance and Administration Cabinet as proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Mike Alexander, proxy for Governor Steve Beshear, Jeff Derouen, proxy for Lt. Governor Daniel Mongiardo, Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet; John Hicks, proxy for Mary Lassiter, State Budget Director, Kim Link, proxy for Attorney General Jack Conway and Katie Smith, proxy for Larry Hayes, Interim Secretary, Cabinet for Economic Development.

OFM Staff Members Present: Mr. Tom Howard, Executive Director of OFM and Secretary to the Commission, Mr. Brett Antle, Deputy Executive Director of OFM, Ms. Rachael Putnam, Mr. Rob Ramsey, Mr. Tom Midkiff, Ms. Marcia Adams.

Other Guests Present: Ms. Nancy Osborne, LRC, Mr. Jonathan Lowe, LRC, Ms. Shawn Bowen LRC and Mr. Ryan Green, State Budget Director's Office.

General Counsel Mosley verified with staff that a quorum was present and that the press had been notified of the meeting.

A motion was made by Mr. Ed Ross and seconded by Mr. Jeff Derouen to approve the minutes of the September 15, 2008 meeting. Motion CARRIED and the minutes of the September 15, 2008 meeting were approved.

Mr. Tom Howard, Office of Financial Management, provided market update. He stated since our last meeting September 15, much has transpired in the capital markets and particularly in the fixed income segment, which for all practical purposes has shut down.

- The failure of the House of Representatives to pass a rescue package last Monday to shore up the U.S. financial system necessitates an update of market conditions and consideration of Amendments to our SPBC Project 90, 91 and 92 bond resolutions passed at the last meeting. The pending vote and reaction expected today adds even more drama.

- Since the last meeting the U.S. financial system has experienced, in addition to previous failures and mergers including Bear Stearns, Merrill Lynch, Lehman Brothers, Fannie Mae, and Freddie Mac, continued turmoil with the:

    - Federal government taking a $85 billion loan/ownership stake in AIG.
    - Largest domestic bank failure in our country's history with the FDIC takeover of Washington Mutual.
    - The acquisition of Wachovia Bank, the then 4th largest bank, by Citibank, but it has since been announced that Wells Fargo will acquire Wachovia.
    - Numerous other banks and broker-dealers were under severe pressure in the equity markets questioning their viability, including:
        - National City
        - Fifth Third
        - Morgan Stanley
        - Goldman Sachs
        - General Electric

- Morgan Stanley and Goldman have shunned the broken broker-dealer business model and now are reorganizing into bank holding companies.
  - Morgan Stanley, the underwriter for SPBC 90 & 91 is now considered a viable entity and does not appear to present any significant risk associated with the contemplated offering of our bonds next week.

- Banks increasingly are reluctant to lend to one another and their existing customer base. This reluctance has spilled over into municipal market in a number of ways:
  - Originally, in the Auction Rate Securities market as dealers with less capital failed to support auctions any longer sticking investors with what they thought were short-term securities and issuers with outrageous interest rates.
  - Banks operating on less capital have pulled back or dramatically increased the cost of credit and liquidity facilities that support the money market eligibility of the municipal variable rate demand note market, which has average about $50 billion dollar a year in new money transactions since 2003.
  - In addition, to institutional investors such as insurance companies that have historically purchased significant amounts of traditional fixed rate bonds are pulling back from the new issue market due to write-offs in their own portfolios. AIG was a significant purchaser of municipal bonds.

- The only transactions of any size that we have seen in recent weeks are a $300 million for State of New York and a $257 million for a California issuer. These transactions are in high tax states and they relied heavily on retail participation to get those transactions done.

- There have been a number of small transactions that appeal to retail investors that have been done in recent weeks, carrying higher interest rates and sales commissions (underwriter's discount) at levels consistent with the mid-1990's.

- Further complicating matters for traditional transactions are the rate resets in the short-term market, which have been in the 7-9% range, due to fund redemptions and concerns with credit/liquidity providers.

- The Commonwealth's Commercial Paper Program is now feeling the effects of the short-term tax-exempt money market dislocation as for the first time in program history as investors did not want to purchase our paper on Wednesday and the Notes were put to the liquidity provider Dexia SA. (Bank Bonds). The good news for us about Bank Bonds is that the interest rate is equal to the Prime Rate, which is currently 5% versus market rates noted above that start at 5.25 and are up to 7.50%.

