

STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
MAY 12, 2008

The State Property and Buildings Commission was called to order on Monday, May 12, 2008 immediately following adjournment of the Kentucky Asset/Liability Commission (approximately 10:20 a.m.) in Room 76 of the Capitol Annex by Lori Flanery, Deputy Secretary, Finance and Administration Cabinet and proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Mary Lassiter, State Budget Director; Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet; Katie Smith, proxy for John Hindman, Secretary, Cabinet for Economic Development; Edmund Sauer, proxy for Governor Steve Beshear; and Jeff Derouen, proxy for Lt. Governor Daniel Mongiardo.

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

A motion was made by Katie Smith and seconded by Mary Lassiter to approve the minutes of the April 8, 2008 meeting. Motion carried and the minutes of the April 8, 2008 meeting were approved.

Deputy Secretary Flanery introduced Resolution 2008-10:

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

F. Thomas Howard, Executive Director, Office of Financial Management, stated that Resolution 2008-10 approves a capital construction project authorized by the 2008 General Assembly. He stated that the project will be financed with the issuance of State Property and Buildings Commission Revenue Bonds or other authorized state debt issuing authority. Mr. Howard noted that the Kentucky Asset/Liability Commission passed a resolution prior to this meeting to provide interim financing for the Morehead State University Replacement Power Plant Pollution Control System and Boiler Tube project totaling \$5.7 million. Mr. Howard added that this will provide financing for the permanent take-out of the bonds once they are ready to be issued. Mr. Howard stated that this is the only project, authorized for fiscal year 2008, that is being approved today and is ready for bid on May 23, 2008.

A motion was made by Mary Lassiter and seconded by Ed Ross to adopt Resolution 2008-10 approving a capital construction project authorized by the 2008 General Assembly where such project will be financed by the issuance of State Property and Buildings Commission Revenue Bonds or other authorized state-debt issuing authorities. Motion carried and Resolution 2008-10 was adopted.

Deputy Secretary Flanery introduced Resolution 2008-11:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,400,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AUTHORIZED PROJECTS IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE STATE PROPERTY AND BUILDINGS COMMISSION; AND APPROVING A SUPPLEMENTAL FINANCING/LEASE AGREEMENT RELATED THERETO.

Brett Antle, Financial Analyst, Office of Financial Management stated that Resolution 2008-11 approves the issuance of Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series in an aggregate principal amount not to exceed \$1,400,000,000 for the purpose of providing interim financing for an authorized project in anticipation of issuance of the bonds by the State Property and Buildings Commission and authorizing a supplemental financing agreement. He further stated that this simply authorizes the Kentucky Asset/Liability Commission to sell Project Notes to provide interim financing for the Morehead State University project and also to supplement the existing financing/lease agreement to add the project.

Mary Lassiter, State Budget Director, asked if the \$1.4 billion represents the total Asset/Liability Commission Project Notes (projects authorized in prior budgets) that are financed under the 2005 Resolution and if the \$5.7 million for the Morehead project is being added to that amount? Mr. Howard stated that the \$1.4 billion is a cumulative amount and represents an authorization and not necessarily projects that were financed.

A motion was made by Katie Smith and seconded by Mary Lassiter to adopt Resolution 2008-11 approving the issuance of Kentucky Asset/Liability Commission Project Notes 2005 General Fund Second Series in an aggregate principal amount not to exceed \$1,400,000,000 for the purpose of providing interim financing for an authorized project in anticipation of the issuance of bonds by the State Property and Buildings Commission. Motion carried and Resolution 2008-11 was adopted.

