

City of Arkansas City Public Building Commission

Agenda

Regular Meeting

Tuesday, May 21, 2019 @ 5:00 PM

Commission Room, City Hall — 118 W. Central Ave. — Arkansas City, KS

I. Call to Order

1. Roll Call

II. Minutes

1. Approve the September 18, 2018, regular meeting minutes as written. (Voice Vote)

III. Business

1. Discuss rating for Public Building Commission, Refunding Revenue Bonds, Series 2019.
2. Consider a Resolution authorizing and directing the Request For Proposals (RFP) for the sale of Refunding Revenue Bonds, Series 2019, of the Arkansas City Public Building Commission.

IV. Adjourn

Arkansas City Public Building Commission – Regular Meeting Minutes

The Arkansas City Public Building Commission met in regular session at **5:00 p.m. Tuesday, September 18, 2018**, in the Commission Room at City Hall, 118 W. Central Ave., in Arkansas City.

Chairman **Mike Munson** called the meeting to order. Other commissioners present at roll call were Vice Chair **Angela Bruce, Kanyon Gingher, Dan Jurkovich, Duane L. Oestmann, Jay Warren** and **Karen Welch**. Public Building Commissioners **David Billings** and **Shandon Weston** were absent.

City of Arkansas City employees present at the meeting were City Manager **Nick Hernandez**, City Attorney **Tamara Niles**, Public Information Officer **Andrew Lawson**, Finance Director **Kathy Cornwell**, Public Works Director **Mike Crandall** and Principal Planner **Josh White**.

Citizens in attendance included **Mell Kuhn** and Ark City Daily Bytes reporter **Jeni McGee**.

Minutes

Nov. 21, 2017 Minutes

Commissioner Oestmann made a motion to accept the **November 21, 2017**, regular meeting minutes as written. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion. Chairman Munson declared the minutes approved.

April 13, 2018 Minutes

Commissioner Warren made a motion to accept the minutes of the **April 13, 2018**, special joint meeting with the South Central Kansas Medical Center Board of Trustees as written.

Commissioner Gingher seconded the motion. A voice vote was unanimous in favor of the motion.

Chairman Munson declared the minutes approved.

Business

Elect New Officers

Commissioner Warren made a motion to reappoint **Chairman Mike Munson** as chair and **Vice Chair Angela Bruce** as vice chair for 2019. Commissioner Gingher seconded the motion. A voice vote was unanimous in favor of the motion. Chairman Munson declared the motion approved.

Health Care Sales Tax

City Manager Hernandez said **2,047** total ballots were cast in the **September 6** special election.

Arkansas City Public Building Commission – Regular Meeting Minutes

Of those, **1,329** (or **64.9 percent**) were cast in favor of the Health Care Sales Tax and **671** (or **32.8 percent**) or were cast in opposition. The canvassing of votes occurred at **9 a.m. September 10**.

Hernandez said there were **11** “under-voted” ballots, which means nothing was marked on the ballot or no ballot was returned in the envelope. There also were **45** provisional ballots – **36** of which were not counted – and **330** undeliverable ballots. Overall voter turnout was about **40 percent**.

He said City staff already met with Ranson Financial Consultants and GilmoreBell to discuss the next steps toward refinancing the bonds. They anticipate further PBC action in **May** or **June 2019**.

Hernandez said this could result in a **\$5 million** to **\$7.5 million** savings over the next 20 years, despite the lower sales tax rate. He projected a full payoff could be possible within 19 to 20 years.

Adjournment

Commissioner Oestmann made a motion to adjourn the meeting. Commissioner Warren seconded the motion. A voice vote was unanimous in favor of the motion.

Chairman Munson declared the meeting adjourned at **5:18 p.m.**

**THE ARKANSAS CITY
PUBLIC BUILDING COMMISSION**

Mike Munson, Chairman

ATTEST:

Lesley Shook, Secretary

Prepared by:

Andrew Lawson, Public Information Officer

Summary:

**Arkansas City Public Building
Commission, Kansas
Arkansas City; General Obligation**

Primary Credit Analyst:

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Summary:

Arkansas City Public Building Commission, Kansas Arkansas City; General Obligation

Credit Profile

US\$18.795 mil rfdg rev bnds (Arkansas City) ser 2019 dtd 07/23/2019 due 09/01/2044

Long Term Rating

A/Stable

New

Rationale

S&P Global Ratings assigned its 'A' long-term rating to Arkansas City Public Building Commission (PBC), Kansas' series 2019 refunding revenue bonds, issued on behalf of Arkansas City. The outlook is stable.