- This occurred due to the stress on the Notes liquidity provider Dexia and their exposure through their bond insurance subsidiary FSA, which prompted a bailout of Dexia by Belgium and France.

- Update from this morning a money market fund purchased $31 million of our CP at 5.50 percent for a two-week period. This is good news in that it represents that some investors are now recognizing the value of our credit and dipping their toe back in the water.

- Staff has been in negotiations with Dexia since early this summer negotiating a favorable extension making sure we have access to liquidity when most banks won't consider new clients or are cutting back on existing clients. The existing liquidity facility expires October 31, 2008 and the Notes cannot be offered beyond that date until the facility is finalized. Unfortunately, we have had difficulties with Moody's in trying to get their attention and figure out exactly what their concerns with the documents. Hopefully, this will be resolved by Monday.

- What does all of this mean?
  - The cost of financing has gone up, in some cases dramatically;
  - It is more difficult to provide financing for capital projects;

- We need additional flexibility to meet both investor requirements and our need to access capital on an ongoing basis.

➢ Congress did pass a rescue package this afternoon and we expect that there will be more willingness to lend to state and local governments, but we think it will take the market some time perhaps after the first of the year before capital flows in a more normal fashion in the tax-exempt market.

➢ Thus the purpose of our meeting today is staff's request for the Commission to consider providing additional flexibility to provide permanent financing for projects that are underway and in some cases nearing completion.

➢ We believe that the amendments to the Bond Resolutions will provide sufficient latitude to allow us to finance the projects, but there is no guarantee that we will be able to raise all of the money that we hope to raise.

➢ Our strategy is to sell as many bonds as the market will reasonably bear at what are then prevailing market rates and appear to be reasonable under the circumstances. If the market is favorable, we perhaps could go ahead and pre-fund some projects, up to the limits of the Resolution, knowing that we will need to spend some additional money in the coming months.

➢ Current expected market rates and commissions:
  - For "AA-" tax-exempt bonds with a split rating like SPBC Project 90 in the 20-year maturity is between 5.60-5.95%. Discount between $5-$12 per thousand. SPBC Project 89 all-in interest cost was 4.88% in mid-May 2008.
  - For "A1" rated tax-exempt revenue credits like SPBC Project 91 the rates are probably in the 5.90-6.25% range and. $7-$12 per thousand.
  - For "A" rated taxable revenue credits like SPBC Project 92 the rates are between 7.75% and 9.25% with $7-$12 commissions per thousand.

➢ Recent competitive bonds sales have had underwriters discount (commissions) of $15-$20.

➢ Let me reiterate that the project scope, structure and balance of the bond documents remain in tact from the prior meeting.

➢ We are simply asking for additional flexibility in the event it is needed to access the market in these very volatile times.

➢ The most critical amendment is for the Department of Military Affairs / Blue Grass Station where taxable interest rates are expected to be above the prior amount estimated in the Resolution that was passed on September 15. The other rate adjustments are out of an abundance of caution and latitude to raise commission or bond discounts to appeal to retail purchasers. Increased commissions are a one time up-front cost that can save many thousand of dollars over the life of an issue versus raising the interest rate paid over 20-years to attract bottom fishing institutional investors.

➢ We believe that moving forward is in the best interest of the projects and the Commonwealth as delaying would only serve to increase construction cost, but likely finance cost as well given the billions of bond issues that have been postponed and that are looking to renter the market once the credit freeze begins to dissipate, that is I don't think that the cost of traditional fixed rate capital will get much cheaper anytime soon.

We are asking today for some additional latitude in the parameters to make sure we don't miss an opportunity to finance 400 million dollars worth of capital projects. Many are near completion or well under way. Bluegrass Station, contract is signed and they are ready to start the electrical improvements and water lines. River Authority Dam Nine is almost complete and should be finished by February 2009. For SPBC Project No. 90, we are expecting that most of those projects have spent about ½ of their allotments. We think it is an important time to take advantage and get out of the short term market due to the interest rates we've been seeing the last two weeks. On the low end we have seen 5¼% for overnight, tax exempt, general market paper and as high as 9% for other paper. KHC paper reset last week at 7½%.

There has been a significant increase in cost of capital. As rates go higher, retail gets more interested. Their investment alternatives are Treasuries at almost zero, or bank CD's in terms of FDIC coverage. The attractiveness of purchasing state government paper will offer them a tax-free yield that would be approximately 5% plus the tax bracket. We really want to target that, moving forward. Are there any questions before we get into the specific resolutions?

