

**KENTUCKY ASSET/LIABILITY COMMISSION
MINUTES**

JANUARY 8, 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 Monday, January 8, 2001 at 2:00 p.m.

Members present were as follows: T. Kevin Flanery, Secretary, Finance and Administration Cabinet; Allen Holt, 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.

Mr. Mullis introduced the debt staff to Secretary Flanery: Kay Thomas, Sandy Williams, Terri Fugate, Jason Hamilton, Nora Marshall and Tom Howard. The debt staff not present were Bart Hardin and Doris Howe. Most of the staff attends both ALCo and State Property and Buildings Commission ("SPBC") meetings.

Secretary Flanery verified with the staff 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 October 16, 2000 meeting. A motion for approval was made by Mr. Rose and seconded by Mr. Harrell. Motion **CARRIED**.

Secretary Flanery introduced Resolution 2001-01, which reads as follows:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2001 GENERAL FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE AMOUNT NOT TO EXCEED \$40,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AUTHORIZED PROJECTS; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

Mr. Mullis explained to the Commission that this resolution provides for the issuance of a 7-year fixed rate note to fund projects authorized in the 2000 General Assembly. A list of projects were found in the board book under tab A. These are primarily equipment items for various agencies of state government as well as a pool of equipment for the Council on Postsecondary Education, which are allocated to various universities. The staff has worked with all the agencies and with the Council to determine the useful life of these projects. Calculations made by Ms. Fugate and staff have determined that the financing term is well within the limits allowed by the Internal Revenue Service with regard to useful life. The notes are expected to be sold on February 7, 2001. The underwriter for this transaction is Bear, Stearns & Co. Inc. and their counsel is Frost

Brown Todd L.L.C. The Commission's bond counsel is Peck, Shaffer & Williams L.L.P. The trustee on this transaction is Bank One. Subject to the Commission's approval, this issue is scheduled to be presented to the Capital Projects and Bond Oversight Committee on January 16, 2001. The note issue is for an amount not to exceed \$40,000,000. Staff anticipates this transaction will receive a very attractive interest rate and staff recommended approval.

Secretary Flanery asked if this transaction would be providing permanent financing for these projects. Mr. Mullis confirmed the issue would permanently finance the projects.

A motion for approval of Resolution 2001-01 was made by Mr. Rose and seconded by Mr. Holt. Motion **CARRIED**.

Ms. Fugate presented a status report on the 2000 General Fund Tax and Revenue Anticipation Notes (TRAN). Ms. Fugate distributed a handout which summarized the fiscal year 2001 TRAN transactions. Earlier in the fiscal year, staff had projected 6% earnings on the TRAN proceeds with just over \$7,000,000 in net earnings. But with a downturn in interest rates, and other factors, staff now expects a more conservative yield of 5.70% and \$5,000,000 in projected incremental earnings. Staff anticipates, however, exceeding the budgeted investment income amount.

Mr. Howard injected that there is little or no cash in the General Fund to invest, even with the TRAN proceeds. Balances have been lower than originally projected. Cashflow projections are heavily based on the previous year and this year there has been a more negative balance earlier. Negative balances mean the General Fund has to borrow from other funds and therefore earns less investment income. In past years, TRAN proceeds were available to be invested in a specific security but this year they were needed to keep the General Fund afloat. The picture should improve as the year progresses because in April, May and June the General Fund balances are historically higher than in the first nine fiscal months.

Mr. Mullis informed Secretary Flanery that this can also be found in the Monthly General Fund Revenue Report on the second page under Nontax Receipts as Interest on Investments. That number is misleading when compared to last year because starting in this year the TRAN expense is now amortized. Ms. Fugate provided a chart of the monthly net earnings. Early in the fiscal year the TRANs appear to have negative earnings but by yearend the earnings exceed expense.

Mr. Rose asked if the Federal Reserve's cut in interest rates affect the TRAN. Mr. Mullis responded by saying that the Federal Reserve's action basically filters through the state's short-term investment opportunities. The bottom line is that we have less money to invest and at a lower rate but will also be financing at a lower rate; therefore, ultimately lapsing more debt service.

Mr. Mullis reviewed the Debt Summary and Debt Issuance Calendar with the Commission. The Debt Summary aggregates ALCo activity of the past years. The concept of ALCo for bond-funded projects is to use short-term financing as project expenditures are being made. The short

end of the bond yield curve is almost always cheaper than the long end. In the past the State has sold permanent bonds; couldn't spend the money and had to rebate a portion of the investment income that was earned on those proceeds. Through ALCo the state has been able to package projects, draw down money on an expected expenditure basis and manage that pool of money to maximize the investment return and minimize the cost. Each of these series of note transactions has had a positive impact with savings to debt service through lower rates offset by investment income. At the appropriate time, short-term ALCo Notes are permanently financed by the authorized entity. The past years ALCo and their refundings will serve as the model for the financing of the General Assembly's 2000 authorization. The 1999 First Series in the amount of \$49,000,000 was the first permanent note issue, followed by the one approved in today's meeting.

Mr. Mullis reported to the Commission that not all of the items on the Issuance Calendar are ALCo refundings. SPBC No. 69 is expected to permanently finance part of the Community Development Authorization. These multiple projects are primarily grants of relatively small amounts and the expected expenditure will meet the target required under IRS code. There are two financings during each of the next two months, at least one in March, none in April at this time, ALCo in May and the TRAN for fiscal year 2002 in June, which is to be delivered in July. This is a fairly heavy schedule. The market is receptive right now for municipal issues.

Secretary Flanery commended staff for doing a great job.

With no further business before the Commission, a motion to adjourn was made by Mr. Rose and seconded by Mr. Holt. Motion **CARRIED**. The meeting was adjourned at 2:20 p.m.

Secretary, Kentucky Asset/Liability Commission