The bonds are special, limited obligations of the PBC, payable from the trust estate, which includes funds derived by the PBC from the rental payments to be made by the city pursuant to a lease agreement. The payment of basic rent under the lease is an unconditional and absolute obligation of the city, not subject to appropriation or abatement.

The city intends to use proceeds from a 1% general sales tax to make rental payments. Voters recently authorized the sales tax for various purposes related to the South Central Kansas Medical Center. Although by ordinance the city pledges 95% of the 1% sales tax proceeds to repay the bonds, should this revenue stream be insufficient the city covenants to make the rental payments required under the lease from whatever sources of revenue are legally available, including the levy of ad valorem taxes.

Proceeds from the sale of the bonds will be used to refund and restructure the existing series 2009 revenue bonds, extending maturity by six years. The refunded series 2009 bonds have a final maturity in 2038. Thus, basic rent payments made by the city to the PBC for the series 2019 refunding series in the years 2020 to 2038, inclusive, are exempted by state law from the limitations imposed by the state's cash-basis and budget laws, and the city may levy ad valorem taxes to make payments to the issuer that are not limited by the aggregate tax levy limitation imposed by the Tax Lid. However, the city's ability to levy ad valorem taxes to make basic rent payments in the years 2039 to 2044, inclusive, may be limited by the Tax Lid.

We view the pledged sales tax revenue as part of the general operating pledge and thus rate the bonds based on the covenant to use all legally available revenue to make rental payments. We do not differentiate from the city's general creditworthiness given that the city's rental payments are not subject to annual appropriation and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service. This includes the lease rental payments made in years 2039 through 2044, despite the ad valorem tax limitations.

The rating reflects our opinion of the city's:

- Very weak economy, with market value per capita of \$32,410 and projected per capita effective buying income at 65% of the national level;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available cash reserve in fiscal 2018 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 92.8% of total governmental fund expenditures and 4.1x governmental debt service;
- Very weak debt and contingent liability position, with debt service carrying charges at 22.9% of expenditures and net direct debt that is 167.0% of total governmental fund revenue, as well as high overall net debt at greater than 10.0% of market value; and
- Strong institutional framework score.

Very weak economy

We consider Arkansas City's economy very weak. The city, with an estimated population of 12,363, is located in Cowley County. The city has a projected per capita effective buying income of 65% of the national level and per capita market value of \$32,410. Overall, the city's market value grew by 1.3% over the past year to \$400.7 million in 2019. The county unemployment rate was 3.8% in 2017.

Arkansas City is located in Cowley County in south central Kansas, about 60 miles southeast of Wichita, near the Kansas-Oklahoma border. The city, which encompasses 9.3 square miles, is intersected by two highways--U.S. Highways 77 and 166--and has access to Interstate 35. Arkansas City is served by the Burlington Northern and Santa Fe Railway Co. and the Strother Field airport.

The local economy is largely based in manufacturing, retail, and services. Major employers in the city are Creekstone Farms Premium Beef (870 employees), a producer of USDA Certified Black Angus beef; General Electric (825), an aircraft and heavy equipment repair service; and KanPak (277), a manufacturer of aseptic packaging of cold and frozen beverages, coffees, and desserts.

Despite our very weak assessment of the city's economy based on wealth and income levels, major employers have been expanding steadily. Creekstone Farms, the 12th-largest U.S. beef packer, is investing \$85 million in expansion projects. Wal-Mart has recently selected the company as its supplier as it enters into the beef industry, developing an end-to-end supply chain for Angus beef. This is expected to add more than 250 jobs to Arkansas City, and beef produced at the Creekstone facility will be sold in 500 Wal-Mart stores across a number of states in the Southeast.

KanPak's Arkansas City location is the largest in the U.S., serving hundreds of restaurants and retail stores, including Chick-fil-A, Whataburger, Tim Horton's, QuikTrip, 7-Eleven, and Perrigo. The company, owned by Golden State Foods, recently opened a 200,000-plus-square-foot, \$16 million packaging and distribution facility in the city. In addition, it's investing \$60 million in improvements to its manufacturing plant, and plans to add a minimum of 50 employees.

The Strother Field airport accounts for 47% of the total output of all general aviation airports in the state, as well as 20% of the total economic output of all airports in the state combined, including commercial. Its 23 tenants include GE Aviation and Engine Services, Western Industries, and Husky Liners. Combined, all tenants employ about 1,700.

The city is also experiencing residential growth, and officials note that new housing is not keeping up with the demand given the commercial and industrial expansions and the job creation in the city.

Market value has increased in line with the growth of the local economy and we anticipate that these trends will continue given ongoing development, although we do not anticipate changes to the city's wealth and income levels over the outlook horizon.