Mr. Howard asker permission to proceed with Resolution **2008-31**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY SUPPLEMENTING AND AMENDING A BOND RESOLUTION ADOPTED BY SAID COMMISSION ON SEPTEMBER 15, 2008, AUTHORIZING AND SECURING ITS TAXABLE AGENCY FUND REVENUE BONDS, PROJECT NO. 92 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $6,500,000.**

Mr. Tom Howard stated this transaction would be closer to 5,000,000 million dollars once complete. We are asking to change the interest rate coupon assumption from 8% to maximum of 10% and the underwriters discount from $12 to a maximum of $15. In today's marketplace if we were to bring these bonds for sale, the coupon would most likely be in the 20th year, about 8 1/4 , putting the all in cost of funding at 8.6%. The market is very volatile and next week it could be more, or less. With the existing threshold to date, we cannot enter the market. This project is ready and needs the funding so we are asking that we be given the chance to not exceed 10%. We have no intention of going to 10 % but do not want to miss an opportunity to complete a transaction, especially on such a small dollar amount. Are there any questions about the resolution or the marketplace?

Mr. John Hicks asked with all the issues going on, how close are we to the front of the line for selling. Mr. Howard answered that we are at the very beginning. We have already had a pre-marketing call with our syndicate members. They are contacting investors and we will open the retail order period on Monday (10/6) and Tuesday. We are hoping this could be as much as 100 million aggregate of retail sales between these three transactions, which would be a significant driver in this sale.

General Counsel Mosley asked if there were any further questions or discussions. Mr. John Hicks made a motion to approve Resolution **2008-31**, that was seconded by Mr. Ross. Motion CARRIED and Resolution **2008-31** was **ADOPTED**.

General Counsel Mosley introduced Resolution **2008-32**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY SUPPLEMENTING AND AMENDING A BOND RESOLUTION ADOPTED BY SAID COMMISSION ON SEPTEMBER 15, 2008, AUTHORIZING AND SECURING ITS AGENCY FUND REVENUE BONDS, PROJECT NO. 91 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $18,500,000.**

Again, Mr. Howard stated this will actually be 16.8 or 17 million depending on the interest rate assumption. This is for the Kentucky River Authority Dam Nine conversion of their intermediate financing to permanent financing. We would be asking that the interest rate assumption be changed from 7% to 8 % and the discount be changed from $12 to $15 on a not to exceed basis. Under current market conditions, we believe we will be under 7 % with this financing. This is the first time the KRA has issued bonds and with a new financing, you are never sure. Please refer to the handout of the expected ratings for all three of the SPBC Projects 90-92.

General Counsel Mosley asked if there were any further questions or discussions. Ms. Katie Smith made a motion to approve Resolution **2008-32**, that was seconded by Mr. Ross. Motion CARRIED and Resolution **2008-32** was **ADOPTED.**

General Counsel Mosley introduced Resolution **2008-33**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY SUPPLEMENTING AND AMENDING A BOND RESOLUTION ADOPTED BY SAID COMMISSION ON SEPTEMBER 15, 2008, AUTHORIZING AND SECURING ITS REVENUE AND REVENUE REFUNDING BONDS, PROJECT NO. 90 IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $375,000,000.**

Mr. Howard continued that the interest rate parameter was 6% and we are asking that it be moved to 7% though we are below 6%, but pushing very close. The interest rate range for longest maturity could be as high as 5.9%. We are also asking to increase the underwriter's discount from $10 to $12 as well. All three projects are the same, the structure of the financing is the same, and the bond resolution and documents are the same. We are only adding these amendments to give us the flexibility we may need to insure a successful sale of these securities next week .

General Counsel Mosley asked if there were any questions or discussions. Mr. Mike Alexander made a motion to adopt Resolution **2008-33** that was seconded by Ms. Smith. Motion **CARRIED** and Resolution **2008-33** was **ADOPTED.**

General Counsel Mosley introduced Resolution **2008-34**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION APPROVING CAPITAL CONSTRUCTION PROJECTS AUTHORIZED BY THE 2008 GENERAL ASSEMBLY WHERE SUCH PROJECTS ARE TO BE FINANCED BY THE ISSUANCE OF STATE PROPERTY AND BUILDINGS COMMISSION REVENUE BONDS OR OTHER AUTHORIZED STATE DEBT-ISSUING AUTHORITIES.**

Mr. Brett Antle, Deputy Executive Director of the Office of Financial Management stated that this is a reimbursement resolution for the Aviation Economic Development Bonds authorized in the 2008 session for the General Assembly approving the projects and any expenditures, that are made in advance of the bonds being sold.

