

STATE PROPERTY AND BUILDINGS COMMISSION
February 18, 2008

MINUTES

The State Property and Buildings Commission was called to order by Jonathan Miller, Secretary, Finance and Administration Cabinet at 10:00 a.m. in Room 76 of the Capitol Annex on Monday, February 18, 2008, in Frankfort, Kentucky. Other members present were Mike Alexander, proxy for Governor Steve Beshear; Jeff Derouen; proxy for Lt. Governor Daniel Mongiardo; Katie Smith, proxy for John E. Hindman, Secretary, Cabinet for Economic Development; Mary Lassiter, State Budget Director; Bonnie Howell, proxy for Attorney General Jack Conway; and Edgar C. Ross, Executive Director, Office of the Controller.

Chairman Miller verified that a quorum was present and that the press was notified of the meeting.

A motion was made by Ed Ross and seconded by Mike Alexander to approve the minutes of the January 14, 2008 meeting. Motion carried and the minutes of the January 14, 2008 meeting were approved.

Secretary Miller introduced Resolution 2008-03:

**A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS
COMMISSION OF THE COMMONWEALTH OF KENTUCKY
APPROVING THE ISSUANCE OF HOTEL FACILITIES REVENUE
BONDS (BLUEGRASS EQUINE & TOURISM FOUNDATION, INC.
PROJECT) IN A PRINCIPAL AMOUNT NOT TO EXCEED \$125,000,000
BY THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE
AUTHORITY.**

F. Thomas Howard, Executive Director, Office of Financial Management, stated that Resolution 2008-03 approves the issuance of Hotel Facilities Revenue Bonds (Bluegrass Equine & Tourism, Inc.) in a principal amount not to exceed \$125,000,000 by the Kentucky Economic Development Finance Authority (KEDFA) and authorizes the conduit financing of the Kentucky Horse Park Hotel and related facilities pursuant to Chapter 154 and 103 of the Kentucky Revised Statutes. Mr. Howard stated that KEDFA passed a resolution on February 15, 2008 authorizing the issuance of the bonds. He pointed out that the bonds will be sold in multiple series. The Series A bonds, in an approximate amount of \$75.9 million, will be paid solely from project revenues. The Series B bonds are subordinate bonds and are expected to be repaid from project revenues as well, but will carry a tender option in 2014, which if exercised and is unable to be remarketed, would require the Secretary of Finance to request an appropriation to refinance the bonds. Mr. Howard stated that the project is unique in that the project is located on state property and is utilizing tourism development tax credits. He added that at the end of the lease the state will own the property. Mr. Howard indicated that the financing team for the project includes Peck, Shaffer & Williams LLP as bond counsel and underwriter's counsel; Ross, Sinclair and

Associates, Cincinnati, OH as underwriter; The Bank of New York Trust Company as trustee; and Ross, Sinclair and Associates, Frankfort, KY as financial advisor.

A motion was made by Mike Alexander and seconded by Ed Ross to adopt Resolution 2008-03 approving the issuance of Hotel Facilities Revenue Bonds in a principal amount not to exceed \$125,000,000 by the Kentucky Economic Development Finance Authority. Motion carried and Resolution 2008-03 was adopted.

Secretary Miller introduced Resolution 2008-04:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING A THIRD AMENDMENT FOR A CERTAIN ECONOMIC DEVELOPMENT PROJECT FUNDED FROM THE PROCEEDS OF ECONOMIC DEVELOPMENT REVENUE BONDS ISSUED BY THE COMMISSION.

Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, stated that Resolution 2008-04 approves a Third Amendment to a 2000 Economic Development Bond Grant Agreement with Bracken County Fiscal Court on behalf of Augusta-Brooksville-Bracken County Industrial Authority. Ms. Smith noted that construction delays on the project in 2003 resulted in the Authority requesting a three-year extension on the job creation and maintenance requirement. She stated that in consideration of the extension, the Industrial Authority agreed to increase the number of jobs created and maintained from 10 to 20 full time jobs. Ms. Smith further stated that in 2006, the Industrial Authority had not created the required number of jobs and requested a two year extension on the job creation and maintenance requirement. She added that the Authority also agreed to provide collateral in the form of a letter of credit. Mr. Smith stated that to date, the Industrial Authority has been unsuccessful in creating the required number of jobs and is requesting an additional two year extension on the job creation and maintenance requirement and will extend the letter of credit. She added that the 20 full-time jobs must be created by February 4, 2010. Ms. Smith stated that staff recommends approval of the extension.

Bonnie Howell, proxy for Attorney General Jack Conway, asked why extensions continue to be granted to the Industrial Authority. Ms. Smith stated that the Cabinet felt that since the company was currently working on the project that the extension should be granted. She stated that the first amendment was granted because a corporation that was expected to locate pulled out of the project. She further noted that the second amendment was granted because the Authority had just received the community assessment and began working with others to market the project. Ms. Howell asked if the money has been expended. Ms. Smith indicated the funds were expended on the spec building. Secretary Miller asked if granting the extension would cost the Commonwealth additional funds. Ms. Smith indicated that it would not. She further stated that

any funds that are repaid goes back to the Bracken County Fiscal Court and can only be used for economic development projects approved by KEDFA. Ms. Smith noted that the reason for this is that the bonds are provided through tax exempt financing. Secretary Miller asked what the implication would be if the Commission did not approve the Third Amendment. Ms. Smith stated that the locals would have to obtain a loan for \$100,000 and pay interest.

