

STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
JUNE 15, 2009

The State Property and Buildings Commission (SPBC or the Commission) was called to order on Monday, June 15, 2009 at 2:00 p.m. in Room 182 of the Capitol Annex by Lori Flanery, Deputy Secretary, Finance and Administration Cabinet as proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Edmund Sauer, proxy for Governor Steve Beshear, Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet, Mary Lassiter, State Budget Director, Katie Smith, proxy for Larry Hayes, Interim Secretary, Cabinet for Economic Development, Bonnie Howell, proxy for Attorney General, Jack Conway, and Glenda McCoy, proxy for Lt. Governor Mongiardo.

OFM Staff Members Present: Mr. Tom Howard, Executive Director and Secretary to the Commission, Brett Antle, Deputy Executive Director, Robin Brewer, Rachael Putnam, Rob Ramsey, Tom Midkiff, and Marcia Adams.

Other Guests Present: Kristi Culpepper, Jonathan Lowe and Kelly Dudley from the Legislative Research Commission (LRC) and Ryan Green from the Office of State Budget Director (OSBD).

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. Bonnie Howell and seconded by Mr. Ed Ross to approve the minutes. Motion **CARRIED** and the minutes of the May 13, 2009 meeting were approved as written.

Deputy Secretary Flanery introduced Resolution 2009-10:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION AUTHORIZING THE ISSUANCE OF REVENUE BONDS FOR THE PURPOSE OF FINANCING VARIOUS PROJECTS AND REFUNDING VARIOUS PRIOR ISSUES OF THE COMMISSION, PRIOR NOTES OF THE ASSET/LIABILITY COMMISSION AND BONDS PREVIOUSLY ISSUED BY THE KENTUCKY INFRASTRUCTURE AUTHORITY; 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 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 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 VARIOUS PROJECTS PURSUANT TO SECTION 56.450 OF THE KENTUCKY REVISED STATUTES; APPROVING A LEASE OF THE PROJECTS TO THE 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.

Resolution 2009-10 - Ms. Robin Brewer stated this resolution is for State Property and Buildings Commission Revenue and Refunding Bonds, Project No. 95 in an amount not to exceed \$425 million. The Commission plans to issue fixed rate revenue bonds to refund certain bonds previously issued by the Commission, certain bonds issued by the Kentucky Infrastructure Authority (KIA), and previous notes issued by the Kentucky Asset/Liability Commission (ALCo). The

transaction will also provide approximately \$230 million of new money for capital construction projects authorized in various budget bills from the 2005, 2006, 2008 and 2009 sessions of the General Assembly. The transaction will also enable the Commission to realize approximately \$113 million in budgetary relief in FY 2010 from the debt restructuring of FY 2010 maturities. The structure is currently designed to contain up to four series of bonds. The Series A Bonds will consist of the tax-exempt refunding portion from the debt restructuring. The Series B Bonds will consist of a small taxable refunding component, as part of the debt restructuring, as well as a small amount of taxable new money for two different projects authorized in the 2008 Session of the General Assembly, specifically the Research Challenge Trust Fund and the Regional University Excellence Trust Fund. The Series C Bonds will consist of tax-exempt new money projects to be sold on a taxable basis as Build America Bonds (BABs). The transaction is structured to provide the flexibility for a fourth series of bonds, Series D, to allow a portion of the tax-exempt new money projects to be sold on a tax-exempt basis instead of on a taxable basis if the markets prove to be more favorable for this alternative. The All-In-TIC is estimated to be 4.11%, with a final maturity on the bonds of August 1, 2029, and it will be presented to Capital Projects and Bond Oversight Committee on June 16, 2009. Bond Counsel is Kutak Rock LLP, Underwriter is Morgan Stanley, and Trustee in Bank of New York Mellon.