Strong management

We view the city's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Officials utilize three years of historical analysis to formulate revenue and expenditure assumptions when preparing the subsequent year's budget. The city council receives monthly budget-to-actual financial reports, and the council approves budgetary amendments as needed.

The management team does not conduct formalized long-term financial planning, but the city maintains a 10-year capital improvement plan (CIP). The CIP is adopted in conjunction with the annual budget process and identifies capital projects and their cost for the next 10 years. Funding sources and impact on the annual budget, including maintenance and personnel costs, are identified for the first five years of the CIP.

Arkansas City has a formal target to maintain at least 10% of operating expenditures in general fund reserves. The city's debt policy specifies the type of debt it can issue and outlines various other parameters, such as structure and term of debt financings. The policy also prescribes a minimum 3% present value savings on refundings, and does not allow per capita direct debt (GO and special assessment) to exceed \$800, direct debt to exceed 20% of estimated appraised valuation, or annual debt service to exceed 20% of budgeted expenditures.

The city follows state investment guidelines, which limit municipal investments to, among other vehicles, time deposits, certificates of deposit, U.S. government securities, temporary notes, repurchase agreements and the Kansas Municipal Investment Pool.

Strong budgetary performance

Arkansas City's budgetary performance is strong, in our opinion. The city had a balanced operating result in the general fund of 0.4% of expenditures and a surplus result across all governmental funds of 3.1% in fiscal 2018.

We added recurring transfers from the water, sewer, and sanitation utility funds to general fund and total governmental funds revenue. We also reduced total governmental expenditures by capital outlay funded with bond proceeds transferred from the utility funds. Finally, we eliminated revenue and expenditures in the hospital improvement fund to reflect the pass-through nature of both and to prevent both from being double counted. Specifically, the city collected sales taxes for hospital operations and debt service. The majority of sales tax collections was transferred to the PBC

fund for debt service payments on the PBC's series 2009 bonds. A smaller portion was remitted to the South Central Kansas Medical Center, a separate legal entity.

The general fund surplus in fiscal 2018 resulted from expenditure savings in several categories, particularly a \$300,000 contingency that the city included in its annual general fund budget. Property taxes accounted for 26% of adjusted general fund revenue, followed by sales taxes (16%) and franchise fees (13%). The city's ad valorem and sales tax base has been a reliable revenue stream over the past five years.

We expect budgetary performance to remain at least adequate over the next two years, absent any spending on one-time capital items, which is not planned.

The city anticipates ending fiscal 2019 with at least balanced operations in the general fund and across all governmental funds.

Officials budgeted for a general fund deficit of about 6% in fiscal 2019, but the city typically budgets for a worst-case scenario in terms of expenditures and includes a \$300,000 contingency in its annual general fund budget.

As a result of state budget laws, we recognize that most Kansas cities will budget for a deficit to maintain enhanced budget spending authority in case of an emergency. Therefore, cities commonly adopt deficit budgets, which do not materialize at fiscal year end.

Strong budgetary flexibility

Arkansas City's budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2018 of 25% of operating expenditures, or \$2.3 million. The cash reserve consists of \$945,000 (9.9% of expenditures) in the general fund and \$1.4 million (14.6% of expenditures) outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Arkansas City's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

Non-general-fund available reserves totaling \$1.4 million consists of the city's equipment reserve and capital improvement reserve funds. Management views these funds as available for general fund contingency should the need occur.

The available balance in the capital improvement reserve fund increased substantially as a result of one-time receipts in fiscal 2018, and we believe that the city could draw down these reserves for capital projects. Furthermore, the combined balance in the equipment reserve and capital improvement reserve funds has historically been maintained at around \$500,000 to \$600,000. However, even if the city does draw down these available reserves to their historical levels, our overall assessment of flexibility would remain unchanged and we believe the combined available balances in the general, equipment, and capital improvement reserve funds will remain at levels we consider strong on a cash basis.

Very strong liquidity

In our opinion, Arkansas City's liquidity is very strong, with total government available cash at 92.8% of total governmental fund expenditures and 4.1x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city's cash is held in checking accounts, with limited investments in certificates of deposit, which we view as highly liquid. Our opinion that the city maintains strong access to external liquidity is based on its history of issuing GO and utility-revenue-supported debt over the past 20 years.

Arkansas City does not have privately placed debt or contingent liabilities that could cause imminent or future liquidity pressures. Given financial projections for the current and next fiscal year, we do not believe the city's liquidity will deteriorate over the outlook horizon.

