

**KENTUCKY ASSET/LIABILITY COMMISSION  
MINUTES**

**OCTOBER 16, 2000**

The Kentucky Asset/Liability Commission (“ALCo”) meeting was called to order by Chairman John P. McCarty in Room 264 of the Capitol Annex Building, Frankfort, Kentucky, on Monday, October 16, 2000 at 9:20 a.m.

Members present were as follows: John P. McCarty, Secretary, Finance and Administration Cabinet; Mary Lassiter, proxy for James Ramsey, State Budget Director; Cindy James, proxy for Ben Chandler, Attorney General; Gene Harrell; proxy for Jonathan Miller, State Treasurer; and Alex Rose, proxy for Michael Haydon, Secretary, Revenue Cabinet.

Secretary McCarty verified with the staff that a quorum was present and the press had been notified of the meeting.

Secretary McCarty called for a motion to approve the minutes of the May 22, 2000 meeting. A motion for approval was made by Mr. Harrell and was seconded by Ms. Lassiter. Motion **CARRIED**.

Terri Fugate, Financial Analyst, Office of Financial Management presented a status report on the 2000 General Fund Tax and Revenue Anticipation Notes.

Secretary McCarty commented that on October 11, 2000 the available balance in the General Fund was negative indicating that a larger tranche could have been issued. Tom Howard, Deputy Director, Office of Financial Management explained how the rating agencies effectively control the maximum amount that can be borrowed. The general rule of thumb to maintain the highest rating is that the amount borrowed should not exceed the total receipts in the month the notes mature. Mr. Mullis commented to the Commission that this gives the rating agencies a comfort level that the borrower can repay the note in a worse case scenario.

Secretary McCarty introduced Resolution 00-02, which reads as follows:

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, EXECUTION AND DELIVERY OF A FINANCIAL AGREEMENT FOR THE PURPOSE OF HEDGING A PORTFOLIO OF INTEREST-SENSITIVE ASSETS AND INTEREST-SENSITIVE LIABILITIES TO STABILIZE THE COMMONWEALTH'S NET INTEREST MARGIN.**

Mr. Mullis reported to the Commission that there has been some volatility in the interest rate environment and OFM staff has discussed the possibility of hedging some of the assets with the use of a financing agreement which is commonly called an interest rate swap “swap” agreement with the underwriter, Salomon Smith Barney. ALCo is permitted to enter into such an agreement under certain circumstances and this resolution authorizes the execution of the agreement within the constraints of the statutes and regulations.

Mr. Mullis presented to the Commission a chart detailing the agreement. Mr. Howard explained why hedging is necessary. Salomon Smith Barney has worked with the OFM staff to evaluate the yield curve for various swap transactions and determined that the Commercial Paper index swap market provides the best execution at this time. It also had the highest correlation to the short-term investment pool.

The staff recommended approval.

Secretary McCarty asked the staff for questions. There being none, Ms. Lassiter made a motion for approval and Mr. Rose seconded the motion. Motion **CARRIED**.

Secretary McCarty introduced Resolution 00-03, which reads as follows:

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2000 GENERAL FUND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$500,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AUTHORIZED PROJECTS IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE STATE PROPERTY AND BUILDINGS COMMISSION; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, REMARKETING AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO SUCH NOTES.**

Mr. Mullis introduced Roger Peterman, Esq., of Peck Shaffer & Williams, bond counsel to the Commission. Mr. Peterman was present to answer any questions regarding the actions put before the Commission for approval. Resolutions 00-03 and 00-04 are to establish a master program for the 2000 bond authorizations for General Fund and Agency Fund supported debt that will be issued initially in the form of notes by the Commission and ultimately taken out by bonds issued by either State Properties and Buildings Commission ("SPBC") or another state agency, primarily state universities.

Mr. Mullis reported to the Commission that this resolution establishes the master indenture in an amount not to exceed \$500,000,000 for General Fund Supported projects. Mr. Mullis explained that the note indenture would function the same as previous indentures by establishing all the documents, definitions, terms, conditions and other legal frame work for the issuance of notes. He also gave a brief outline of the master project list.

Mr. Peterman explained to the Commission that the General Fund Resolution is envisioned to encompass all General Fund Projects whose debt service would be supported by General Fund money. This is a general authorization that offers the flexibility to have underlying details completed in the most efficient way possible. Mr. Howard explained to the Commission that if the Credit Facility rates change then this method will allow for more creative financing by utilizing unenhanced interest rates modes versus our traditional stand-by letter of credit. Secretary McCarty asked for verification that the General Assembly had approved these projects

to be supported by the General Fund Debt Service appropriation. Mr. Howard confirmed that they had been approved by the 2000 General Assembly. Secretary McCarty asked for confirmation that the Commission would be giving staff the approval, subject to the Commission approving each project, to finance the projects authorized by the General Assembly in the most efficient way possible. Mr. Howard confirmed that was the purpose of this resolution. Mr. Mullis pointed out to the Commission that the Community Development projects were not on the project list because staff views them as stand alone issues that are done at a point in time. These projects do not really need the flexibility that construction projects and a note structure would provide.

Secretary McCarty asked the staff for questions. There being none, Ms. Lassiter made a motion for approval and Mr. Rose seconded the motion. Motion **CARRIED**.

Secretary McCarty introduced Resolution 00-04, which reads as follows:

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2000 AGENCY FUND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$150,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AUTHORIZED PROJECTS IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE STATE PROPERTY AND BUILDINGS COMMISSION OR STATE AGENCY; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENTS, A REMARKETING AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO SUCH NOTES.**

Mr. Mullis reported to the Commission that this resolution is the same as the previous resolution with the exception that this resolution covers Agency Fund supported bond projects which would be issued by SPBC or a state agency as the permanent take-out. These projects have also been approved by the 2000 General Assembly. The same structure and documentation is authorized as per the General Fund Resolution.

Secretary McCarty asked the staff for questions, there being none Mr. Rose made a motion for approval and Ms. Lassiter seconded the motion. Motion **CARRIED**.

Mr. Mullis reviewed the Debt Issuance calendar with the Commission. The staff has systematically taken out or is in the process of converting to permanent financing, Road Fund, Agency Fund and General Fund Project Note issues, which were authorized by the 1998 General Assembly. It is expected that by the spring of 2001 all of the original 1998 authorizations will have permanent funding with the exception of some Agency Fund projects which are still in process. The timing of the remaining take-outs will be a function of the cash flow need of the projects. He noted for the Commission that the Road Fund Series and the 1999 General Fund Second Series have not been converted, but are on the Calendar at what is perceived the appropriate time for each issue.

Mr. Mullis reported to the Commission that the Semi-annual report was complete and issued. Mr. Mullis thanked each of the staff members for their hard work on the report. He complimented the staff for an excellent report.

Secretary McCarty also commended the staff, as well as Mr. Mullis, on their hard work over the previous years since the inception of ALCo and for the creative financing that has improved the Commonwealth's ability to manage money and bring in additional revenue to the Commonwealth.

With no further business before the Commission, the meeting was adjourned at 9:40 a.m.

---

Secretary, Kentucky Asset/Liability Commission