Ms. Brewer continued the discussion by turning the attention of the Commission members to a series of bar charts included in their board materials. The first chart shows the current structure of the existing FY 2010 SPBC debt for the Commonwealth. The second chart portrays the debt after the restructuring and displays how the debt will be distributed in future years. The third graph shows how, once the amortization of the taxable new money portion is added to the transaction, the aggregate debt service for the transaction will be level year after year. Both the taxable refunding and taxable new money portions of this transaction are structured to be amortized in the earlier years in order to pay off the more expensive debt as soon as possible. Ms. Howell asked why one chart shows FY 2010 debt service with both principal and interest components and another chart shows that FY 2010 has only an interest component. Mr. Howard explained that the first chart represents the existing maturity structure of the FY 2010 debt, to be restructured, which primarily consists of a large principal payment and a small interest payment that the Commonwealth will turn around and amortize as shown on the second graph. There will be a small portion of interest that will have to be paid in FY 2010 associated with the restructuring. Ms. Howell also asked for an explanation of the BABs and how they work. Mr. Howard pointed to the attached flowchart, showing the bonds being issued by SPBC as taxable BABs. In essence, the investors are buying a taxable security just like any other corporate security. They will not be exempt from any taxes other than Kentucky Income Tax by statute. The Legislature will need to appropriate the full amount of debt service. Then, the Commission will send the full debt service payment to the trustee, at which point the Commission will submit a form to the U.S. Treasury for a rebate of 35% on the amount of interest paid for debt service for that period. The U.S. Treasury payment will be sent to the Commission (directly to the Trustee in the Bond Service Fund) with the intent for the Commission to net fund future debt service payments accordingly. This will help to drop the cost of capital over the life of the bonds, and it is expected that approximately \$85 Million in interest subsidy payments will be returned to the Commission. Mr. Howard stated that we could expect in today's market to receive 50 basis points of savings if not more on a BAB transaction, which will translate to between \$16 and \$17 million savings for the Commonwealth as opposed to a true tax-exempt financing. The market is now more comfortable trading BABs, and there is real interest in pursuing these types of securities. BABs are performing well relative to Treasury rates and other competing taxable products. The securities are accomplishing the intent that Congress and the Obama Administration theorized when they authorized the program.

Mr. Ross asked if there is a limitation on the amount of BABs that could be issued. Mr. Howard answered that there is not a limitation on the amount issued, but they must be issued by the December 31, 2010. They must be issued for a governmental purpose and are subject to all the traditional tax-exempt rules in terms of expenditure of the proceeds. Ms. Howell asked if this is a one-time issue. Mr. Howard answered that it is a one-time issue of \$167 million for FY 2010. Mr. Brett Antle added that we are not extending the life of the debt because we make sure the weighted average life of the restructuring does not exceed the weighted average final maturity of the debt being restructured on an aggregate basis. Ms. Brewer added that this is a continuum of SPBC Project No. 90 and No. 93 as we are partially financing a

multitude of projects, and we have added the remaining 2008 authorized projects into the SPBC 95 project list. With this transaction, we should have all the General Fund authorized bond projects under a plan of finance.

Deputy Secretary Flanery asked if there were any further questions or discussions. Ms. Mary Lassiter made a motion to approve Resolution 2009-10 that was seconded by Mr. Ross. Motion **CARRIED** and Resolution 2009-10 was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution 2009-11:

RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF MOREHEAD STATE UNIVERSITY GENERAL RECEIPTS BONDS, 2009 SERIES A.

Resolution 2009-11 – Ms. Rachael Putnam stated Morehead State University General Receipts Bonds 2009 Series A, in a not-to-exceed amount of \$39,425,000. The bond proceeds will be used to Construct Campus Recreation Center and Renovate Alumni Tower Residence Hall, pursuant to H.B. 406 of the General Assembly of the Commonwealth of Kentucky, 2008 Regular Session. The transaction was approved by the Morehead State University Board of Regents on March 12, 2009 and pending SPBC approval, will be presented to Capital Projects and Bond Oversight Committee on June 16, 2009. Bond Counsel is Peck, Shaffer & Williams LLP, Financial Advisor is Morgan Keegan, Trustee is U.S. Bank, N.A., and staff recommends approval.

Deputy Secretary Flanery asked if there were any further questions or discussions. Ms. Katie Smith made a motion to approve Resolution 2009-11 that was seconded by Ms. Howell. Motion **CARRIED** and Resolution 2009-11 was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution 2009-12:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HOUSING CORPORATION OF ITS CONDUIT MULTIFAMILY HOUSING REVENUE BONDS IN ONE OR MORE SERIES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$7,090,000.

