

**KENTUCKY ASSET/LIABILITY COMMISSION
MINUTES
OCTOBER 10, 2002**

The Kentucky Asset/Liability Commission ("the Commission") meeting was called to order by Chairman T. Kevin Flanery in Room 264 of the Capitol Annex Building, Frankfort, Kentucky, on Thursday, October 10, 2002 at 10:20 a.m.

Members present included: T. Kevin Flanery, Secretary, Finance and Administration Cabinet; Cindy James, proxy for Ben Chandler, Attorney General; Eugene Harrell, proxy for State Treasurer Jonathan Miller; Allen Holt, proxy for James R. Ramsey, State Budget Director; and Alex Rose, proxy for Dana Mayton, Secretary of the Revenue Cabinet. Kevin Mason and Mary Lynn Collins, Legislative Research Commission, were also present.

Secretary Flanery declared a quorum was present and that the press had been notified of the meeting. A motion was made by Mr. Holt and seconded by Mr. Harrell to approve the minutes of the September 10, 2002 meeting. **Motion CARRIED.**

Secretary Flanery introduced Resolution No. 2002-05:

A RESOLUTION APPROVING THE EXECUTION AND DELIVERY OF A FINANCIAL (SWAP) AGREEMENT IN CONNECTION WITH THE SALE OF REVENUE REFUNDING BONDS, PROJECT NO. 77 OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY AUTHORIZING A FINANCING/LEASE AGREEMENT; AUTHORIZING THE OFFICE OF FINANCIAL MANAGEMENT TO TAKE ALL NECESSARY ACTIONS; AND TAKING OTHER RELATED ACTION.

Mr. Gordon L. Mullis, Executive Director, Office of Financial Management, indicated that the State Property and Buildings Commission ("SPBC") Project No. 77 authorized the use of a variable rate component in order to turn the rate back into a synthetic fixed rate and lock in the cost. As a result the Commission will enter into a financial (swap) agreement as part of the transaction. Resolution No. 2002-05 will allow SPBC, Morgan Stanley, and the Commission to work together on this project.

Mr. Mullis introduced Mr. Tom Howard, Deputy Executive Director, Office of Financial Management, to discuss the transaction. Mr. Howard stated that the Commission was entering into the financial (swap) agreement on behalf of SPBC to convert variable rate demand notes issued to refund certain maturities to a fixed rate. The swap market currently has more advantageous market rates than the cash municipal market, therefore this transaction generates additional present value savings over a traditional fixed rate issue. It is an excellent transaction for both the Commission and SPBC.

A motion was made by Mr. Holt and seconded by Mr. Rose to adopt Resolution 2002-05. **Resolution ADOPTED.**

Secretary Flanery introduced the next item on the agenda, which is Resolution 2002-06:

A RESOLUTION AUTHORIZING A FINANCIAL (SWAP) AGREEMENT; AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF PROJECT REFUNDING NOTES OF THE KETUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$140,000,000 FOR THE PURPOSE OF REFUNDING STATE PROPERTY AND BUILDINGS COMMISSION REVENUE AND REVENUE REFUNDING BONDS, PROJECT NO. 55; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, CREDIT FACILITY AGREEMENT, LIQUIDITY FACILITY REMARKETING AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO SUCH NOTES.

Mr. Mullis stated that portions of Project No. 55 would be refundable in September 2003. The current marketplace is very uncertain, however interest rates are expected to rise. An agreement similar to previous swap transactions is being contemplated with UBS PaineWebber, although with a slightly different utilization of the swap technique. Mr. Howard indicated that there are a number of ways to achieve debt service savings but the most effective at this point in time is the execution of a percent of LIBOR swap where the Commission agrees to pay a fixed rate and receive a variable rate. The swap would be unwound when the refunding notes are sold to offset changes in the market between now and the settlement date. The basis risk in this trade is very small and should add ultimate value to current SPBC refunding bonds of Project No. 55

A motion was made by Mr. Rose and seconded by Mr. Holt to adopt Resolution 2002-06. **Resolution ADOPTED.**

Secretary Flanery informed the Commission that Standard & Poor's recently downgraded the general issuer rating and the appropriation supported credit rating of the Commonwealth to AA- and A+, respectively. Secretary Flanery stated that any questions regarding credit ratings or the Standard and Poor's release should be addressed to the Office of Financial Management. Mr. Mullis indicated that the official release was not available on the Standard Poor's web site to date.

Mr. Holt asked when the Kentucky Infrastructure Authority would issue bonds. Mr. Mullis stated that final pricing is set on October 16, 2002. Secretary Flanery stated that the TRAN will go to market on October 17, 2002 and the rating for that issue by Standard and Poor's is unaffected and the same as last year, which is a SP 1+.

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With no further business before the Commission, a motion was made by Mr. Rose and seconded by Mr. Holt to adjourn the meeting. **Motion CARRIED.**

Respectfully submitted,

Gordon L. Mullis
Secretary