

THE TURNPIKE AUTHORITY OF KENTUCKY
MARCH 9, 2009
1:00 P.M.
ROOM 386, CAPITOL ANNEX

CALLED MEETING

The Turnpike Authority of Kentucky (Authority) met Monday, March 9, 2009 at 1:00 p.m. in Room 386 of the Capitol Annex.

Members present were Lori Flanery, Finance and Administration Cabinet, in the Chair presiding, proxy for the Honorable Stephen L. Beshear, Governor of the Commonwealth; Bill Burger, proxy for Daniel Mongiardo, Lt. Governor of the Commonwealth; Bonnie Howell, proxy for Jack Conway, Attorney General; Tammy Branham, proxy for Joseph W. Prather, Secretary, Transportation Cabinet; Mike Hancock, State Highway Engineer; and George Burgess, proxy for Interim Secretary, Larry Hayes, Economic Development Cabinet.

Others present at the meeting were; John Merchant, Peck, Shaffer & Williams; F. Thomas Howard, Executive Director, Office of Financial Management and Secretary of the Authority; Brett Antle, Office of Financial Management; Doris A. Howe, Office of Financial Management and Treasurer of the Authority; Robin Brewer, Office of Financial Management; Rachael Putnam, Office of Financial Management; Tom Midkiff, Office of Financial Management; Rob Ramsey, Office of Financial Management; Edgar C. Ross, Executive Director, Office of the Controller and Executive Director of the Authority; Marcia Collins, Office of Financial Management and Authority staff; Carla Wright, Office of State Budget Director; and Ryan Green, Office of State Budget Director.

Chairperson Flanery having verified that a quorum was present and that notice of the meeting was properly posted in accordance with KRS 61.800-61.850, called the meeting to order.

First item on the agenda was approval of the minutes of the December 17, 2008 meeting as written. George Burgess made a motion to approve and Bill Burger seconded. The motion carried unanimously.

Second item on the agenda was the approval of the 2009 Series A Authorizing Resolution. Tom Howard stated to the board that before he began discussing the legalities of the resolution he wanted to quickly reference back to the December 17, 2008 meeting. Mr. Howard noted to the board that it was mentioned at the last meeting that we would be having an interim meeting for the expected authorization of the issuance of Turnpike bonds to refund \$100 million worth of the Kentucky Asset/Liability Commission (ALCo) commercial paper that is outstanding, and \$50 million of the remaining authorized, but unissued debt from House Bill 380 in the last session. Mr. Howard indicated that we are at the point and time that those monies have been

expended, and it is time to convert that money to permanent financing as well as to avoid some difficulties in the short term market as we have recently seen. Mr. Howard also noted to the board that this morning the State Investment Commission purchased \$50 million worth of the commercial paper that is outstanding at a 1.9% interest rate out to May 1, 2009 whereas it has been rolling on a daily basis at a rate of 2% and remarketed out for a week or two at a time at the rate of 2.25%. Mr. Howard also added that this will represent debt service savings for the Road Fund as well as provide the State Investment Commission with an asset that will pay more than they can earn in an overnight repurchase agreement. Mr. Howard further stated that this is a winning situation for the Authority, and all of the proper disclosures have been filed with the Repositories that hold all the disclosure information about our intentions to purchase as well as our actual purchase of those Notes. Mr. Howard stated that there are additional Notes that will be rolled this week, \$7 million on Wednesday, March 11, 2009 and \$6 million on the following Wednesday that we also intend to bid on and take out to the May 1, 2009 date which will correspond roughly to the delivery date of the bonds if authorized here today.

Mr. Howard presented a handout in reference to the Build America Bonds. Mr. Howard stated that he wanted to review and give the board highlights of what the Build America Bond Program might mean to the Authority, possibly offer the opportunity to save substantial debt service over the life of the bonds, and ultimately ask the board for authorization to execute Build America Bonds in addition to a traditional financing or on a blended basis if it works out such as that it would result in a monetary savings and not provide administrative burden to the Authority or the Road Fund. Mr. Howard stated to the board that this package was recently passed by Congress and is on a fast track and expected the regulations for certain programs to be rolled out this month while others will be several months in the works depending on the complicating nature of the programs. Mr. Howard went on to explain that the general provisions for the Build America Bonds is unlike other programs such as unlimited availability, meaning you do not have a private activity volume cap allocation, per capita, or an employment based formula that drives how much of these bonds you can issue as long as they are for a governmental purpose.

Mr. Howard also stated that the bonds must be issued prior to January 1, 2011 and the proceeds are subject to the standard requirements for a tax-exempt bond issue, meaning you cannot reinvest the proceeds at a higher yield than on the bonds and further added that all of the traditional spend down requirements that apply with the tax-exempt issues, still prevail in a Build America Bond type financing structure. Mr. Howard also highlighted on the options of issuance either being issued as a tax credit bond which provides the investor with a 35% tax credit against his annual tax liability or a taxable bond, which is a direct subsidy from the Federal Government to the issuer in which you receive a direct 35% credit from the U.S. Treasury/IRS. Mr. Howard went on to differentiate the potential benefits of each option.

