

Grand Junction, Colorado State Leasing Authority, Inc.
Board Meeting Minutes
January 10, 2012
GJEP, 122 N. 6th Street

Board Members Present: Bill Sisson, Jim Fleming and Kelly Flenniken

Board Members Absent: Rich Englehart, Sam Baldwin

Other Parties Present: Kirk Rider (Rider & Quesenberry)

I. Call to Order

The Meeting was called to order by Treasurer Fleming at 12:08 pm.

II. Welcome and Introductions

Jim welcomed all to the meeting.

III. Project Update

- Kelly gave an update to the board about the reappointment process for board members.
- Kirk Rider gave an update on the SEC rules as they relate to Municipal Advisors serving in a board role.
- Bill requested a formal summary of the Arbitrage issue for the benefit of the minutes. Kirk explained that there is a tax policy expressed in the Internal Revenue Code against the issuers of tax exempt bonds realizing income on invested proceeds at a yield in excess of the yield on the bonds. This income, termed "arbitrage income," is payable to the U. S. Treasury on rebate computation dates, which typically fall every five years after the date of issue.

Kirk explained that there are exceptions to rebate that most issuers can fit within to avoid the payment of arbitrage earnings. The most typical rebate exception, and the one that was elected in the CBI deal, was the two-year spend-down exception. Under this exception to rebate, an issuer is exempted from rebate if it spends the bond proceeds within two years of the date of issue, and also meets certain milestone spending requirements at six, twelve and eighteen months after the date of issue.

The construction budget and spending timetable for the CBI project were reviewed before the bond issue closed, to be certain that spend-down requirements would be met. The scheduled payments from the project

fund would easily meet the Code's spend-down requirements. As construction progressed, and the State of Colorado appropriated additional funds for the project, project funds were drawn down a bit more slowly than had been scheduled. However, the construction draw that was approved for the May, 2007 pay application was sufficient to meet the first six-month spend-down requirement. All other spend-down milestones were easily met, and everyone thought no arbitrage would be owed.

Unfortunately, the disbursement records of American National Bank showed that payment of the May draw request was actually made on June 6th, one day after the six-month spend-down milestone date. Arbitrage Compliance Specialists, based on this determination, computed an arbitrage rebate payment to be owed to the U. S. Treasury in an amount exceeding \$62,000.00.

Rider & Quesenberry then consulted Kutak Rock, a firm that had served as special tax counsel for the CBI bond issue. They offered one glimmer of hope, a previous IRS ruling that approval of a payment application on or before the spend-down milestone date would be deemed equivalent to payment. After trying and failing to find documentation concerning the date of payment approval at ANB, the GJCSLA offices, and Ray Real Estate Services, Kirk had contacted FCI. FCI found a fax approval of the pay application on June 3rd, two days before the spend-down deadline. With this information, Kutak Rock consulted further with ACS and ACS issued a new arbitrage report that determined all spend-down requirements were met and no rebate was owed.

Accordingly, it could be said that GJCSLA had dodged a \$62,000 bullet. Kirk did point out for the Board, however, that this amount would have eventually been reimbursed to GJCSLA by the State of Colorado under the terms of the facility lease now in effect. "Additional Rent" under the lease is specifically defined to include tax payments. Similarly, the State will be responsible for reimbursing GJCSLA in the coming year for the extra legal and arbitrage rebate report fees incurred in handling this problem when it arose.

IV. Board Officers and Terms

- New officers were nominated:
 - President: Bill Sisson
 - Vice President: Kelly Flenniken
 - Secretary/Treasurer: Jim Flemming
- Jim Flemming made a motion to approve this slate of officers for 2012. Motion was seconded by Bill Sisson and subsequently approved.

V. Financial Update and Approval of:

- GJCSLA Operating Account
The operating account continues to process rent payments and bond payments.
- It was requested to obtain new signature cards allowing for Kelly Flenniken to be a signer for the account as well as Jim Flemming and Bill Sisson. Two signatures to be required for payments over \$2,500.00. Kelly agreed to obtain these cards at her convenience.

VI. Adjournment

The meeting was adjourned at 12:55 p.m.

Jim Fleming, GJCSLA Secretary