Deputy Secretary Flanery introduced Resolution 2008-12:

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

Rachael Putnam, Financial Analyst, Office of Financial Management, stated that Resolution 2008-12 authorizes the refunding of University of Kentucky General Receipts Bonds, 2008 Series A in an approximate amount of \$36,685,000. Ms. Putnam further stated that approval is being sought to refund the Lexington-Fayette Urban County Government Governmental Project Revenue Refunding Bonds, Series 1998 (UK Alumni Association, Inc., Commonwealth Library Project). She added that proceeds of the bonds will be used to pay costs of issuance in connection with the obligation and to refund the prior bonds to achieve debt service savings. Ms. Putnam stated that the University of Kentucky Board of Trustees approved the bonds on April 22, 2008. Ms. Putnam stated that Peck, Shaffer & Williams will serve as bond counsel on the transaction; Hilliard and Lyons will serve as financial advisor, and U.S. Bank will serve as trustee.

Mr. Ross asked if HB 380 authorized the sale of these bonds. Mr. Howard stated that there were provisions in the current budget bill as well as the new budget bill that allows universities to refinance off-balance sheet debt under a General Receipts pledge as long as there is debt service savings associated with the refinancing. Mr. Ross asked what role the Lexington-Fayette Urban County Government has in the refunding. Mr. Howard stated that the Urban County Government acts as a conduit for the financing and that the payment stream has been pledged through the UK Alumni Association.

Ms. Lassiter asked what other debt would still be outstanding but would not be under the General Receipts pledge (for UK). Mr. Howard stated he did not believe there was any further debt outside of the General Receipts.

A motion was made by Katie Smith and seconded by Ed Ross to adopt Resolution 2008-12 approving the issuance of University of Kentucky General Receipts Refunding Bonds, 2008 Series A. Motion carried and Resolution 2008-12 was adopted.

Deputy Secretary Flanery introduced Resolution 2008-13:

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

Ms. Putnam stated that Resolution 2008-13 authorizes the issuance of Northern Kentucky University General Receipts Bonds, 2008 Series A in an approximate amount of \$19,475,000 for the purpose of constructing the James P. Callahan Residence Hall. Ms. Putnam noted that the proceeds of the bonds will be used to pay project costs and the cost of issuing the bonds. She added that the project was approved by the Northern Kentucky University Board of Regents on April 28, 2008 and will be presented to the Capital Projects and Bond Oversight Committee on

May 15, 2008. Ms. Putnam stated that Peck, Shaffer & Williams LLP will serve as bond counsel on the transaction; Hilliard and Lyons will serve as financial advisor; and U. S. Bank National Association will serve as trustee.

A motion was made by Katie Smith and seconded by Mary Lassiter to adopt Resolution 2008-13 approving the issuance of Northern Kentucky University General Receipts Bonds, 2008, Series A. Motion carried and Resolution 2008-13 was adopted.

Deputy Secretary Flanery introduced Resolution 2008-14:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF MOREHEAD STATE UNIVERSITY GENERAL RECEIPTS BONDS, 2008 SERIES A AND MOREHEAD STATE UNIVERSITY GENERAL RECEIPTS BONDS, 2008 TAXABLE SERIES B AND AFFIRMING A CONTRACTUAL COMMITMENT OF THE COMMONWEALTH WITH RESPECT TO SUCH PROPOSED BONDS.

Ms. Putnam stated that Resolution 2008-14 approves the issuance of Morehead State University General Receipts 2008 Series A and Series B bonds in an approximate amount of \$13,000,000. Ms. Putnam stated Morehead State University wanted to take advantage of a somewhat favorable market to refund all of the outstanding Housing and Dining Bonds. She added that approval is being sought to refund the 2000 Series N, 2001 Series P, 2003 Series R and the defeasement of 2000 Series O and 2003 Series Q Housing and Dining Revenue Bonds. The proceeds of the 2008 Series A and Series B Bonds will be used by the University to pay costs of issuance in connection with the obligation and to refund prior bonds. Ms. Putnam stated that Peck, Shaffer & Williams LLP will serve as bond counsel on the transaction; Hilliard and Lyons will serve as financial advisor; and U. S. Bank will serve as trustee.

Mr. Howard stated that the benefit of collapsing the Housing and Dining Indenture allows the University to fold the debt service reserve fund, which often earns negative arbitrage, as well as free up the maintenance reserves held in those accounts.