Mr. Howard informed the board of the possibilities to do a blended transaction by selling tax-exempt bonds during the first twelve (12) year maturities where the yield curve is relatively steep and cost of capital is low and selling taxable Build America bonds on the

long end where the subsidy is greater. Mr. Howard further explained that by going forward with this type of transaction we can achieve an all in interest cost of 5.77% less the federal reimbursements of 35% of the taxable portion only would result in a subsidy of approximately 1.56% on the entire transaction resulting in a cost of capital of about 4.21% or a potential benefit of \$9 million over the life of the transaction. Mr. Howard stated that it makes sense at this level to include the possibility and authorizing staff to move forward with a transaction that would allow us to blend the components if the regulations are sufficiently flexible and not detrimental to the Authority or the Road Fund.

Mr. Howard further noted on the considerations of the Build America Bonds stating that this election is irrevocable, and at the same time, the federal payments are not guaranteed meaning that you have to appropriate the full amount of the taxable debt service which ties up some money for a period of time and does have a modest effect on the Additional Bonds Test. Mr. Howard went on to explain that by having more applications with the Build America Bonds and the Road Fund being essentially a self-contained dedicated fund, we will know where the excess earnings will be going.

Mr. Howard went on to note that this is a different market and it is changing constantly, and the expectation of rising rates gives us reason for moving forward with converting the short-term commercial paper to fixed rate permanent financing.

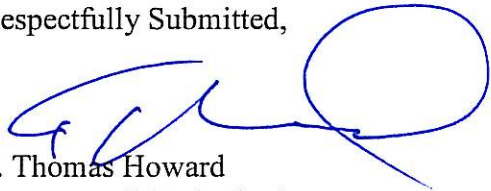
Mr. Howard stated that the Authority needed the direction from the board to allow staff the flexibility to proceed with a traditional tax-exempt financing, a Build America Bond structure or a combination thereof further stating to the board that the primary goal is a 20 year level debt structure with capitalized interest to give some relief to the Road Fund in FY10 by obtaining the lowest financing cost with either traditional financing or on a blended basis with the Build America Bond Program. Mr. Howard then opened the floor to any questions in regards to Build America Bonds, bond market, or commercial paper. Ms. Howell questioned the current statutory Authority requirements or if any additional requirements would be placed on the Build America Bonds. Mr. Howard responded by stating that we have general provisions, and the Authority has issued taxable bonds in the past to conduct refundings that were no longer eligible to be done on a tax-exempt basis and further stated that we do have precedent for doing this and have clear statutory authority to issue bonds without the designation. Mr. Howard also noted that the bonds are always exempt in the state of Kentucky due to statutory requirements. With absence of any other questions or discussion, the meeting was moved to the next agenda item.

Mr. Howard introduced Bond Counsel, John Merchant of Peck, Shaffer and Williams, LLP. Mr. Merchant stated that this Resolution authorizes an amount not to exceed \$175 million for Economic Development Road Revenue Bonds. Mr. Merchant also pointed out that this resolution represents authorization for both Tax-Exempt Bonds and Build America Bonds, giving the Authority and staff maximum flexibility as it relates to what type of bonds will be issued. Mr. Merchant states that there will be a Second Amendment to the Tenth Supplemental Lease with an attachment as it relates to the Debt Service since the ALCo Road Fund 2007 Series A Notes will be taken out with this

financing. So, there will not be a need for an 11th Supplemental Lease or Agreement. Mr. Merchant noted that the resolution also gives the Authority and staff flexibility for the option of bond insurance. Mr. Howard stated the Second Amendment establishes the maximum rate at which we can sell bonds being 9% which is reflective of the volatile, taxable and tax-exempt market but added that we don't have expectations of it being that high, just setting some perimeters. Chairperson Flanery asked if the Authority would report back to the board at the June budget meeting as to the action and reason to this resolution was taken. Mr. Howard responded by stating that a memo would be sent out as to when the bonds were sold and describing the terms as part of the delivery. In absence of any questions, Chairperson Flanery asked for a motion of approval of the 2009 Series A Authorizing Resolution, Tammy Branham made a motion to approve, and Bill Burger seconded. The motion carried unanimously. Chairperson Flanery asked for a motion of approval for the Reimbursement Resolution for the Build America Bonds, Bonnie Howell made a motion for approval, and Mike Hancock seconded. The motion carried unanimously.

Chairperson Flanery asked if there was any further business to be addressed; none was presented. Chairperson Flanery called for adjournment and without objection the meeting was adjourned.

Respectfully Submitted,


F. Thomas Howard
Secretary of the Authority