STATE INVESTMENT COMMISSION
MINUTES
November 14, 2002

The State Investment Commission ("the Commission") meeting was called to order by T. Kevin Flanery, Secretary, Finance and Administration Cabinet at 3:00 p.m. on November 14, 2002 in the offices of King & Company in Louisville, Kentucky. Other members present were Karen Mayes, proxy for Treasurer Jonathan Miller and James O. King, Peoples State Bank.

Secretary Flanery confirmed that a quorum was present and that the press had been notified of the meeting. Secretary Flanery asked for approval of the minutes. A motion was made by Mr. King and seconded by Ms. Mayes to approve the minutes of the September 26, 2002 meeting. Motion **CARRIED**.

Mr. Gordon L. Mullis, Executive Director of the Office of Financial Management, gave an overview of the economy. Mr. Mullis discussed information provided by the Governor's Office of Economic Analysis ("GOEA") on the first quarter of 2003. Personal income is estimated to increase 3.4 percent in the first quarter. Wages and salaries are estimated to have grown by 2.2 percent. Nonagricultural employment has grown by 0.9 percent. General Fund revenues for the first quarter of FY03 experienced moderate growth over the first quarter in FY02. Mr. Mullis indicated this growth was due in part to the Tax Amnesty program, which also boosted Corporation Income Tax receipts. Mr. Mullis further indicated that Sales and Use Tax experienced strong growth and the Road Fund grew by 10.4 percent the first quarter of FY03. Mr. Mullis stated that General Fund revenues are expected to total approximately $6.8 million in the final three quarters of FY03 for a growth of 3.1 percent growth for the year. However, Mr. Mullis stated that growth in the Road Fund is expected to decline and Corporation Income and License Tax, Coal Severance, Property Tax, and Lottery receipts are expected to decrease as well. Mr. Mullis indicated that the U.S. economy is showing increased strength, but business investment and industrial output have not experienced significant growth inspite of favorable interest rates.

Mr. Dwight Price, portfolio manager of the Office of Financial Management, discussed trading limits for the Commonwealth's portfolio. Mr. Price indicated that trading limits are set for the traders to aid in internal control. Mr. Price stated that purchasing larger blocks of securities is more efficient and the trading limits need to be increased as the balances being managed by the Investment Section are increasing. Mr. Price indicated that the proposed increase in trading limits and the individuals investing were in Attachment B (copy attached to the minutes).

A motion was made by Mr. King and seconded by Ms. Mayes to increase the trading limits as described in Attachment B. Motion **CARRIED**.

Secretary Flanery introduced Resolution SIC 02-02 authorizing the use of either a principal or agent arrangement to lend the Commonwealth's securities.

Mr. Price informed the Commission members that each year a Request for Proposal ("RFP") is issued to select a provider for the Commonwealth's securities lending program. This Resolution authorizes staff to issue the RFP, select a provider, and execute an agreement with the selected firm to provide securities lending/paired repurchase transaction services for the period February 1, 2003 through January 31, 2005.

A motion was made by Mr. King and seconded by Ms. Mayes to authorize the issuance of an RFP for securities lending services and to select a provider and execute an agreement with the selected firm. Motion **CARRIED**.

Mr. Price discussed Attachment D. Mr. Price explained that the old indices used by staff were the best matches at the time, but Merrill Lynch has added new indices since that time. Mr. Price indicated that staff has analyzed the additional indices and identified several that more closely match the blend of securities allowed by the statutes and administrative regulations. Mr. Price indicated he wanted the Commission members to review the indices before the next meeting. At that time, staff will propose a change to the indices being used and discuss the impact the changes will have on the portfolio.

Mr. Mullis informed the Commission members that on October 17, 2002, $500 million in Tax and Revenue Anticipation Notes "(TRAN") were issued with a maturity date of June 26, 2003. Mr. Mullis further indicated that with interest rates at historic lows, the spread between taxable and tax-free securities is very narrow and the amount of income expected to be earned from this year's TRAN will be much less than in prior years. Mr. Mullis stated that the investment section and the debt staff worked closely to match assets and liabilities at issuance that enabled the issuance to be structured so net income would be captured.

With no further business before the Commission, the meeting was adjourned at 4:00 p.m.

Respectfully submitted,

Secretary
State Investment Commission