Ms. Lassiter stated that at the time the analysis was completed (Debt Service Schedule/Attachment E) there was net economic benefit from a debt service perspective, but it frees up the maintenance reserves and the debt service reserve. Mr. Howard stated that was correct. Ms. Lassiter asked if that was reflected in the analysis. Mr. Howard stated there was a present value loss but a positive net cash flow.

A motion was made by Ed Ross and seconded by Mary Lassiter to adopt Resolution 2008-14 approving the issuance of Morehead State University General Receipts Bonds, 2008 Series A and Taxable 2008 Series B. Motion carried and Resolution 2008-14 carried.

Deputy Secretary Flanery introduced Resolution 2008-15:

A 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 ADJUSTABLE RATE DEMAND HEALTHCARE FACILITIES REVENUE AND REFUNDING BONDS IN ONE OR MORE SERIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$43,000,000.

Katie Smith, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, stated that the Kentucky Economic Development Finance Authority (KEDFA) is seeking approval to issue Adjustable Rate Demand Healthcare Facilities Revenue and Refunding Bonds in one or more series in an amount not to exceed \$43,000,000 on behalf of the Kentucky Easter Seals Society (dba Cardinal Hill Healthcare system). Ms. Smith further stated that a portion of the bond proceeds will be used to acquire, construct and equip additions and improvements to the existing healthcare facility in Lexington, Kentucky. Ms. Smith added that the remaining bond proceeds will be used to refund and refinance the outstanding principal amounts of the KEDFA Adjustable Rate Demand Healthcare Facilities Revenue Bonds Series 2000 and a loan from the 1985 Series A KEDFA Variable Rate Demand Hospital Loan Pool. She added that the Lexington/Fayette Urban County Government approved a Resolution in April requesting that KEDFA issue the bonds and KEDFA approved the Final Resolution on April 24, 2008. Ms. Smith noted that KEDFA is a conduit financier in the transaction and will not be held liable for the bonds. She added that the project will be presented to the Capital Projects and Bond Oversight Committee on May 14, 2008. Ms. Smith stated that the bond counsel for the project is Frost Brown Todd and the trustee is Bank of New York.

A motion was made by Ed Ross and seconded by Mary Lassiter to adopt Resolution 2008-15 approving the issuance by the Kentucky Economic Development Finance Authority of its Adjustable Rate Demand Healthcare Facilities Revenue and Refunding Bonds in one or more series in an aggregate principal amount not to exceed \$43,000,000. Motion carried and Resolution 2008-15 was adopted.

Deputy Secretary Flanery introduced Resolution 2008-16:

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 FOR PHARMERICA INSTITUTIONAL PHARMACY SERVICES, INC. (PHARMERICA) (LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT) (\$200,000).

Ms. Smith stated that Resolution 2008-16 requests approval to use \$200,000 in Economic Development bond funds for the purpose of making a grant to the Louisville/Jefferson County Metro Government for the benefit of PharMerica Institutional Pharmacy Services, Inc. Ms. Smith further stated that the company will lease approximately 62,000 square feet of a facility located in Louisville, Kentucky for the purpose of establishing the corporate headquarters of institutional pharmacy companies. Ms. Smith added that the project involves completing leasehold improvements and the equipment necessary to establish a headquarters operation. In consideration of the EDB grant, the company will be required to create 200 new permanent full time jobs for Kentucky residents within three years of completion of the operation at an average salary of not less than \$77,750. Ms. Smith noted that these levels must be maintained for an additional three years. She added that if the job and wage requirements are not met, the company will be required to pay the Louisville/Jefferson County Metro Government a portion for the grant based on a formula in the grant agreement. She further added that the company will be required to provide a letter of credit or some other form of collateral satisfactory to the Cabinet as security for repayment of the proceeds. Ms. Smith noted that project was recommended by the Secretary of the Economic Development Cabinet and concurred upon by the Secretary of the Finance and Administration Cabinet and approved by KEDFA in April.