Resolution 2009-12 – Mr. Tom Midkiff stated the Kentucky Housing Corporation Multi-Family Housing Revenue Bonds, Series 2009 for the Country Place Apartment Project. The bonds will be used to finance the acquisition, rehabilitation and equipping of the existing Country Place Apartments project located at 3023 Country Place Court in Hebron, Boone County, Kentucky. The project contains 18 three bedroom two bath units and 132 three bedroom two and a half bath units for a total of 150 units. One hundred percent of the units will be set-aside for families earning 60 percent or less of the area median income. The proposed date of sale is June 30, 2009 with ratings of AAA/A-1+ from S&P. Net proceeds for the project is \$7,090,000 with a cost of issuance of \$357,000, and the net interest cost is 5.25 percent with a gross interest rate of 5.70 percent. The gross debt service amount is \$16,383,476 with an average annual debt service of \$468,099. The bonds are callable at anytime and are a public offering. Bond Counsel and Underwriter's Counsel is Peck, Shaffer & Williams LLP, Underwriter is Merchant Capital, LLC, and the Trustee is Regions Bank.

Deputy Secretary Flanery asked if there were any further questions or discussions. Mr. Edmund Sauer made a motion to approve Resolution 2009-12 that was seconded by Ms. Smith. Motion **CARRIED** and Resolution 2009-12 was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution 2009-13:

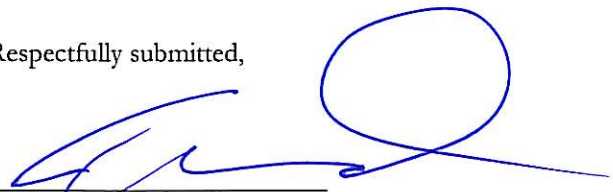
A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE APPLICATION OF THE SECRETARY OF THE CABINET FOR ECONOMIC DEVELOPMENT TO IDENTIFY AND SPECIFY CERTAIN ECONOMIC DEVELOPMENT PROJECTS TO BE FINANCED FROM THE PROCEEDS OF ECONOMIC DEVELOPMENT REVENUE BONDS TO BE ISSUED BY THE COMMISSION TO MAKE A GRANT TO THE CRITTENDEN COUNTY FISCAL COURT FOR THE BENEFIT OF SAFETRAN SYSTEMS CORPORATION (\$525,000).

Resolution 2009-13 – Ms. Katie Smith stated the Secretary of the Cabinet for Economic Development has provided his recommendation for the use of \$525,000 in Economic Development Bond Funds for the purpose of making a grant to the Crittenden County Fiscal Court for the benefit of Safetran Systems Corp. of Marion, Kentucky. Safetran Systems Corp., a manufacturer and assembler of signaling and wayside railroad equipment, is considering an expansion of its Marion, Kentucky facility with the acquisition, improving and equipping of an 110,000 square foot facility on 24 acres. The EDB funds will be used to help offset the cost associated with this estimated \$2.8 million dollar project. In consideration for the grant, Safetran will be required to create 150 new full-time jobs for Kentucky residents paying an average hourly wage of no less than \$13 within three years of completion and occupancy of the facility in addition to retaining its current workforce of fifty full-time employees. Safetran will also be required to retain the jobs and wages for an additional three years. Failure to meet the jobs or wage requirement will result in repayment of the prorated portion of the EDB grant to the Crittenden County Fiscal Court based on formulas to be included in the agreement. Safetran will be required to provide a letter of credit or another form of collateral satisfactory to the Cabinet of Economic Development as security for repayment of the grant proceeds. This company has also received preliminary approval of \$2,275,000 in tax incentives under our KREDA program. Concurrence has been provided by the Secretary of Finance and Administration Cabinet, and KEDFA approved the project at its meeting May 28, 2009. Staff recommends approval.

Deputy Secretary Flanery asked if there were any further questions or discussions. Mr. Ed Ross made a motion to approve Resolution 2009-13 that was seconded by Ms. Glenda McCoy. Motion **CARRIED** and Resolution 2009-13 was **ADOPTED**.

Deputy Secretary Flanery asked if there was any other new business for the Commission today. With no other business, the meeting stands adjourned.

Respectfully submitted,



F. Thomas Howard
Secretary