

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
November 7, 2005

The Kentucky Private Activity Bond Allocation Committee (the "Committee") meeting was called to order by Chairman Robbie Rudolph, Secretary, Finance and Administration Cabinet, on Monday, November 7, 2005 at 10:05 a.m. in Room 386 of the Capitol Annex, Frankfort, Kentucky. Other members present were: Katie Smith, proxy for Marvin E. Strong, Jr., Secretary, Cabinet for Economic Development; Allen Holt, proxy for Brad Cowgill, State Budget Director; John Farris, proxy for Robbie Rudolph, Secretary, Governor's Executive Cabinet, and Edgar C. Ross, Controller, Finance and Administration Cabinet.

Chairman Rudolph declared that a quorum was present and verified that the press had been notified of the meeting.

The first item on the agenda was the approval of the August 26, 2005 minutes. A motion was made by Mr. Allen Holt and seconded by Ms. Katie Smith to approve the minutes. **Motion CARRIED.**

Chairman Rudolph turned the floor over to F. Thomas Howard, Executive Director, Office of Financial Management. Mr. Howard stated that the Committee allocates private activity volume cap allocated by the Federal Government. Mr. Howard indicated there is also a list of side duties that relates to specific projects that are covered under the private activity bond allocation process and KRS 103.2101. Mr. Jason Hamilton, Financial Analyst, Office of Financial Management, stated that all projects must meet the following criteria under KRS 103.2101 to obtain approval from the Committee: economic need for the project in the area; whether the project places an unjustified competitive disadvantage on existing businesses in the area; if normal commercial financing is unavailable for this project or if available, at what rates it must be secured and under what terms and conditions; if the project is in accord with the intent of KRS 103.200 to 103.285, this section, and KRS 103.2451; and the project's economic soundness. Mr. Hamilton also stated that in addition to the criteria established in KRS 103.2101, the following supplemental questions must be addressed for each project: 1) Is there a PILOT agreement in place between the developer and city/county that is issuing the bonds? 2) Is there an engagement in commercial financing, what is the analysis behind the financing and what the rates that would be received otherwise? Mr. Hamilton stated staff also asks for documentation of any independent studies that support the economic soundness of the project, other site preparations, notification of local representatives and any opposition to the project. Mr. Hamilton indicated that staff asked if the project was seeking Kentucky Economic Development Finance Authority approval on the ad valorem taxes. Mr. Hamilton stated that the Committee has a copy of all questions and answers for both projects.

Mr. Richard Spoor, Attorney, Keathing Muething & Klekamp PLL indicated that his law firm is serving as bond counsel for both projects being submitted today. The first project is the public hearing and approval of South Beach # 1, LLC in Newport, Kentucky. Mr. Spoor indicated that with him today were Michael Copfer and Alexander Bastos both with the developer, and Greg Angleman, CFO, city of Newport. Mr. Spoor indicated this is an industrial revenue bond issue and the advantage for the developer is a lower cost of financing versus conventional financing and the abatement of ad valorem taxes. Mr. Spoor stated that there is a PILOT agreement in place with the city and they also have written approvals from the affected school districts and counties in Newport. He stated the project is in a flood plane, is a downtown redevelopment project, and any development in a flood plane requires extraordinary infrastructure. Mr. Spoor stated that in this case the parking garage would be the base or foundation of the building and the building itself would start on the fifth

floor. He indicated that a good portion of the garage will be dedicated to public use. Mr. Spoor stated that the city of Newport must receive approval from the Committee before the city can issue the bonds and start the project. He stated that the city of Newport has committed up to \$40 million in bonds for this project.

Mr. Michael Copfer stated that the site currently consists of a city-owned parking lot that produces very little tax revenues. Mr. Copfer indicated that the area has been targeted for urban renewal for some time. He indicated that the developer's plan was to come up with a solution that would best suit the area for the city of Newport. Mr. Copfer stated there are multiple challenges related to this site. He stated the first challenge is that the parking lot is located in a flood plain and in the event of a flood there is no access to the site. Parking at the site will be shared between two restaurants and in order to do any developing you would have to preserve the existing parking and build above the current parking places. Mr. Copfer stated that they will be acquiring air rights because they will be unable to use the ground or regular floor level as you would typically be able to use otherwise. He indicated that the developer had engineering studies conducted that determined that high wind loads, high seismic loads, and poor soil at this site are higher here than anywhere else in the developable area. Mr. Copfer indicated that this is why the developer decided to put a stronger infrastructure into the site. He stated that they also had to deal with the current flood wall that has massive footings that go out into the site. Therefore by putting the foundation for parking garages and columns above that, the developer had to consult with the Corp of Engineers to get approval. Mr. Copfer indicated that the developer would cantilever the new development over top of the current footings which would not put any pressure on the footings. He stated that the Corp of Engineers is excited about the project because the columns will reinforce the footing and will prevent the water from pushing into the city in the event of a flood. He indicated the columns would be going down through the footings actually giving the wall more stability. Mr. Copfer stated that the developer has consulted with the city over the last couple of years to resolve several issues so the project would be a success. He stated that South Shore would consist of four buildings plus a marina and would be a very dynamic development.