A motion was made by Mike Alexander and seconded by Ed Ross to approve Resolution 2008-04 approving a Third Amendment on behalf of August-Brooksville-Bracken County Industrial Authority. Motion carried and Resolution 2008-04 was adopted.

Secretary Miller introduced Resolution 2008-05A and 2008-05B:

2008-05A

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY AUTHORIZING AND RATIFYING ACTIONS OF THE COMMISSION STAFF IN THE STRUCTURING, STAFFING, PLANNING AND PREPARATION OF ALL DOCUMENTATION FOR THE ISSUANCE OF CERTAIN BONDS OF THE COMMISSION; AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR THE PURPOSE OF FINANCING AND REFINANCING VARIOUS PROJECTS AND REFUNDING VARIOUS PRIOR ISSUES; 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 THE ACTION OF THE STAFF IN PREPARING AND PUBLISHING A PRELIMINARY 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 AND REFINANCE VARIOUS PROJECTS AND TO REFUND VARIOUS PRIOR ISSUES PURSUANT TO SECTION 56.450 OF THE KENTUCKY REVISED STATUTES; AUTHORIZING THE LEASE OF THE PROJECTS 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.

2008-05-B

RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY AUTHORIZING AND DIRECTING THE PREPARATION OF DOCUMENTS AND THE HIRING OF PROFESSIONALS RELATED TO A TENDER FOR THE OUTSTANDING KENTUCKY ASSET/LIABILITY COMMISSION FLOATING RATE NOTES, 2007 GENERAL FUND FLOATING RATE PROJECT NOTES (THE "PRIOR NOTES") AND AUTHORIZING AND APPROVING THE PREPARATION AND EXECUTION OF DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH FOR THE PURPOSE OF REFINANCING THE PRIOR NOTES WITH THE PROCEEDS OF THE STATE PROPERTY AND BUILDING COMMISSIONS PROJECT NO. 89 BONDS.

Mr. Howard stated that Resolution 2008-05A authorizes up to \$500,000,000 of State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project 89. Mr. Howard noted that proceeds from the bonds will be used to finance approximately \$184,000,000 currently authorized projects that have spent about 45 percent of the authorized amount and are ready to be permanently financed. He further noted that the second part of the transaction is a proposed refunding of ALCo 2007 General Fund Floating Rate Notes, Series A and Series B, originally sold May 2007. Mr. Howard stated that when the Notes were originally sold, they were considered to be a desirable product to institutional investors. He continued that certain market events (sub-prime mortgage crisis and downgrade of insurers) have caused these Notes to become less desirable to investors. Mr. Howard stated that this transaction is estimated to enable the Commonwealth to realize significant present value savings. He added that the transaction is not a traditional refinancing in that the bonds are issued to fund an escrow, but will be issued to exchange with the current institutional holder or allow them to sell (tender) them back to the Commonwealth. Mr. Howard stated that Resolution 2008-05B authorizes Citigroup as tender agent to act on behalf of the Commonwealth. Mr. Howard noted that Citigroup is the underwriter on the transaction. Mr. Howard further noted that the bonds would not be insured as the Commonwealth has more value on an uninsured basis than if insured. Mr. Howard noted that the financing team includes Kutak Rock, Omaha, NE, as bond counsel; Citigroup as underwriter; and underwriter's counsel is expected to be Orrick Harrington. Mr. Howard supplied a graph to the members which details the transaction (copy attached). He also added that the bond opinion has not been solidified but is expected to be within the next few days. He noted that in any event, the new money portion of the transaction would be issued because those projects are ready to be permanently financed.

Secretary Miller asked what the impact of the refunding would be on the budget. Mr. Howard noted that the savings in the next budget cycle is estimated to be \$650,000 in debt service per year or potentially higher if the tender prices lower. Secretary Miller asked when the actual

amount of the savings would be available. Mr. Howard stated that once the bonds are sold, the amount would be provided to the Office of the State Budget director for consideration.

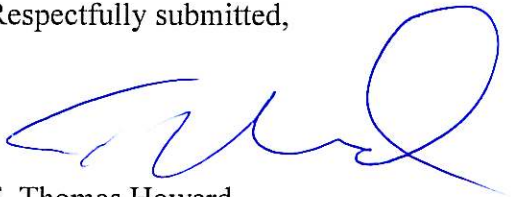
Mary Lassiter, State Budget Director, asked when the bonds were expected to be sold. Mr. Howard stated that the expected date of the transaction would be the early part of March.

A motion was made by Katie Smith and seconded by Bonnie Howell to adopt Resolution 2008-05A authorizing and ratifying actions of the Commission staff in the structuring, staffing, planning and preparation of all documentation for the issuance of certain bonds of the Commission and authorizing the issuance of revenue bonds for the purpose of financing and refinancing various projects and refunding various prior issues. Motion carried and Resolution 2008-05A was adopted.

A motion was made by Mike Alexander and seconded by Bonnie Howell to adopt Resolution 2008-05B authorizing Citigroup as tender agent for the restructuring of the prior ALCo Floating Rate Notes and authorizing the preparation and execution of said tender documents. Motion carried and Resolution 2008-05B was adopted.

With no further business before the Commission, a motion was made by Katie Smith and seconded by Bonnie Howell to adjourn. Motion carried and the meeting was adjourned.

Respectfully submitted,



F. Thomas Howard
Secretary