Mr. Howard continued that this is for tax code purposes, as there is a sixty day claw back from the date that this body takes action that you can recoup expenditures that have been made from tax exempt proceeds. The value of tax exemption versus taxable, is excess of two - three percent. Mr. Antle also stated that the progress is to be reported in October between Bluegrass Station and the Cabinet.

General Counsel Mosley asked if there were any questions or discussions. Mr. Alexander made a motion to adopt Resolution **2008-34** that was seconded by Mr. Hicks. Motion **CARRIED** and Resolution **2008-34** was **ADOPTED.**

General Counsel Mosley introduced Resolution **2008-35**:

> **A 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 PULASKI COUNTY FISCAL COURT FOR THE BENEFIT OF HENDRICKSON USA LLC (HENDRICKSON) ($120,000).

Ms. Smith stated that we are requesting approval for the use of $120,000 dollars in Economic Development Bond Funds for making a grant to the Pulaski County Fiscal Court for the benefit of Hendrickson USA, LLC. The project includes acquisition, improvement and equipping a 75,000 square foot facility on twenty nine acres in Somerset County for the manufacture of trailer suspension systems for the commercial transportation industry. In consideration for the grant, the company will be required to create 120 new full time jobs within three (3) years of completion and occupancy of the facility. The average hourly wages will be not less than $15.11 excluding benefits and will maintain the 120 jobs and wages for an additional three years. Failure to comply with the job or wage requirements will result in a repayment of the grant proceeds to the Pulaski County Fiscal Court base on formulas to be included in the grant agreement. Any funds repaid to the Fiscal Court will have to be used for Economic Development approved by the Cabinet. Hendrickson USA will be required to provide collateral satisfactory to the Cabinet for the entire term of the agreement. The project was recommended by Secretary Hayes and received concurrence from Secretary Miller of the Finance and Administration Cabinet. KEDFA did approve the project at its September 25, 2008 meeting and the project will go before the Capital Projects on October 21, 2008 if it is approved today. The staff recommends approval.

General Counsel Mosley asked if there were any questions or discussions. Mr. Ross made a motion to adopt Resolution **2008-35** that was seconded by Mr. Alexander. Motion **CARRIED** and Resolution **2008-35** was **ADOPTED.**

General Counsel Mosley introduced Resolution **2008-36**:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HOUSING CORPORATION OF ITS MULTIFAMILY HOUSING REVENUE BONDS IN ONE OR MORE SERIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $8,000,000.

Mr. Tom Midkiff, Analyst from the Office of Financial Management stated that this resolution is a Kentucky Housing Corporation Resolution for Multifamily Housing Revenue Bonds. The project is for the Grand Oaks Apartments project, the final phase of the revitalization of Bluegrass Aspendale, which is a 76 acre site. This is the last eleven acres and will contain rental units, row houses, walkups and semi-detached units. This will allow the Lexington-Fayette Urban County Government Housing Authority to fully accomplish its mission to change the face of public housing in Lexington. The proposed date of sale is November 10, 2008; the S&P rating is SP-1+; net proceeds are $8,000,000; cost of issuance is estimated at $214,000; projected interest rate is 4.25%; length of return is approximately two years and gross debt service is estimated at $8,788,500. These are non-callable bonds, a negotiated sale, with Peck, Shaffer & Williams as Bond Counsel, Eichner & Norris PLLC as Underwriter Counsel, Underwriter is Red Capital Markets, Inc and Trustee is The Huntington National Bank. This project was approved by the full KHC board on May 29, 2008.

Mr. Howard remarked that these are multi-family conduits, and are not an obligation of the Corporation (KHC) but merely a pass thru like the KEDFA bonds.

General Counsel Mosley asked if there were any questions or discussions. Ms. Smith made a motion to adopt Resolution

2008-36 that was seconded by Mr. Ross. Motion **CARRIED** and Resolution **2008-36** was **ADOPTED**.

With no further business before the Commission, Mr. Mosley asked if there was any new business for the Commission today. With no further business, Mr. Hicks made a motion to adjourn that was seconded by Mr. Derouen. The meeting stands adjourned.

Respectfully submitted,

F. Thomas Howard
Secretary