Very weak debt and contingent liability profile

In our view, Arkansas City's debt and contingent liability profile is very weak. Total governmental fund debt service is 22.9% of total governmental fund expenditures, and net direct debt is 167.0% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its high overall net debt of 10.9% of market value.

Following the sale of the 2019 bonds, the city may issue about \$500,000 in special assessment bonds to finance improvements for a subdivision to be located in the city as well as a loan from the Kansas Department of Health and Environment for the rehabilitation or replacement of the city's existing sewer treatment plant. The exact timing of these potential issuances is unknown at this time.

The city made its full annual required pension contribution in 2018.

The city participates in the Kansas Public Employees' Retirement System (KPERS) and the Kansas Police & Firemen's Retirement System (KP&F), both of which are state-administered, cost-sharing, multiple-employer defined benefit pension plans. The city consistently meets its annually required contributions, which are actuarially determined. The city's proportionate share of the collective net pension liability was \$2.3 million for KPERS and \$4.9 million for KP&F as of Dec. 31, 2017, the most recent actuarial valuation date.

The city allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, the city is conceptually subsidizing the retirees because each participant is charged a level of premium regardless of age.

In addition, under state law, disabled members of KPERS receive long-term disability benefits and life insurance benefits. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. The employer contribution rate is set at 1% for the year ended Dec. 31, 2018.

Strong institutional framework

The institutional framework score for Kansas municipalities with more than \$275,000 in annual gross receipts and more than \$275,000 in GO or revenue bonds outstanding is strong.

Outlook

The stable outlook reflects our expectation that the city will maintain at least adequate budgetary performance and strong reserves on a cash basis, supported by strong management practices. We don't expect the local economy or debt profile to change substantially in the near term. Consequently, we don't expect to change the rating within the

two-year outlook horizon.

Upside scenario

A higher rating is possible if the city's economic metrics improved substantially to levels commensurate with those of higher-rated peers, assuming no changes in other rating factors.

Downside scenario

A lower rating is possible if budgetary performance worsens and reserves deteriorate to levels no longer commensurate with the rating, or if fixed costs pressure the city's operations.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments

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RESOLUTION NO. PBC-107

A RESOLUTION AUTHORIZING AND DIRECTING THE REQUEST FOR PROPOSALS FOR THE SALE OF REFUNDING REVENUE BONDS, SERIES 2019, OF THE ARKANSAS CITY, KANSAS PUBLIC BUILDING COMMISSION.

WHEREAS, the City of Arkansas City, Kansas (the “City”) has heretofore created the Arkansas City, Kansas Public Building Commission, a municipal corporation of the State of Kansas (the “PBC”) under the authority of K.S.A. 12-1757 *et seq.*, as amended by Charter Ordinance No. 18 and Ordinance Nos. 1657 and 1807 the City (collectively the “Act”); and

WHEREAS, the PBC has heretofore issued its Public Building Commission Revenue Bonds, Series 2009 (South Central Kansas Regional Medical Center), in the original principal amount of \$23,205,000 (the “Series 2009 Bonds”) to finance the construction of the facility known as the South Central Kansas Medical Center; and

WHEREAS, in conjunction with the issuance of the Series 2009 Bonds, the PBC, as Issuer and the City, as Tenant, entered into a Lease dated as of September 1, 2009 (the “Lease”) wherein the City agreed to make rental payments to provide funds sufficient to meet the debt service requirements of the Series 2009 Bonds; and

WHEREAS, the PBC is authorized under K.S.A. 10-116a and the Act to issue refunding revenue bonds of the PBC for the purpose of refunding any previously issued revenue bonds; and

WHEREAS, a majority of the qualified voters of the City voting on such question have previously approved the imposition of a one-percent City-wide retailers’ sales tax (the “Health Care Sales Tax”), the revenues derived from which shall be used to pay (a) costs of the existing financial obligations incurred in the original construction of the South Central Kansas Medical Center; (b) costs associated with refinancing the existing financial obligations incurred in the original construction of the Medical Center to obtain more favorable terms thereof; (c) purchasing and repairing equipment of the Medical Center; (d) compensating the Medical Center for operational expenses and supplies incurred in delivering uncompensated medical care; and (e) other health care related services provided in or for the City; and

WHEREAS, the City has previously passed Ordinance No. 2019-02-4481 (the “Pledging Ordinance”) pledging ninety-five percent (95%) of the revenues derived from the Health Care Sales Tax (the “Pledged Revenues”) for the following purposes: (a) to pay all or a portion of the City’s basic rent payments under the Lease; and (b) to the extent that in any fiscal year there is Pledged Revenue remaining after the basic rent payments in such fiscal year have been provided for, to be deposited into a special trust account and applied towards the early redemption and/or defeasance of the Series 2009 Bonds and any refunding bonds issued therefor, the selection of bonds to be retired and the timing thereof to be determined by the City in conjunction with its financial advisor and other parties as may be necessary; and

