

Kentucky Asset/Liability Commission
Minutes
October 16, 2001

The Kentucky Asset/Liability Commission ("ALCo") meeting was called to order by Chairman T. Kevin Flanery in Room 264 of the Capitol Annex Building, Frankfort, Kentucky, on Tuesday, October 16, 2001 at 10:20 a.m.

Members present included: T. Kevin Flanery, Secretary, Finance and Administration Cabinet; Allen Holt, proxy for James R. Ramsey, State Budget Director; Cindy James, proxy for Ben Chandler, Attorney General; Eugene Harrell, proxy for Jonathan Miller, State Treasurer; and Alex Rose, proxy for Dana Mayton, Secretary, Revenue Cabinet.

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

Secretary Flanery called for a motion to approve the minutes of the August 3, 2001 meeting and not the July 16, 2001 meeting as stated in the Agenda. A motion to approve the minutes of the August 3, 2001 meeting was made by Mr. Rose and seconded by Ms. James. **Motion CARRIED.**

Secretary Flanery introduced Resolution 2001-06, which reads as follows:

**A RESOLUTION AUTHORIZING A FINANCIAL (SWAP)
AGREEMENT; AND AUTHORIZING A FINANCING AGREEMENT
RELATED TO SUCH FINANCIAL (SWAP) AGREEMENT.**

Gordon L. Mullis, Executive Director of the Office of Financial Management ("OFM"), reported to the Commission that ALCo works closely with the State Property and Buildings Commission ("SPBC") to effect certain transactions that would achieve interest rate savings and help deal with interest sensitive assets and liabilities of the Commonwealth. In conjunction with the SPBC Project 71 financing, a swap agreement was entered into with UBS PaineWebber to hedge the savings that would be achieved on those refunding bonds. SPBC agreed that in order to achieve the appropriate hedging of interest rates, ALCo should enter into a different swap with UBS PaineWebber, the net effect of which would be to provide for a synthetically fixed rate on the refunding obligations of SPBC Project 72 Second Series. The Resolution before the Commission for approval today would provide the authorization to execute that particular transaction, and would approve the supplemental lease and financing agreement that would provide for the flow of funds to accomplish that synthetically fixed rate in the event that SPBC issue a variable rate bond to achieve that refunding. Mr. Mullis continued that given the current rate it is unlikely the variable rate transaction would be issued and subsequently it would not be necessary to execute the swap agreement. However, if rates change and the reinvestment rates would be such that the prior transaction would work without significant negative arbitrage, the transaction would be seriously considered and prior approval is being requested to execute the necessary documents in that event. A diagram of the transaction is included in Attachment A and provides a snapshot of the actual swap.

Secretary Flanery asked if the Commission members had questions concerning the Resolution. Alex Rose, proxy for Dana Mayton, Secretary of the Revenue Cabinet, asked what the difference is between a synthetically fixed rate and a traditionally fixed rate. Mr. Mullis explained that a traditionally fixed rate is an absolute fixed rate as opposed to the synthetically fixed rate that has some potential for variability due to the underlying variable notes. The potential to have a lower rate using the synthetic structure is the major reason to do the transaction.

A motion was made by Mr. Holt and seconded by Mr. Ross to adopt Resolution 2001-06. Motion carried and **RESOLUTION ADOPTED.**

Secretary Flanery introduced the next item on the agenda, Attachment B, which is an update on the Tax and Revenue Anticipation Notes ("TRAN").

Jason Hamilton, a financial analyst with OFM discussed Attachment B. Mr. Hamilton indicated that the General Fund Monthly Average shows CY 2002 and the sharp decline in the General Fund Balance. This decline does not include TRAN proceeds, but does include the Budget Reserve Trust Fund. This deficit can be attributed to the fact that revenue receipts have fallen below the projected amounts. Mr. Hamilton continued that on September 4, 2001 the target was met with a General Fund balance of negative \$544,192,82. The daily balances, interest expense, and investment income can also be seen in Attachment B. Mr. Hamilton informed the Commission that Attachment B includes a chart, which shows how the Series B TRAN has performed. The red line on the chart indicates a fixed rate and the blue line indicates the current variable rate. The downward trend began in August and has dropped dramatically since September 11.

Secretary Flanery asked if the Commission members had any questions regarding the information presented or any new business to bring before the Commission. There being no questions or new business, a motion was made by Mr. Rose and seconded by Mr. Holt to adjourn the meeting. Motion **CARRIED.**

Respectfully submitted,

Gordon L. Mullis, Secretary
Asset/Liability Commission