Mr. Copfer stated that phase one of the project consists of a four story parking garage with a sixteen story condominium tower above it. Mr. Copfer indicated it also included construction of a new connector wall through the flood wall and a dual flood gate system. Mr. Copfer stated that the dual flood gate system will allow the lower part to be closed off in the event of a flood while allowing access to the condominiums and upper levels of the garage. He indicated that this would lift the area out of the 100 year old flood plain. Mr. Copfer stated that this was quite an engineering marvel and the Corp of Engineers has seen and tentatively approved the work on the flood wall and any extra work associated with the flood wall. He indicated that the first phase of the parking garage is anticipated to have 287 spaces, of those 109 will be new public spaces. Mr. Copfer stated that these parking spaces will be in addition to the current parking that is available in the downtown area. Mr. Copfer indicated that the 16 story residences in the condominium tower are designed for dual income professionals with no children as well as empty nesters. These two groups typically have few housing alternatives in the area. He stated that according to the economic study these two groups provide a big economic impact to the area and they require little or no government services from the area. Mr. Copfer indicated that they do not have children in the schools and typically do not require the social services. He stated that the city of Newport does not have a very big stock of this type of housing and this project will diversify the stock of housing available in the city. Mr. Copfer indicated that Laurel Burrige, a regional economic advisor at Northern Kentucky University, ran a model that was specific to the Northern Kentucky area. He stated that her study looked at the 66 residents that would be living in the condominiums. He indicated that it is typical that over half of the residents would be new to the state of Kentucky. Therefore Ms. Burrige focused on the people that would be leaving Ohio and moving to Kentucky. He stated that Ms. Burrige estimated that over the next

30 years that will result in \$98 million dollars for the Commonwealth of Kentucky versus Ohio due to this project. He indicated it is also estimated that the project would generate \$5.3 million in new disposable income. Mr. Copfer stated that is why the small family owned bakery or specialty meat stores in the area are excited because that will bring in new business for them. Mr. Copfer indicated that the project would be taking a site that is currently producing zero revenue for the city and construct a 66 unit resident condominium tower above the site that will maximize the economic development and impact for the city.

Mr. Greg Angleman, Chief Financial Officer for the city of Newport explained that the city is very excited and optimistic about the first phase of the South Beach # 1 Project because the city has been actively trying to develop this site since 1988. Mr. Angleman indicated that the city had met with essentially every developer in the region and was unsuccessful until now. He stated that the city was ready for the first phase of this project to begin. Mr. Angleman stated that the city of Newport has also talked extensively with the county and school districts regarding the project and has included letters of endorsements from both for the Committee's review.

Chairman Rudolph asked if there would be any retail establishments brought into the area. Mr. Copfer stated a later stage in the South Shore project would include the addition of an executive office structure, but at this time there are no plans to add any retail establishments due to the parking situation. Mr. Copfer added that future plans include an office tower close to the bridge that will be able to offer great executive offices with views of the river. Mr. Copfer indicated that there would be additional parking added for the existing businesses and retail establishments. He also indicated that he had spoken to other restaurants that are interested in moving to the area. Mr. Copfer stated that eventually there could be an additional 8,000 to 9,000 square feet added that would add up to about 109 additional parking spots. Mr. Copfer indicated that correlates into \$3.5 million or \$4 million in annual revenue sales. Mr. Angleman stated that anyone who lives in the Newport on the Levee area will be able to walk to the retail establishments.

Mr. Allen Holt asked if Newport currently has this type of residence for empty nesters or dual income professionals with no children in the area. Mr. Copfer stated that currently in Newport there are very few homes that will sell in this price range in the area with the exception of some located in the Hillside subdivision that were developed in 2001. Mr. Copfer indicated that South Beach # 1 could offer views similar to the views that the Hillside neighborhood offers and would be a very attractive place within the city of Newport. Mr. Holt stated that in his review of the project, he believed that there were some similar type condominiums in the area. Mr. Copfer stated there are a couple of condominiums under construction in other areas but that there were none in the city of Newport. Mr. Copfer indicated that they have listed in the city of Bellevue a project consisting of a six to seven story building with condominiums that are not as expensive as the South Beach project and do not offer the views that South Beach will offer. Mr. Copfer stated that while they are riverfront condominiums they compete on a different level and real estate is different everywhere you go so each location has different factors. Mr. Holt said the written material reflects that according to the builder about 60 percent of the condominium purchases will come from Ohio. Mr. Holt indicated that the study was actually completed by a Northern Kentucky University professor. Mr. Copfer indicated that Ms. Burrige ran the numbers for the project and that other studies were completed as well. Mr. Copfer stated that they have had other studies conducted as part of their supply and demand issues. He indicated that these studies have typically shown over half the people along the Northern Kentucky Riverfront are drawn from the Ohio side of the river. Mr. Holt asked if the Northern Kentucky University professor was a paid consultant. Mr. Copfer stated she was not a paid consultant. He further indicated that Ms. Burrige actually was asked to review the study for the betterment of northern Kentucky.