A motion was made by Mary Lassiter and seconded by Ed Ross to approve 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 for PharMerica Institutional Pharmacy Services, Inc. (PharMerica) (Louisville/Jefferson County Metro Government) (\$200,000). Motion carried and Resolution 2008-16 was adopted.

Mr. Howard stated that OFM was in the process of closing SPBC Project 89 bond issue. He stated that SPBC Project 89 funded \$204,962,000 of projects previously authorized in the 2005-2006 legislative sessions. He stated that the bonds were insured by FSA and the premium was 47 basis points, 34 basis points higher than the last insurance premium. Mr. Howard stated this reflects credit difficulties in the present market. He also stated that the tender program was not successful due to a change in the LIBOR market and tax limitations requiring a large payment to be rebated to IRS which affected the amount that could be offered to purchase the bonds from investors. Mr. Howard distributed a handout

which indicated that before the transaction was executed, 68 percent of the debt service was maturing within ten years and 33 percent was maturing within five years. Mr. Howard noted that the policy targets established by ALCo are within 27-30 percent in five years and between 55 and 60 percent in 10 years. Mr. Howard stated that the transaction was back loaded to reduce these amounts in line with the upper end of the target bands. He added this also has the benefit of providing some debt service relief but was not the primary motivator in the structure. Mr. Howard noted additionally that there has been significant market dislocation and staff terminated an interest rate swap with ALCo for \$150,000,000 to hedge the issuance of the bonds that was executed in August 2007. Mr. Howard stated that the G.O. Bond Index was approximately 4.5 percent when the hedge was placed. He further stated that when the hedge was terminated with the issuance of the SPBC 89 bonds, the rate was approximately 4.63 percent. Mr. Howard pointed out that the swap market and the cash market do not always move in sync. He stated that when the hedge was placed with the swap market, the rate was 4.21 percent, but when the swap was unwound the rate was 3.72 percent. He noted that the rates went down and a higher rate was paid. Mr. Howard noted that the benefit is that the hedge reduces the interest rate risk and a lower debt service amount can be budgeted to free up cash for other purposes. Mr. Howard noted that the steepness of the yield curve changed dramatically as well and affects the valuation of the swap. Mr. Howard stated that with the back loading and the termination of the swap, the overall cost of the transaction was 4.88 percent.

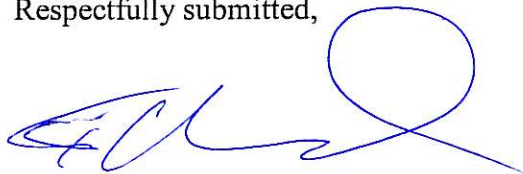
Mary Lassiter stated that two of the rating agencies changed the outlook on SPBC 89 and asked that Mr. Howard discuss what has actually occurred and the significance of the change. Mr. Howard stated that the change in the outlook make some investors unwilling to pay the same yields as they would for a similar credit. Mr. Howard stated that the Commonwealth is rated Aa3 by Moody's; AA- by Fitch and A+ by S & P with a positive outlook. The lowering of the outlook by Moody's and Fitch prompted investors to request insurance. He added that this resulted in increased cost but the sale was successful. Mr. Howard stated that the rating agencies reviewed the economy, structural imbalance in the budget and the depletion of the reserves when changing the outlook. Mr. Howard added that Kentucky is not alone in that regard and the outlook is changing for many states. Mr. Howard stated that the rating agencies are being blamed for the sub-prime debacle and this has resulted in greater scrutiny in the municipal market.

Mary Lassiter expressed her personal appreciation and the appreciation of the State Budget Office to Shy Bradley who will retire from the Office of Financial Management. Ms. Lassiter also requested that an informal Resolution of Appreciation for Ms. Bradley's many years of serve to OFM and the Commission be adopted and reflected in the minutes. Ms. Flanery also thanked Ms. Bradley for her service to the Cabinet.

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With no further business before the Commission, the meeting was adjourned.

Respectfully submitted,

A handwritten signature in blue ink, consisting of a large, stylized 'F' followed by a cursive 'T' and 'H', ending in a large, circular flourish.

F. Thomas Howard
Secretary