

**STATE PROPERTY AND BUILDINGS COMMISSION**  
**MINUTES**  
**NOVEMBER 17, 2008**

The State Property and Buildings Commission was called to order on Monday, November 17, 2008 at 2:00 p.m. in Room 182 of the Capitol Annex by Lori Flanery, Deputy Secretary, Finance and Administration Cabinet as proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Edmund Sauer, 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, Interim 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 and Kristi Culpepper of LRC, and Mr. Ryan Green, State Budget Director's Office.

Deputy Flanery verified with staff that a quorum was present and that the press had been notified of the meeting.

A motion was made by Ms. Katie Smith and seconded by Mr. Ed Ross to approve the minutes. Motion **CARRIED** and the minutes of the October 3, 2008 meeting were approved.

Deputy Secretary Flanery introduced Resolution 2008-37:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION  
OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF  
WESTERN KENTUCKY UNIVERSITY GENERAL RECEIPTS BONDS, 2008  
SERIES A.**

Ms. Rachael Putnam stated that approval by the Commission is being sought to sell bonds for the following projects: renovation of Van Meter Hall, Science Campus Phase III, expansion of the Preston Center, renovation of the Ivan Wilson Center, replace Building Ford College of Business, and Acquire Property and Construct Parking Lots pursuant to H.B. 406 of the 2008 General Assembly of the Commonwealth of Kentucky. The proceeds of the bonds will be used to pay the project costs and the cost of issuance. Other approvals were WKU Board of Regents meeting on October 31<sup>st</sup> and will be presented to Capital Projects on Tuesday November 18, 2008. Bond Counsel is Peck Shaffer & Williams, Financial Advisor is Morgan Keegan, Trustee is U.S. Bank and staff recommends approval.

Mr. John Hick wanted to confirm that the \$49 million is the sum of these multiple projects and is less than what is appropriated. Ms. Putnam answered affirmatively.

Deputy Secretary Flanery asked if there were any further questions or discussions. Mr. Ross made a motion to approve Resolution 2008-37, that was seconded by Mr. Hicks. Motion **CARRIED** and Resolution 2008-37 was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution 2008-38:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY OF ITS HOSPITAL REVENUE BONDS, SERIES 2008A (BAPTIST HEALTHCARE SYSTEM OBLIGATED GROUP), AND VARIABLE RATE DEMAND HOSPITAL REVENUE BONDS, SERIES 2008B (BAPTIST HEALTHCARE SYSTEM OBLIGATED GROUP), IN AN AMOUNT NOT TO EXCEED \$600,000,000**

Ms. Smith stated that approval by the Commission is being sought for the bond resolution for issuance of Hospital Revenue Bonds in an amount not to exceed \$600,000,000 dollars on behalf of Baptist Healthcare System, Inc. and Baptist Healthcare Affiliates, collectively know as Baptist Healthcare System Obligated Group. The bond proceeds will finance the acquisition, construction and installation of nonprofit hospital and health care facilities in St. Matthews, Lexington, Paducah, Corbin, and LaGrange, Kentucky. It will also finance the following re-fundings, 1) an interim bank loan for \$280,875,000 that was used to redeem the previously outstanding KEDFA bonds: Series 1999B, Series 1999C, Series 2005A, and Series 2005B outstanding KEDFA bonds. And 2) refund and redeem the KEDFA Series 1999A outstanding bonds. Please take note that KEDFA is a conduit financier to the transaction and will not have a general obligation or be liable for the bonds. KEDFA did approve the final resolution at its October 30<sup>th</sup> meeting and it will be presented to Capital Projects and Bond Oversight Committee on Tuesday November 18<sup>th</sup> if it approved today. Bond Counsel is Stoll Keenon Ogden, Underwriter is Goldman Sachs, Underwriters Counsel is Jones Day and Trustee is U.S. Bank. Staff recommends approval.

Deputy Secretary Flanery asked if there were any further questions or discussions. Mr. Hicks made a motion to approve Resolution 2008-38, that was seconded by Mr. Derouen. Motion **CARRIED** and Resolution 2008-38 was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution 2008-39:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF REVENUE BONDS (CATHOLIC HEALTH INITIATIVES) IN ONE OR MORE SERIES AND IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$438,920,000 BY THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY.**

Ms. Smith stated that approval by the Commission of the final KEDFA bond resolution relating to the issuance Industrial Building Revenue Bonds in an amount not to exceed \$438,920,000 on behalf of Catholic Health Initiatives. Bond proceeds will be used to reimburse previously incurred capital expenditures, to provide for the payment of certain future capital expenditures, and to pay financing costs for facilities and projects located in Mount Sterling, London, Lexington, Nicholasville, and Bardstown, Kentucky. Again, KEDFA is a conduit financier to the transaction and will not have a general obligation or be liable for the bonds. KEDFA did approve the final resolution at its October 30<sup>th</sup> meeting and it will be presented to Capital Projects and Bond Oversight Committee on Tuesday November 18<sup>th</sup> if it approved today. Bond Counsel is

Foley & Lardner, Underwriter is J.P. Morgan, Underwriter's Counsel is Orrick, Herrington, & Sutcliffe, Financial Advisor is Ponder & Company, and Trustee is Well Fargo Bank. Staff recommends approval.