Chairman Rudolph asked if normal commercial financing is available for the South Beach project. Mr. Copfer stated that was not an option for this project.

Chairman Rudolph asked if there were any further questions or comments for the Committee. Mr. Holt asked if there was any known opposition to the project. Mr. Angleman stated that to his knowledge there was no opposition. Mr. Angleman indicated there was some initial uncertainty for the project until the city and county of Newport sat down with the developers to discuss the project in detail.

A motion was made by Mr. Holt and seconded by Mr. Ross to approve the South Beach # 1 project for the city of Newport. **Motion CARRIED.**

Mr. Hamilton stated the next item on the agenda is the Ascent at Roebings Bridge project. He turned the meeting over to Dick Spoor. Mr. Spoor indicated this project is located in Covington, Kentucky and is a condominium on the riverfront. Mr. Spoor introduced Melissa Casto, Tom Banta and Chris Day with Corporex, the developer of the project, as well as Judge Drees, Kenton County Judge Executive and Jay Fox, Covington City Manager. Mr. Spoor indicated there are only a few differences in these two projects from a legal standpoint. Mr. Spoor stated there is a PILOT agreement in place with the county, city and school district.

Ms. Melissa Casto stated this project is a 72-unit, 21 story high-rise luxury condominium located in the urban part of Covington, Kentucky. Ms. Casto pointed out that the project is an example of world class architecture and will make quite a statement on the Ohio River by taking advantage of the Cincinnati skyline and the evolving Covington skyline. Ms. Casto indicated the leading architect on the project is Daniel Liebersten who is best known for his direction of the master redevelopment plan of the World Trade Center site in New York City. Ms. Casto stated that the architectural views and prime location in Covington have resulted in significant presales for this project. To date 31 of the 72 units have contracts on them. She indicated that no other project has had such success with presales in Kentucky, Ohio or much of the Midwest. Ms. Casto indicated that more importantly of the 31 buyers, 70 percent will be new residents to Kentucky. Ms. Casto stated that this implies increased sales tax revenue, real estate revenue and income taxes that will be generated from this project for the city, county and state. She indicated that this project has been featured in the *Wall Street Journal* (Marketplace Edition), *Time* (European Edition and the global Style & Design Issue), *International Construction* (magazine), an associated press feature story on MSNBC.com, as well as newspapers in China, Portugal and other major European cities. Ms. Casto indicated in summation, the Ascent at Roebings Bridge is an exciting project and everyone involved with the project is very excited to make it a reality. Judge Drees stated he was not against these types of projects if they are necessary and beneficial to the area. Judge Drees indicated his objection to the financing mechanism is grounded in his belief that one unit of the government should not have the power to negotiate any revenues due to another unit of the government. Judge Drees stated if there is an economic need then tax relief should be granted in those instances where they will serve to create economic opportunity, eliminate blight in the community and to advance a project that would be otherwise financially impossible. Judge Drees stated that this project is going to be successful as evident from all the presales and will also compete with Ohio. Judge Drees indicated that everyone from the city and county in Kenton County are all for the project. Mr. Jay Faucet, City Manager of Covington stated that the city is very excited about this project. Mr. Faucet indicated that the county, city and school board agreed upon a PILOT agreement. Mr. Faucet stated that even though the revenue from the PILOT agreement is a small amount, it is more than the city would receive with the current parking lot structure if the project did not proceed.

Chairman Rudolph asked if normal conventional financing is available for the Ascent at Roebing Bridge project. Ms. Casto stated that the infrastructure costs are extensive with this project and traditional financing would not be available to cover the total cost of the project. Mr. Hamilton asked how many parking spaces would be added with the parking garage. Ms. Casto stated the garage was a private garage with no public parking spaces. Chairman Rudolph asked if they were eliminating any public parking spaces with the project. Ms. Casto stated that Corporex owns this lot and the lot across the street from this garage and they are currently “pay to park” garages. Ms. Casto stated that current residents that parked there are from River Center 1 and River Center 2 and they have been moved across the street to a parking garage that is owned by Kenton County with ample parking available. Judge Drees concurred that any additional parking for the Kenton County lot would be beneficial because it is under-utilized at this time.

