STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
SEPTEMBER 15, 2008

The State Property and Buildings Commission was called to order on Monday, September 15, 2008 at 10:30 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 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; Mary Lassiter, State Budget Director, 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, LRC, Ms. Kristi Culpepper, LRC, and Mr. Ryan Green, State Budget Director's Office.

Deputy Secretary 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 of the August 18, 2008 meeting. Motion CARRIED and the minutes of the August 18, 2008 meeting were approved.

Deputy Secretary Flanery introduced Resolution **2008-25**:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY NOT EXCEEDING $155,000,000 KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY (KEDFA) MEDICAL CENTER REVENUE BONDS (ASHLAND HOSPITAL CORPORATION, D/B/A KING'S DAUGHTERS MEDICAL CENTER PROJECT), SERIES 2008 (THE "BONDS")

Ms. Katie Smith, Deputy Commissioner for the Department of Financial Incentives remarked that Resolution 2008-25 relates to the issuance of Medical Center Revenue Bonds in an amount not to exceed $155,000,000 on behalf of Ashland Hospital Corporation d/b/a Kings' Daughter Medical Center. Portions of Bond proceeds will be used to acquire, construct and equip improvements to the Medical Center facility located in Ashland, Kentucky. The remaining bond proceeds will be used to refund and refinance outdated principal amounts of the Series 2004, Series 2006, Series 1993B, Series 2001 and Series 2003B KEDFA (Kentucky Economic Development Finance Authority) Medical Center Revenue Improvement Bonds. KEDFA is a conduit financier on the transaction and will not have a general obligation or be held liable for the bonds. KEDFA approved the final resolution at its August meeting. Bond Counsel is Frost, Brown, Todd; underwriter counsel is Peck, Shaffer, Williams; Financial Advisor is Hoffman, Hall and Associates; Underwriters are RBC Capital Markets and Trustee is US Bank. Staff recommends approval.

Deputy Secretary Flanery asked if there were any questions or discussions. Mr. Ross made a motion to approve Resolution **2008-25**, that was seconded by Mr. Derouen. Motion CARRIED and Resolution **2008-25** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2008-26**:

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 VARIABLE/FIXED RATE DEMAND SOLID WASTE DISPOSAL REVENUE BONDS (REPUBLIC SERVICES, INC. PROJECT) SERIES 2008 IN AN AMOUNT NOT TO EXCEED $18,025,000

Ms. Smith stated Resolution 2008-26 is seeking the Commission's approval on the issuance of Solid Waste Disposal Revenue Bonds in an amount not to exceed $18,026,265 on behalf of Republic Services, Inc.. The bond proceeds will be used to finance the acquisition, construction and equipping of existing land fill hauling facilities, containers, collection vehicles and related equipment owned or operated by Republic Services of Kentucky, LLC. Facilities are located in Williamstown, Sulphur, Stanford, Beaver Dam, Louisville and Nicholasville, Kentucky. KEDFA is a conduit financier on the transaction and will not have a general obligation or be held liable for the bond. KEDFA also approved this transaction at its August Meeting. Both Bond Counsel and Underwriters Counsel are Chapman and Cutler; JP Morgan Securities is the Underwriter and US Bank is the Trustee. Staff recommends approval.

Deputy Secretary Flanery asked if there were any questions or discussions. Mr. Edmund Sauer made a motion to adopt Resolution **2008-26** that was seconded by Ms. Mary Lassiter. Motion **CARRIED** and Resolution **2008-26** was **ADOPTED.**

Deputy Secretary Flanery introduced Resolution **2008-27**:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HOUSING CORPORATION OF ITS MULTIFAMILY HOUSING REVENUE BONDS IN ONE OR MORE SERIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $6,620,000.

