

**KENTUCKY ASSET/LIABILITY COMMISSION
MINUTES
OCTOBER 19, 2009**

The Kentucky Asset/Liability Commission (“ALCo” or the “Commission”) was called to order on Monday, October 19, 2009 at 2:00 p.m. in Room 386 of the Capitol Annex by Shannon Morgan, Deputy Secretary, Finance and Administration Cabinet as proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet, Mary Lassiter, State Budget Director, Bonnie Howell, proxy for Attorney General, Jack Conway, and Mary John Celletti, proxy for Treasurer, Todd Hollenbach.

OFM Staff Members Present: Mr. Tom Howard, Executive Director and Secretary to the Commission, Deputy Director Brett Antle, Robin Brewer, Tom Midkiff, Rob Ramsey, Rachael Putnam, and Marcia Adams.

Other Guests Present: Kristi Culpepper and Kelly Dudley, from the Legislative Research Commission (“LRC”) and Ryan Green from the Office of State Budget Director (“OSBD”).

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

A motion was made by Ms. Mary Lassiter and seconded by Mr. Ed Ross to approve the previous meeting minutes. Motion **CARRIED** and the minutes of the May 12, 2008 meeting were approved as written.

Deputy Secretary Morgan introduced Resolution 2009-01:

**A RESOLUTION OF THE KENTUCKY ASSET/LIABILITY COMMISSION
APPROVING A CAPITAL CONSTRUCTION PROJECT AUTHORIZED BY THE 2008
GENERAL ASSEMBLY WHERE SUCH PROJECT WILL BE FINANCED BY THE
ISSUANCE OF KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES OR
REVENUE BONDS OF OTHER AUTHORIZED STATE DEBT-ISSUING
AUTHORITIES.**

Mr. Rob Ramsey stated that Resolution 2009-01 is for a capital construction project authorized by the 2008 General Assembly, H.B. 406. This authorization from the General Assembly was for \$231,000,000 of Grant Anticipation Revenue Vehicle (“GARVEE”) Bonds to be issued for the Louisville Southern-Indiana Ohio River Bridges Project. Ms. Lassiter asked if the \$231,000,000 in project notes will be issued soon and if this is the total project amount. Mr. Howard answered this is a reimbursement resolution, which we do prior to any issuance of bonds to allow for the reimbursement of project expenditures with the proceeds of the bond issue and yes, it is the total amount. It is anticipated that we will need to come back at a later time, maybe February, and pass a supplemental bond resolution to the existing trust indenture that would authorize the issuance of some portion of the authorized bonds, not the full amount.

A motion was made by Ms. Mary Lassiter and seconded by Mr. Ed Ross to approve the resolution **2009-01**. Motion **CARRIED** and Resolution **2009-01** was **ADOPTED**.

ALCo Semi-Annual Report as of June 30, 2009 Update – Mr. Ramsey reported on the Fiscal Year 2009 Tax and Revenue Anticipation Notes (“TRAN”) (noting page 14). There was a \$400,000,000 TRAN issued on July 1, 2008 that matured on June 25th, 2009. The TRAN provided an economic benefit of \$7,100,000 for the Commonwealth in Fiscal Year 2009. No TRAN was issued for Fiscal Year 2010 due to the revised General Fund Revenue forecast being down \$1 billion, which created cash flow modeling issues. With no accurate model to detail repayment, there was uncertainty

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whether we would receive the highest short-term ratings. In addition, the current investment yields would likely not be much higher than the cost of funds, even with the highest ratings from the rating agencies. There appeared to be little to no economic value to doing a TRAN for Fiscal Year 2010.

Mr. Brett Antle (noting page 17) stated that the 2005 General Fund Second Series interim financing program has worked well for the Commonwealth. Last fall, with the meltdown of the credit markets, we started to see extreme volatility in interest rates in this program. As a result, we decided to redeem all \$200,000,000 of the commercial paper then outstanding. Since that time we have monitored the trading spreads and the market acceptance of our liquidity provider, Dexia including other paper they had outstanding. We have continued to see distressed levels of the overall market and weak credit conditions. As of the end of July, we cancelled the standby-note-purchase agreement with Dexia and the commercial paper program was discontinued. We have subsequently financed our interim needs for our capital projects through the issuance of fixed-rate bonds. We began that strategy with the State Property and Buildings Commission ("SPBC") Project No. 90 in October 2008, and continued with SPBC Projects No. 93 and No. 95 earlier this year, and SPBC No. 96 later this month. After SPBC Project No. 96, the total amount of project authorization that will be left to finance will be approximately \$459,000,000, and we anticipate we will utilize permanent fixed-rate bonds issued through SPBC. We have recently seen improvement in the short-term markets and are looking for new opportunities to provide interim financing for future authorizations.

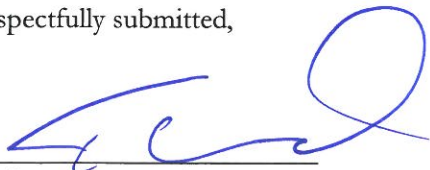
Mr. Howard added that the trust estate still exists but is set aside for the time being; although we can issue a small Bond Anticipation Note ("BAN") if needed. Costs are coming down for liquidity and the U.S. Treasury announced today they would provide direct liquidity for the housing market, but rates have yet to be determined.

Mr. Antle continued with the Road Fund Update (noting Page 22) and reported on the 2007 Road Fund First Series interim financing program established to provide for the Economic Development bond authorization by the 2006 Session of the General Assembly. As with the General Fund interim financing program, the standby-note-purchase agreement for the Road Fund interim financing program has been terminated, and all authorized debt under the trust indenture has been permanently financed through the Turnpike Authority of Kentucky ("TAK").

Mr. Howard stated that much has transpired in the last year, and this annual report captures where the Commonwealth of Kentucky has been.

With no other business, the meeting stands adjourned.

Respectfully submitted,



F. Thomas Howard
Secretary