Mr. Ross asked about the interest rate being 7 ½% on the out years versus 6 ½% on the short end; is there any reasoning on that. Mr. Howard stated that in this marketplace Health Care credit yields are pretty high. These are mostly variable rate demand obligations and will be swapped back to fixed rate. There have been some fixed rate Catholic Health Initiatives done but they were in the 7% range. That would be typical of credit of this type. This is the 2<sup>nd</sup> or 3<sup>rd</sup> deal I've seen in recent weeks as they roll out issues between the states, in a concerted financing plan but the yields are much higher today.

Deputy Secretary Flanery asked if there were any further questions or discussions. Mr. Hicks made a motion to approve Resolution **2008-39**, that was seconded by Mr. Derouen. Motion **CARRIED** and Resolution **2008-39** was **ADOPTED**.

Mr. Howard began with an update of what transpired with Projects 90-92. In the first graph presented, it was evident the issuance of municipal bonds had dropped dramatically during the credit freeze when Congress was debating the TARP (Troubled Assets Relief Program) program. The market was essentially locked up with limited amounts of bonds being sold. Most of the new issues were small issues that were done at competitive sale for local governments that didn't require a tremendous amount of institutional capital. Once the TARP passed, which was at our last SPBC meeting October 3<sup>rd</sup>, there was still a great amount of uncertainty but everyone was hoping to access the market and that is what we did. You can see on the second graph, the Bond Buyer 20 G.O. Index from April to November 2008. Note where we sold Project 89 back in late April at 4.63% and then where in late August and September, the markets have gone dramatically up to where we were able to finance Project 90 at an all end cost of 5.49% versus the benchmark of 5.47%. You can see as more supply came into the market from the first graph, interest rates continued to go up. Then, as supply decreased, the interest rates have come down again. There is a limited market for the larger issuances of securities. For example, New York G.O.'s that were sold the week after our bonds were sold at the 6 to 6¼ range, again full faith and credit State of New York, versus the Commonwealth of Kentucky, where we were all end cost of 5.49. There is significant volatility in the market credits depending upon the credits. We were fortunate to get all three projects financed, Projects, 90, 91, & 92. The last graph is just a historical perspective of where interest rates have been since 1999, about ten years since we have had to deal with this type of rate environment

Brett Antle, Deputy Director of the Office of Financial Management, began with an update of State Property and Buildings Commission Projects 90-92. Project 90 came in at an all end of 5.49%, and the two agency funds transactions that accompanied that, Projects 91 for the KY River Authority came in at 5.82%, and Project 92, the taxable transaction for Bluegrass Station came in at 8.23%. As a reminder, the Board met on October 3<sup>rd</sup> and adopted amended resolutions for these three transactions allowing maximum flexibility with regards to getting the transactions completed under the current market conditions. The actual maximum coupons that were offered on the bonds were 5¾ % on Projects 90 & 91 under the original 6% threshold. We did not need the increased flexibility for these. Project 92 was different and we did need the allowed flexibility to go to 8¼%, where the original limit had been 8% and we had increased it to 10%, so the amended resolution did come into play to get that transaction sold. In no case were the Underwriter's Discounts affected from the original amounts that were approved. The maximum takedown for Project 90 was \$5 per coupon and for Project 91, being a small, agency fund transaction, was \$10 per bond, and Project 92 was \$5 per bond.

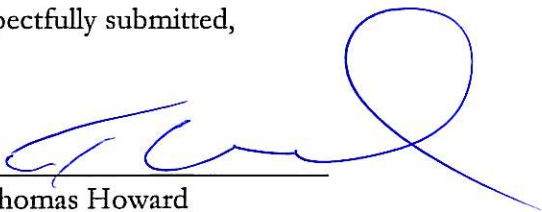
With regards to the Project 90 proceeds, we had authorization to sell up to \$375 million. We started to see stress in the commercial paper market, spikes in the rates in excess of 5% - 5½ %. To take that volatility off the table, \$200 million was used to take out and redeem all \$200 million of outstanding commercial paper that we had at the time and provide the \$50 million budget relief called for in the 2009 budget. There was approximately \$120 million in additional proceeds from that transaction and a decision was made rather than permanently fund SPBC projects out of the Project 90 proceeds, put the \$120 million into a "pot" to fund all projects. We would continue to use the current interim funding for the ongoing fifty or so capital projects until we can get back into the market and provide permanent funding. That new money is taking the place of our ALCo CP program at the moment.

Mr. Howard added that there we were able to upsize the deal as there was significant demand for our bonds, as we offered diversity away from other large names. We offered that as we only had a limited amount of product, which was relatively attractive to our customers. We did not have excess orders and had sized the transaction appropriately for the market and should probable take advantage. As volatile as the market is now, we will let the \$120 million carry us and will utilize the commercial paper program at the first of the year to provide additional financing that may be needed. Based on expenditures to date, this money will carry us well into March or further.

There were no additional questions for Mr. Howard or Mr. Antle.

With no further business before the Commission, Deputy Secretary Flanery 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 Ms. Smith. The meeting stands adjourned.

Respectfully submitted,

A handwritten signature in blue ink, consisting of a series of loops and a large circular flourish at the end.

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F. Thomas Howard  
Secretary