Mr. Tom Howard, Executive Director of the Office of Financial Management, stated this is a Resolution approving the issuance of Kentucky Housing Authority (KHC) of it multi-family housing revenue bonds in one or more series in the principal amount not to exceed $6,620,000. The issue is to finance the acquisition, rehabilitation and equipping the existing Watterson Lakeview Apartment project located at 3703 W. Wheatmore Drive in Louisville. The project consists of 48-1 bedroom Units, 120-2 bedroom units, and 16-3 bedroom units for 184 units. Ninety percent of the units will be set aside for families earning 60% or less of the areas median income. This transaction was approved by the KHC Board on August 28th, the proposed date of issuance is November 1st, and this will be a variable rate transaction with credit enhancement the underwriter is Merchant Capital and Bond Counsel is Peck, Shaffer Williams.

Ms. Lassiter asked Mr. Howard to talk about the market in general in regards to any of these transactions as far as the risk. Mr. Howard answered that KHC is a conduit for the transaction so access to the market and the risks associated would be solely to the developer. They are receiving tax credits associated with the financing that should make it more viable but in this marketplace, there is no assurance with any transaction. This is a small transaction for investors looking for the tax credit.

Deputy Secretary Flanery asked if there were any questions or discussions. Ms. Smith made a motion to adopt Resolution **2008-27** that was seconded by Mr. Ross. Motion **CARRIED** and Resolution **2008-27** was **ADOPTED.**

Further market comments by Mr. Tom Howard: He stated that we are in unprecedented circumstances in the market with the bankruptcy of Lehman Brothers, the forced sale of Merrill Lynch to Bank of America and that AIG may be also be failing. Attention is turning to the underwriter for two of the following three transactions, Morgan Stanley.

The face of Wall Street is forever changed, as there are now only two broker dealers remaining that are not affiliated with a bank or larger financial institution and that is Morgan Stanley and Goldman Sachs. Goldman has a significant amount of capital and resources and it will be interesting to see what happens and what transactions will be able to be financed in the coming weeks or months. Mr. Howard would like to see governmental debt move up in investor preference while rates may be somewhat higher as we work through this. The availability of capital to invest still exists but the question is at what rates will they offer and the risks assessments that go with it. Today, Treasury Bills were down to ¼ percent for four weeks. Previously they were ¾ of a percent for three months so the yield curve is very steep and the flight to quality has resulted in a tremendous movement to governmental securities. Once we get through September 30th and into early October, maybe some of these concerns will be relieved and the flight into invested capital will seek out municipals as a safe haven when it does not make sense to invest in Treasuries at 1/4.

Deputy Secretary Flanery introduced Resolution **2008-28**:

> **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 AND NOTES; 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 REVENUE BONDS AND NOTES, PURSUANT TO SECTION 56.450 OF THE *KENTUCKY REVISED STATUTES;* AUTHORIZING THE LEASE OF THE PROJECTS TO SUCH 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.**

Mr. Howard stated that we have three transactions for your review SPBC Projects 90, 91 and 92. There is a summary of all three on the New Bond Issue report. We do have a backup plan in case Morgan Stanley, our underwriter for two of the projects, would not be in existence at the time of the sale. CitiGroup, we believe, will be present. That is why we employ multiple underwriters in our selection process to make sure we have diversity and can continue business in disrupted times.

Brett Antle, Deputy Executive Director for the Office of Financial Management, stated that Project 90 has a number of components. We are looking to provide permanent financing for $270.1 million of authorized General Funds Capital Projects, a combination of 2005, 2006 and 2008 General Assembly Sessions. We are also looking to provide a refunding of $100 million dollars of our ALCo General Fund Second Series Project Notes, which have been providing interim financing for each of these projects. The not exceed amount on this transaction is $375 million dollars.

We are also looking to do a current refunding of a certain number of SPBC Project 60 Bonds, $24.6 million of outstanding bonds that is a current refunding of credit value savings. The remaining component of the transaction is to achieve a budgetary move that was contemplated in the 2008 session of $50 million dollars. That fiscal relief is being achieved by a variety of ways: we are using present value savings funds from the SPBC Project 60 current refunding to achieve about $850,000 of those savings; we will restructure $42-$43 million dollars of current fiscal year debt service as part of this transaction; we will capitalize interest on the new money component which is another $7 million dollars. The line item is over 50 million dollars but these numbers will come together as we get closer to market. The estimate of TIC in the transaction is 4.69% depending on the market. Morgan Stanley is the underwriter, bond counsel is Chapman & Cutler, Perkins Cole is Underwriter Counsel and US Bank is Trustee.