WHEREAS, the Pledging Ordinance was published once per week for two consecutive weeks in the official newspaper of the City and no sufficient protest petition was received by the county election officer of Cowley County within sixty (60) days of the second publication thereof; and

WHEREAS, due to the current interest rate environment and other financial considerations, including the availability of the Pledged Revenues, the PBC has the opportunity to issue its refunding revenue bonds (the “Refunding Bonds”) in order to achieve an annual interest cost savings on the debt represented by the Series 2009 Bonds, which will directly benefit the City with respect to reduced rental payments made to the PBC pursuant to the Lease; and

WHEREAS, the Governing Body of the City has adopted Resolution No. 2019-05-[]: (a) requesting the PBC solicit proposals for the purchase of the Refunding Bonds; and (b) providing that if a proposal acceptable to the City and PBC is identified, the City intends to enter into a supplement to the Lease to provide sufficient rental payments to meet the debt service requirements on the Refunding Bonds; and

WHEREAS, the firm of Ranson Financial Group LLC, Wichita, Kansas (“Financial Advisor”), is financial advisor for the City; and

WHEREAS, the City and PBC desire to authorize the Financial Advisor to proceed with receiving proposals for the purchase of the Refunding Bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE ARKANSAS CITY, KANSAS PUBLIC BUILDING COMMISSION AS FOLLOWS:

Section 1. The Financial Advisor is hereby authorized to solicit and receive proposals from interested purchasers for the Refunding Bonds. The Financial Advisor is hereby requested to deliver such proposals so received to the PBC and City at their respective meetings to be held on June 18, 2019, at which meetings the PBC and City shall review such proposals and shall select a purchaser for the Refunding Bonds or reject all proposals.

Section 2. The Financial Advisor, in conjunction with the City Manager, Finance Director, City Clerk, and Bond Counsel, is hereby authorized to cause to be prepared a Preliminary Official Statement relating to the Refunding Bonds. The PBC hereby consents to the use and public distribution by the Purchaser of the Preliminary Official Statement in connection with the offering for sale of the Refunding Bonds. For the purpose of enabling the purchaser of the Refunding Bonds (the “Purchaser”) to comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the Chairman and Secretary or other appropriate officers of the PBC are hereby authorized: (a) to execute the “Certificate Deeming Preliminary Official Statement Final” in substantially the form attached hereto as *Exhibit A*, as approval of the information relating to the PBC contained in the Preliminary Official Statement, such official's signature thereon being conclusive evidence of such official's and the PBC’s approval thereof; and (b) take such other actions or execute such other documents as such officers in their reasonable judgment deem necessary to enable the Purchaser to comply with the requirement of the Rule.

Section 3. The Chairman, Secretary and the other officers and representatives of the PBC, the Financial Advisor, and Bond Counsel are hereby authorized and directed to take such other action as may be necessary to effectuate the intent of this Resolution, including providing for the notice of redemption of the Series 2009 Bonds.

Section 4. This Resolution shall be in full force and effect from and after its adoption.

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ADOPTED by the Arkansas City, Kansas Public Building Commission on May 21, 2019.

(Seal)

Mike Munson, Chairman

ATTEST:

Lesley Shook, City Clerk

APPROVED AS TO FORM:

Tamara L. Niles, City Attorney

EXHIBIT A

**CERTIFICATE DEEMING
PRELIMINARY OFFICIAL STATEMENT FINAL**

_____ 2019

Re: Arkansas City, Kansas Public Building Commission Refunding Revenue Bonds, Series 2019 (South Central Kansas Medical Center)

The undersigned are the duly acting Chairman and Secretary of the City of Arkansas City, Kansas Public Building Commission (the "PBC"), and are authorized to deliver this Certificate to the addressee (the "Purchaser") on behalf of the PBC relating to the Preliminary Official Statement (the "Preliminary Official Statement") relating to the above-referenced bonds (the "PBC Bonds").

For the purpose of enabling the Purchaser to comply with the requirements of Rule 15c2-12(b)(1) of the Securities and Exchange Commission (the "Rule"), the PBC hereby deems the information regarding the PBC contained in the Preliminary Official Statement relating to the PBC Bonds to be final as of its date, except for the omission of such information as is permitted by the Rule.

**ARKANSAS CITY, KANSAS PUBLIC
BUILDING COMMISSION**

By: _____
Title: Chairman

By: _____
Title: Secretary