KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
APRIL 11, 2014

The Kentucky State Property and Buildings Commission ("SPBC" or the "Commission") meeting was called to order on Friday, April 11, 2014 at 11:00 a.m. ET in Room 182 of the Capitol Annex by Deputy Secretary Robin Kinney, proxy for Lori Flanery, Secretary, Finance and Administration Cabinet and Executive Director to the Commission. Other members present were Chad Aull, proxy for Lt. Governor Jerry E. Abramson, Edgar C. Ross, State Controller, Office of the Controller, Larry Clarke, proxy for Attorney General Jack Conway, Kevin Cardwell, proxy for Jane Driskell, State Budget Director, and Katie Smith, proxy for Larry Hayes, Secretary, Cabinet for Economic Development.

The Office of Financial Management ("OFM") Staff Members Present: Ryan Barrow, Executive Director, Sandy Williams, Deputy Executive Director, Robin Brewer, Tom Midkiff, Steve Starkweather, and Marcia Adams.

Other Guests Present: Katherine Halloran from the Legislative Research Commission and Carla Wright from the Office of State Budget Director.

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

After a review of the previous meeting minutes, a motion was made by Mr. Ed Ross and seconded by Ms. Katie Smith to approve the previous meeting minutes. Motion **CARRIED** and the minutes of the February 14, 2014 meeting were approved.

Deputy Secretary Kinney introduced Ms. Robin Brewer for her introduction of Resolution **2014-04**:

> **A 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; SETTING FORTH THE TERMS AND CONDITIONS UPON WHICH SAID REVENUE BONDS ARE TO BE ISSUED AND PROVIDING FOR A COMPETITIVE 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, OFFICIAL TERMS AND CONDITIONS OF BOND SALE AND AN OFFICIAL BID FORM RELATING TO THE SALE OF THE BONDS AND A FINAL OFFICIAL STATEMENT TO BE COMPLETED UPON THE SALE OF THE BONDS; RECITING, ACKNOWLEDGING AND APPROVING THE FILING OF AN APPLICATION BY THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY FOR REVENUE BONDS TO FINANCE THE PROJECT PURSUANT TO SECTION 56.450 OF THE KENTUCKY REVISED STATUTES;**

APPROVING A LEASE OF THE PROJECT TO THE TRANSPORTATION 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. Brewer stated that Resolution 2014-04 is to approve the State Property and Buildings Commission ("SPBC") Road Fund Revenue Bonds, Project No. 107 Series A and Taxable Series B in a not-to-exceed amount of $11,500,000. The Commission plans to issue fixed-rate serial bonds in two series, one tax-exempt series and one taxable series, to provide permanent financing for approximately $10.5 million of Road Fund supported Economic Development projects for public use airports in the Commonwealth. These bonds were authorized in the 2010 Extraordinary Session of the General Assembly by House Bill 3. This project will finance the rehabilitation of airport runways, aprons, hangars, construction of new hangars and terminal buildings, and installation of automated weather observation systems.

The project will be presented to the Capital Projects and Bond Oversight ("CPBO") Committee on April 15, 2014. The proposed sale date is May 7, 2014 with a closing date of May 21, 2014. The estimated All-In True Interest Cost is 4.22%; the estimated final maturity of the bonds is May 1, 2032; the estimated average annual debt service is approximately $845,100; and the transaction will be sold on a competitive basis. Bond Counsel is Peck, Shaffer and Williams, a division of Dinsmore & Shohl LLP; Financial Advisor is Acacia Financial Group, Inc.; and the Trustee is U. S. Bank. Staff recommends approval.

Ms. Brewer went on to explain to the members why there would be both a tax-exempt and a taxable piece to this transaction. When this project was authorized in 2010, Transportation staff anticipated the funds for the project would not be spent quickly. The decision was made to delay any issuance of bonds until a sizable amount of the monies were spent. There were minimal expenses incurred in 2010 and now that the transaction will be issued, tax law only allows reimbursement to a state agency for expenditures on a tax-exempt basis up to 18 months prior to issuance. Since there were expenses incurred prior to the 18-month timeframe, the taxable portion will be issued to reimburse for those costs. Any expenses incurred within the 18-month timeframe, as well as any future expenditures, will be reimbursed or spent from the tax-exempt portion of the transaction. If the Commonwealth had issued the bonds in 2010 or 2011, Transportation would not have been able to meet the IRS spend-down requirements and would have incurred significant negative arbitrage well in excess of the spread between taxable and tax-exempt rates.

Staff has structured this transaction as cost effectively as possible, starting with structuring the taxable portion to be amortized on the short end to pay off first, as it is the most expensive, and structuring the tax-exempt portion on the back end. Staff has also attempted to shorten the amortization to at least 18 years instead of 20 years, and it may be even less as staff monitors rates closer to the date of sale. Mr. Ed Ross asked what the difference in the basis point spread between the taxable and tax-exempt portions of the transaction would be. Ms. Brewer answered that it was approximately 100 basis points based on today's rates. Mr. Ryan Barrow added that another option would have been to have issued two transactions, one earlier and one later, but the cost of issuance for two transactions, as well as the lower demand for such a small size along with the negative arbitrage would have been cost prohibitive.

