

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
April 15, 2005

The Kentucky Private Activity Bond Allocation Committee (the "Committee") meeting was called to order by Chairman Robbie Rudolph, Secretary, Finance and Administration Cabinet, on Friday, April 15, 2005 at 10:15 a.m. in Room 386 of the Capitol Annex, Frankfort, Kentucky.

Other members present were: Warren Nash, proxy for Marvin E. Strong, Jr., Secretary, Economic Development Cabinet; Allen Holt, proxy for Brad Cowgill, State Budget Director; Brian Crall, proxy for Governor Ernie Fletcher, and Edgar C. Ross, Controller, Finance and Administration Cabinet.

Chairman Rudolph declared that a quorum was present and verified that the press had been notified of the meeting.

The first item on the agenda was the approval of the November 8, 2004 minutes. A motion was made by Mr. Holt and seconded by Mr. Ross to approve the minutes. **Motion CARRIED.**

Chairman Rudolph turned the floor over to F. Thomas Howard, Acting Executive Director, Office of Financial Management. Mr. Howard stated the tax reform act of 1986 imposes a limit on the amount of private activity bonds that states can issue involving public purposes but have private ownership, management and uses, i.e. student loans, single and multi-family housing, some manufacturing facilities, and certain energy or solid waste projects. He indicated that this allows the local issuers to issue tax-exempt bonds that are subject to the alternative minimum tax ("AMT"), whereas for state issuers interest income is usually on a non-AMT basis and exempt from any federal or state taxes. He stated the code imposes a formula to allocate how much each state can issue. Mr. Howard indicated that currently the formula used to allocate funds is based on the July 1, 2004 Kentucky Census Bureau data population estimate (4,145,922) multiplied by the per capita amount of \$80 for the 2005 federal per capita allocation equals \$331,673,760 (total volume cap allocated to Kentucky). Mr. Howard stated that pursuant to KRS 103.286 the \$331,673,760 is to be divided up with forty percent or \$132,669,504 to the local issuer pool and sixty percent or \$199,004,256 to the state issuer pool. He indicated that the local pool is further regulated by 200 KAR 15:010, which states that local issuers can request no more than ten percent of the total issuer pool.

Mr. Jason Hamilton, Office of Financial Management, stated that Tab B is a staff summary and project analysis for the local issuer pool. Mr. Hamilton indicated there were six total applicants: two manufacturing, two housing and two solid waste projects. He indicated in the past few years there have not been as many projects requesting allocation due partly to the economy and various other factors. Mr. Hamilton stated all applicants qualify and staff recommends approval. Mr. Hamilton stated that Benda-Lutz Corporation proposes an expansion of their existing powder coating manufacturing facility. Kentucky Utilities

Company is proposing an improvement and addition to several locations for storage, solid waste, recycling and disposal facilities. Pinehurst Properties LLP project consists of construction of a new 80,640 square foot manufacturing facility for aluminum shower door enclosures. Republic Services, Inc. will be acquiring three properties, one in Grant County, Trimble County, and Lincoln County. This project consists of the acquisition, construction and equipping for all three properties. Country Place Partners, Ltd. and Kentucky Commons are both multi-family apartment complexes. Country Place Partners will be a renovation of 120-unit market rent apartment complex and Kentucky Commons is the construction of low to moderate housing complex totaling 280 units.

Mr. Howard stated that the total amount available for the local issuers versus the amount of cap requested leaves a surplus of \$82 million dollars. Mr. Howard indicated that the surplus would be subject to the new regulations and would be allocated on a random basis in the next allocation process. Mr. Nash asked if the next allocation process would be in July 2005. Mr. Howard stated the next process is scheduled for July 2005. Mr. Nash asked if the projects would have to issue bonds by October 2005. Mr. Hamilton stated yes that the projects would have 90 days from the date of issuance to issue the bonds. Mr. Hamilton indicated that if these six projects were approved today, they will have 90 days to issue the bonds as well. Mr. Howard stated that OFM staff recommends approval.

A motion was made by Mr. Ross and was seconded by Mr. Nash to approve allocation of \$50,266,950 to the six local applicants. **Motion CARRIED.**

Mr. Hamilton stated the next item on the agenda was the allocation of the state issuer pool for calendar year 2005. The total amount available for the state issuers is \$199,004,256.00. Mr. Hamilton indicated that the Kentucky Housing Corporation (“KHC”) requested sixty percent or \$119,004,256.00 and the Kentucky Higher Education Student Loan Corporation (“KHESLC”) requested forty percent or \$80,000,000.00. Mr. Hamilton stated that in recent years KHC and KHESLC have worked together to ensure that each agency receives an adequate share of volume cap.

Mr. Jim Ackinson, Chief Financial Officer, KHC, stated that both state agencies may also take advantage of taxable as well as tax-exempt bond financing. Mr. Ackinson indicated that KHC definitely felt the impact a few years ago when the tax law changed and increased the pool size for volume cap. Mr. Ackinson stated that in the past year KHC has been able to allocate some of the bond cap to multi-family projects. Mr. Ackinson indicated that these multi-family projects are very similar to the local issuer projects but because of the criteria do not score well on the local pool. Mr. Ackinson stated that KHC has used about half of the \$79,000,000.00 carryforward allocation from last year and plans to use the balance over the next year and a half. Mr. Ackinson indicated that the \$119,004,256.00 requested this year should be adequate to meet KHC's resource needs. KHC has coupled replacement refundings (recycling of previously allocated resources) along with the new bond cap allocations to meet the increase in volume.

April 15, 2005

Mr. Nash asked if there were funds left over in the local issuer pool would the funds convert to carryforward for the next allocation process. Mr. Howard stated that was correct and the carryforward would be allocated to one or both state issuers.

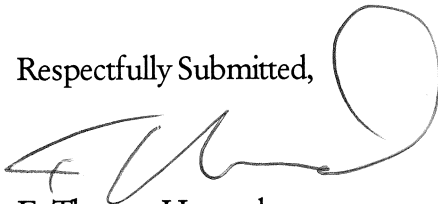
A motion was made by Mr. Nash and was seconded by Mr. Ross to approve \$119,004,256.00 to KHC and \$80,000,000.00 to KHESLC. **Motion CARRIED.**

Mr. Howard stated the next two items on the agenda were informational items. Mr. Hamilton stated that Tab D was a cap summary for calendar year 2005 and Tab E was a cap summary for calendar year 2004.

Chairman Rudolph stated that pursuant to KRS 61.810 (1) (C) the Committee would go into Executive Session. A motion was made by Mr. Nash and seconded by Mr. Brian Crall. **Motion CARRIED.**

With no further business before the Committee a motion to adjourn was made by Mr. Crall and seconded by Mr. Ross. **Motion CARRIED.**

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'F. Thomas Howard', with a large, circular flourish at the end.

F. Thomas Howard
Secretary