Chairman Rudolph asked there was any further discussion on the project. Mr. Steve Wolnitzek an attorney in Covington, Kentucky, stated he represents Fred Roberts, President of Kenton County Lodge # 20, Fraternal Order of Police, and would like to speak before the Committee. Mr. Wolnitzek stated he is not here to speak against the project but does have concern about giving away tax dollars that the county does not have. Mr. Wolnitzek indicated that he has his tax bill with him today and there are seven taxing entities in Kenton County. Mr. Wolnitzek stated that according to the meeting today, the city, county and school board are in favor of the project but he has not heard from the other taxing entities. Mr. Wolnitzek indicated that a PILOT agreement of twenty-five percent is being proposed in this project. Mr. Wolnitzek stated that this is a residential project and the only kinds of taxes you can get from that are real estate taxes. Mr. Wolnitzek indicated this is a private garage and a residential building; therefore there is no public purpose for this project. He indicated that 46 percent of this project is sold and they have not yet broken ground. Mr. Wolnitzek stated that he did not hear an answer to Chairman Rudolph’s question regarding commercial financing and also stated that seventy-two wealthy people will live in the building or seventy-two wealthy families. Mr. Wolnitzek indicated that Judge Drees stated he was against projects when there is an agreement in place where other taxing entities dollars are not used for their particular purpose.

Judge Drees stated that eventually there will be revenue coming in from this project, but it would not be seen immediately. Judge Drees indicated that the residents would be spending money in Kenton County and hopefully more parking for the Kenton County lot will also add revenue to the county. Ms. Casto stated that with regard to the question concerning conventional financing, the developer went to two different lenders. One lender would not lend on the project due to the cost, and the other lender indicated that the interest rate would be at 100 basis points or 1 percent more than the current rate on the bond financing. Ms. Casto stated this project utilizes a PILOT agreement where the city, county and state receive twenty-five percent of the ad valorem tax and this would be an increase in revenue to what is currently being received on the parking lot. Ms. Casto stated that these high income residents will generate sales tax dollars, income taxes for the state of Kentucky and other benefits as well.

Mr. Ross asked what businesses were displaced by the project. Ms. Casto stated that no businesses were displaced as a result of the project. Ms. Casto stated that the developer currently owns the land and there is a small “pay to park” garage which is also owned by the developer. Mr. Wolnitzek stated the land was taken from the city. Mr. Faucet stated that the land was acquired some years back from the city and eminent domain was a possibility but a settlement was reached between the city and the developer. Mr. Faucet indicated the city allowed the developer to redevelop the towers located in Kenton County.

Mr. Holt asked how long the city had been trying to develop the property. Mr. Faucet stated that since 1988 the developer has had the rights to develop the area. Mr. Holt asked if they have actually

been pursuing projects for the area. Mr. Faucet stated that the city of Newport has an advantage because the city owns that property and this property was acquired through the court system and it took quite a few years to happen so no plans or projects were in the works. Mr. Faucet stated that the land was not totally owned by Corporex until late 2001 or early 2002.

Chairman Rudolph asked what the scope of the project is. Ms. Casto stated \$63 million. Chairman Rudolph stated if for instance there is a \$5 million project and there is no PILOT agreement, would this create more taxes than the current project under review. Mr. Chris Day of Corporex stated that currently the parking lot's assessed value is a little over \$1 million and it generates about \$28,000 a year in real estate tax income. Mr. Day indicated that you would have to have something there five times as big as the parking garage to equal the scope of the Ascent at Roebblings Bridge project.

Chairman Rudolph asked if the community would benefit more from a \$63 million project or a \$5 million project. Mr. Day stated the benefit from a \$63 million project would be greater because twenty years from now when the PILOT agreement expires there will be sizable real estate taxes collected from the property.

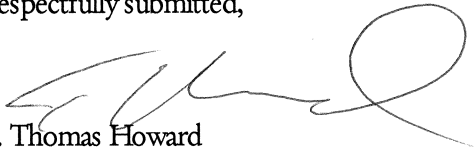
Chairman Rudolph asked if the twenty-five percent collected from the PILOT agreement is more than if the project were a \$5 million project. Mr. Day stated yes, and the twenty-five percent is 10 times as much as the current real estate taxes being collected on the parking garage.

Mr. Wolnitzek asked what the public purpose of the project was because it is not publicly owned. Mr. Spoor stated that the project qualifies under KRS 103.200 (1)(n) as revitalization of a downtown business district. Mr. Spoor stated that the project itself does not have to be open to the public as long as it is engaged in one of the legitimate activities designated in the statute.

A motion was made by Mr. Holt and seconded by Mr. Ross to approve the Ascent at Roebblings Bridge project. **Motion CARRIED.**

With no further business the meeting was adjourned.

Respectfully submitted,


F. Thomas Howard
Secretary