

STATE PROPERTY AND BUILDINGS COMMISSION

Minutes September 15, 2005

The State Property and Buildings Commission was called to order on Thursday, September 15, 2005 at 9:00 a.m. in Room 76 of the Capitol Annex by John Farris, Chairman. Members present were David Moss, proxy for Lt. Governor Stephen B. Pence; Warren Nash; proxy for Marvin E. Strong, Secretary, Cabinet for Economic Development; Bonnie Howell, proxy for Attorney General Greg Stumbo; Libby Milligan, proxy for Governor Ernie Fletcher; and John Farris, proxy for Robbie Rudolph, Secretary, Finance and Administration Cabinet.

Mr. Farris verified with the Commission staff that a quorum was present and that the press had been notified of the meeting. Mr. Farris introduced the first item of business, which was approval of the minutes of the August 15, 2005 meeting. A motion was made by Mr. Nash and seconded by Ms. Howell to accept the minutes of the August 15, 2005 meeting. Motion **CARRIED**.

Chairman Farris introduced Resolution 2005-25:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS
COMMISSION OF THE COMMONWEALTH OF KENTUCKY
APPROVING THE ISSUANCE BY THE KENTUCKY HOUSING
CORPORATION OF ITS HOUSING REVENUE BONDS IN ONE OR
MORE SERIES AND IN ONE OR MORE TAX PLANS IN AN
AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$120,000,000.**

F. Thomas Howard, Acting Executive Director, Office of Financial Management, informed the Commission that this Resolution represents a continuing financing plan for the Kentucky Housing Corporation (the "Corporation"). Mr. Howard stated that in fiscal year 2005, the Corporation made over \$300,000,000 in new loans and for the calendar year they are looking at a similar amount. Mr. Howard indicated that the Corporation is transitioning to a new funding model and the Board of Directors approved \$120,000,000 of bonds in multiple series that will be sold and delivered on various dates, much like the Student Loan Corporation. Mr. Howard indicated that the Series I, J, K and L bonds are expected to be sold on October 4, 2005 with delivery on December 1, 2005 rather than September 27, 2005 as shown in Attachment B. Mr. Howard stated that the balance of Series M, N and O appear to be on schedule for sale. He further stated that Series I, J, K and L is a combination of new volume cap, replacement refunding, variable rate bonds that will be swapped back to a synthetic fixed rate, a taxable series of bonds and non-AMT pre-1986 bonds that are being refunded. Mr. Howard stated that the Corporation has made a large volume of loans and has exhausted the private activity bond cap which necessitates the need to resort to a taxable financing that includes serial bonds through the first ten years to keep the cost as low as possible. Mr. Howard indicated the sale of these bonds would be negotiated. He further stated that Kutak Rock is the bond counsel for this transaction, Merrill Lynch is the underwriter, and J. P. Morgan is the trustee.

Mr. Nash asked if the Corporation's debt was reported as part of the state's debt. Mr. Howard indicated that the Corporation's debt is not reported as part of the Commonwealth's debt. He further indicated that the Corporation is a quasi-governmental body where the assets of the trust estate are all pledged to the bondholders. Mr. Howard continued that the mortgages are held in the trust and flows through to pay the bondholders. Mr. Howard further stated that in the late 1970s, the Corporation was the first housing corporation in the United States to obtain a AAA rating for its bonds with a parity ratio (assets are greater than liabilities) of about 115 percent.

Chairman Farris asked what the parity ratio was for other housing agencies. Mr. Howard indicated that the ratios vary depending on the types of transaction that the agencies use. Mr. Farris asked about the ratio for private mortgage companies. Mr. Howard stated that private mortgage companies initiate mortgages and then sell them to large financial institutions or trust estates. Mr. Howard stated that the distinction between other institutions and the Corporation is that the Corporation is one large parity indenture, adding loans to a trust estate, with the cash flowing in a variety of directions and a traditional taxable mortgage product has a block of loans that are guaranteed by Fannie Mae or Freddie Mac and the coupons and repayments for that specific block of loans flows back through to the investors. Mr. Howard further indicated that the Corporation has more flexibility than other agencies because of its ability to direct mortgage payments to pay off certain classes of bonds with higher rates.

A motion was made Mr. Nash and seconded by Ms. Howell to adopt Resolution 2005-25 approving the issuance of Kentucky Housing Corporation Housing Revenue Bonds in an aggregate principal amount not to exceed \$120 million. Motion carried and Resolution 2005-25 was **ADOPTED**.

Nora Marshall, Financial Analyst, Office of Financial Management, gave a brief update on State Property and Buildings Commission Project 85 and Project 86, which were sold on August 24, 2005 and closed on September 14, 2005. Ms. Marshall stated that Project 85 was a General Fund supported issue and funded approximately \$230 million of projects for eight different state agencies. She continued that Project 86 was an Agency fund supported issue and funded approximately \$5 million for the East Wing Expansion Project for the Kentucky State Fair Board. Ms. Marshall informed the Commission that a summary of the issues could be found in Attachment C of the Agenda. Ms. Marshall also pointed out that the handout indicates the yields and spreads on both issues were comparable to transactions of other bond issuing agencies in the market during the same time period.

Mr. Howard indicated that the University of Kentucky will be issuing bonds during the latter part of October through the Kentucky Asset/Liability Commission for construction of a hospital patient care facility. Ms. Howell asked what the amount of the transaction would be. Mr. Howard indicated that the current authorization is \$100 million.

With no further business before the Commission a motion was made by Ms. Howell and seconded by Mr. Nash to adjourn the meeting. Motion carried.

Secretary
State Property and Buildings Commission