We included a couple charts to graphically present the change in the debt service structure for the general fund State Prop bonds pre-Project 90 and post-Project 90. The first chart shows the principal amount of debt service is roughly $43 million dollars. We also have a chart that shows the restructured bonds from FY 2009 are going to be restructured over the balance of 20 years. Finally, the new money debt service in total is on the third chart. Keep in mind that FY 2009 is strictly an interest payment and all that interest is being capitalized. Also as a component, we are looking to restructure to get our general fund portfolio within policy guidelines and rating agencies targets of 27-30% within five years and 55-60% within ten years.

Deputy Secretary Flanery asked if there were any questions or discussions. Ms. Lassiter questioned the debt restructuring piece of the enacted budget assumed $50 million in 2009 and another $50 million in 2010. Are you accomplishing all of that in this restructuring or just the first $50 million? Mr. Howard's answer was the first $50 million. Essentially, we would have to employ an advance refunding to get those in the next year or so, which would be expensive. We prefer to wait until subsequent transactions. Ms. Lassiter stated this is just a picture of just what is being restructured. Ms. Lassiter asked do you have pictures of all General Fund debt service and an eye toward all debt service to achieve policy guidelines. The point is budgetary on this piece we will adjust way up in FY 2015, but the overall approach we are taking is but it will overall be mitigated by the strategy?

Mr. Howard explained that we are trying to smooth out the overall General Fund debt service, which has a rapid amortization. We needed to rebalance the portfolio for budgetary purposes within those targeted guidelines to make sure we do not increase debt service unduly forcing a crowding out effect in future budgetary periods. We trying to smooth out between the acceptable bands that we have employed since 1997 when the policy targets were adopted.

Mr. Derouen questioned whether we were saving $40 million or $50 Million? Mr. Antle answered $43 million. The principal amount at the bottom of those two sections, is roughly $43 million. The remainder of the $50 million is made up of the other two components, $850,000 dollars in current year present value savings on current refunding of State Prop Project 60 Bonds and another $7 million in capitalized interest. This will limit the amount of refinancing of current fiscal year maturities. Staff has recommended approval for Resolution 2008-28, Project 90.

Deputy Secretary Flanery asked if there were any questions or discussions. Ms. Lassiter made a motion to adopt Resolution **2008-28** that was seconded by Mr. Ross. Motion **CARRIED** and Resolution **2008-28** was **ADOPTED.**

Deputy Secretary Flanery introduced Resolution **2008-29**:

> **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 REVENUE BONDS OF THE COMMISSION; AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR THE PURPOSE OF FINANCING AND REFINANCING A PROJECT AND REFUNDING VARIOUS NOTES; 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 A PROJECT AND TO REFUND VARIOUS NOTES PURSUANT TO SECTION 56.450 OF THE *KENTUCKY REVISED STATUTES;* AUTHORIZING THE LEASE OF THE PROJECT TO SUCH CABINET AND/OR THE KENTUCKY RIVER AUTHORITY 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.

Mr. Howard stated Project 91 is a companion issuance for Project 90. It is similar to the structure of State Prop 90 and is consistent with past Agency Fund Resolutions that this Commission has adopted for other financings. The same is true for Project 92. Project 91 will finance the improvements in the Kentucky River Basin for the Kentucky River Authority (KRA). This is where Tier Two Water Withdrawal Fees are pledged to repay the obligation and those rates were increased to contemplate the refunding or refinancing of the construction loan program that was provided by ALCo and approved by this Commission in 2005. The KRA had a 33.2 million dollar Agency Restricted Fund Bond Authorization in the 2005 General Assembly. They are now in the process of completing Dam 9 and expect it to be finalized in February 2009. We wanted to take this out now because of the credit market crunch and also because the interim construction loan cannot be extended. It matures in April and we want it permanently financed well in advance while the markets are at relatively low interest rates. The underwriter is Morgan Stanley in a companion transaction with Project 90.