Deputy Secretary Kinney asked the Commission members if they had any other questions. Ms. Smith made a motion to approve Resolution **2014-04** that was seconded by Mr. Ross. Motion **CARRIED,** and Resolution **2014-04** was **ADOPTED.**

Deputy Secretary Kinney introduced Mr. Tom Midkiff for his introduction of Resolution **2014-05**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HOUSING CORPORATION OF ITS HOUSING BONDS IN ONE OR MORE SERIES.**

Mr. Midkiff stated that Resolution 2014-05 is for the Kentucky Housing Corporation ("KHC") Single Family Housing Revenue Bonds 2014 Series A, in a not-to-exceed amount of $70,000,000 to refund certain prior bonds for economic savings. He stated that several maturities are past the 10-year call date, with the rest callable at the beginning of Fiscal Year 2015. Even though the transaction is scheduled to close around the beginning of the fiscal year, with today's approval, KHC would have the flexibility to accelerate the transaction if the markets began moving unfavorably before the end of Fiscal Year 2014.

The tentative sale date is scheduled for June 4, 2014 with the closing date of July 2, 2014; the credit rating is "Aaa"/"AAA" (Moody's/S&P); the estimated cost of issuance is $275,000; the estimated True Interest Cost is 4.00% with a 10-year call date and final maturity of January 2034. This is a taxable transaction allowing greater flexibility for the use of the proceeds. Bond Counsel is Kutak Rock LLP; Underwriter is Citi; Underwriter's Counsel is Peck, Shaffer & Williams, a division of Dinsmore and Shohl LLP; and the Trustee is The Bank of New York Mellon. The estimated net present value savings is approximately $1.6 million or 2.6% after the cost of issuance is paid. Staff recommends approval.

Deputy Secretary Kinney asked the Commission members if they had any questions. Mr. Larry Clarke made a motion to approve Resolution **2014-05** that was seconded by Mr. Ross. Motion **CARRIED,** and Resolution **2014-05** was **ADOPTED.**

Deputy Secretary Kinney introduced Mr. Tom Midkiff for his introduction of Resolution **2014-06**:

> **A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION OF STUDENT LOAN REVENUE BONDS, SERIES 2014A, PURSUANT TO AN INDENTURE OF TRUST, SUPPLEMENTS THERETO AND AN AUTHORIZING RESOLUTION OF KHESLC TO BE ISSUED AS ONE OR MORE SENIOR SERIES OF FEDERALLY TAX-EXEMPT OR FEDERALLY**

TAXABLE OBLIGATIONS IN A COMBINED AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $30,000,000.

Mr. Midkiff stated that Resolution 2014-06 is for the issuance of Kentucky Higher Education Student Loan Corporation ("KHESLC") Student Loan Revenue Bonds, Series 2014 A, in a not-to-exceed amount of $30,000,000. The project intends to be tax-exempt, making use of currently held Private Activity Bond Cap. Similar to what was noted by Ms. Brewer during her discussion at this meeting, the program has been in effect for over two years and the intended collateral is past the due date from the intended close of the bonds, potentially disallowing the collateral on a tax-exempt basis. Counsel intends to use the outdated collateral in the required over-collateralization piece to allow the issuance to remain fully tax-exempt. This will be a serial structure, under a new indenture, for KHESLC's supplemental Student Loan Program, making use of Private Activity Bond Cap, as the Corporation no longer has the ability to originate Federal Direct Loans.

The Federally Tax-Exempt Bonds are being issued for the purpose of purchasing, originating, and financing Kentucky Advantage Education Loans ("KAEL") and Federal Family Education Program ("FFELP") Loans. The Corporation anticipates "A" ratings from both Standard & Poor's ("S&P") and Fitch Ratings, with a proposed sale date of April 30, 2014 and a proposed closing date of May 21, 2014. The True Interest Cost is 4.23%; the call date is June 1, 2024 and the estimated final maturity is June 1, 2031, with an average life of 7.22 years. This is a negotiated sale with Hawkins Delafield & Wood LLP as Bond Counsel; Senior Managing Underwriter is Bank of America Merrill Lynch; Underwriter's Counsel is Kutak Rock LLP; and the Trustee is the Bank of New York Mellon. Staff recommends approval.

Deputy Secretary Kinney asked the Commission members if they had any questions. Mr. Ross made a motion to approve Resolution **2014-06** that was seconded by Ms. Katie Smith. Motion **CARRIED,** and Resolution **2014-06** was **ADOPTED.**

With no other business, the meeting stands adjourned.

Respectfully submitted,

Ryan Barrow
Secretary