This transition will give investors a chance to buy a state revenue bond that is secured solely by Tier Two Water Withdrawal Fees, the Debt Service Reserve Fund and a Rate Stabilization Fund that are funded by resources of the Agency. This transaction requires the Commonwealth to provide a moral obligation to replenish the Debt Service Reserve Fund in the event the revenues are insufficient and there is a draw upon the reserve fund. This is the first, permanent issuance of the Kentucky River Authority. Their original authorization was in 1984 but this will be the first financing they have engaged in. This transaction is not inconsistent with past practices like the Fair Board transaction, and a moral obligation pledge is not uncommon, particularly in the bond insurance market, not being a viable option to provide credit enhancement. The bond insurance model is "broken" and is only available at egregious rates in the current market environment. There is limited applications for bond insurance and it needs to be applied to those credits that are at the lowest level of investment grade being BBB. We would expect this credit to be a strong A or as weak AA, depending on how the rating agencies view it. This is a dedicated tax, unlimited tax that the KRA covenant to rate increases to meet the debt service requirements and any additional bonds they would issue to complete other improvements. SPBC Project 90 will include the $17,500,000 General Fund authorization from the recent budget act as a companion to demonstrate to the market that the Commonwealth's commitment to the Kentucky River Basin is there. Staff has recommended approval for Resolution 2008-29, Project 91.

Deputy Secretary Flanery asked if there were any questions or discussions. Ms. Smith made a motion to adopt Resolution **2008-29** that was seconded by Mr. Derouen. Motion **CARRIED** and Resolution **2008-29** was **ADOPTED.**

Deputy Secretary Flanery introduced Resolution **2008-30**:

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 REVENUE BONDS OF THE COMMISSION; 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 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 A PROJECT PURSUANT TO SECTION 56.450 OF THE *KENTUCKY REVISED STATUTES;* AUTHORIZING THE LEASE OF THE PROJECT TO SUCH CABINET AND/OR THE DEPARTMENT OF MILITARY SERVICES 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.

Mr. Howard stated that Project 92 is a trust estate, much like Project 91, for Bluegrass Station. This is for improvements to the electrical grid, to double capacity and modernize a 40 year old facility and improvements to the water line for continuation of service to existing customers at the facility. ALCo has issued bonds previously for the Bluegrass Station. Because of the private use/private payment nature, these bonds must be issued on a taxable basis. This is approximately five million dollars to a net of about 4.4 million dollars to be used for the facility and the balance to be used to fund the Debt Service Reserve Fund, as in Project 91 and cost of issuance. CitiGroup was the underwriter in the previous Bluegrass Station transaction and was asked to undertake this transaction. We anticipate that Kentucky banks will purchase these, given their taxable status and with the state tax exemption associated with these bonds. The Commonwealth also has pledged its moral obligation to the Bluegrass Station bonds.

Deputy Secretary Flanery asked if there were any questions or discussions. Staff has recommended approval. Mr. Ross made a motion to adopt Resolution **2008-30** that was seconded by Ms. Smith. Motion **CARRIED** and Resolution **2008-30** was **ADOPTED**.

Ms. Lassiter has requested that the Commission be updated by email on the changing details of these projects because of the uneasiness of the market. Mr. Howard answered that yes, indeed the Commission would be updated and that we were authorized to operate within certain parameters. If there is a deviation from those parameters we will certainly keep the Commission posted as to development with the market and the projects, especially developments with the Underwriters.

With no further business before the Commission, Ms. Lori Flanery stated the meeting stands adjourned.

Respectfully submitted,

F. Thomas Howard
Secretary