

KENTUCKY ASSET/LIABILITY COMMISSION

Minutes

April 18, 2005

The Kentucky Asset/Liability Commission was called to order at 10:00 a.m. on April 18, 2005 by Chairman Robbie Rudolph in Room 264 of the Capitol Annex. Other members present were Allen Holt, proxy for Brad Cowgill, State Budget Director; Eugene Harrell, proxy for State Treasurer Jonathan Miller; and Bonnie Howell, proxy for Attorney General Gregory Stumbo.

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

A motion was made by Mr. Harrell and seconded by Ms. Howell to accept the minutes of the June 9, 2004 meeting. Motion **CARRIED**.

Secretary Rudolph introduced Resolution 2005-01:

A RESOLUTION OF THE KENTUCKY ASSET/LIABILITY COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPOINTING A SECRETARY OF THE COMMISSION.

Secretary Rudolph indicated that it was necessary to appoint Mr. F. Thomas Howard, Acting Executive Director, Office of Financial Management, as Secretary of the Commission.

A motion was made by Mr. Holt and seconded by Mr. Harrell to approve Resolution 2005-01 appointing Tom Howard as Secretary to the Commission. Motion carried and Resolution 2005-01 was **ADOPTED**.

Secretary Rudolph introduced Resolution 2005-02:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$800,000,000 FOR THE PURPOSE OF FUNDING EXPENDITURE DEMANDS ON THE GENERAL FUND OF THE COMMONWEALTH OF KENTUCKY; AUTHORIZING A PLEDGE OF AND LIEN ON REVENUES REQUIRED TO BE DEPOSITED TO THE GENERAL FUND TO SECURE SUCH NOTES; AUTHORIZING A TRUST INDENTURE SECURING SUCH NOTES; AND AUTHORIZING A FINANCIAL (SWAP) AGREEMENT.

Mr. Howard stated that this Resolution would fund the cash flow needs of the General Fund for the coming fiscal year. Mr. Howard further indicated that the handouts indicated the magnitude of the cash flow draw down that the General Fund has experienced in the past year. Mr. Howard stated that the low point was in excess of a negative balance of \$600,000,000 for FY 05. Mr. Howard

indicated with tax collections in April, the balance is anticipated to reach a positive balance in May and June. Mr. Howard stated that although the Resolution specifies an amount up to \$800,000,000, it is anticipated that only \$500,000,000 to \$600,000,000 in TRANs will be issued. Mr. Howard further stated that the amount would depend on the final cash flow analysis and the ability to invest that amount of money. Mr. Howard indicated that this was a positive program that has added significant value to the General Fund since inception.

Mrs. Howell asked how much was approved for the TRAN in the previous year. Mr. Howard indicated that \$800,000,000 was approved, but only \$500,000,000 was actually issued.

Mr. Holt asked if the incremental earnings estimate was conservative. Mr. Howard stated that the market is very volatile at the present time and that volatility makes it hard to predict. Mr. Howard indicated that as it gets closer to the time of issuance, it would be easier to provide a much firmer estimate. Mr. Howard continued that with a wider spread, the final estimate should be more conservative.

Mr. Holt asked if the debt service was taken into consideration with regard to the estimate. Terri Fugate, Financial Analyst, Office of Financial Management, stated that projection for FY 06 is not complete but the debt service would be included in the final projection for FY 06.

Mr. Howard indicated that Citigroup Global Markets, Inc. will serve as underwriter and Peck, Shaffer & Williams LLP will serve as bond counsel for the transaction.

A motion was made by Mr. Holt and seconded by Mrs. Howell to adopt Resolution 2005-02 approving the issuance, sale and delivery of General Fund Tax and Revenue Anticipation Notes. Motion carried and Resolution 2005-02 was **ADOPTED**.

Secretary Rudolph introduced Resolution 2005-03:

A RESOLUTION AUTHORIZING A FINANCIAL (SWAP) AGREEMENT; AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$90,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AN AUTHORIZED PROJECT; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, CREDIT FACILITY AGREEMENT, LIQUIDITY FACILITY, REMARKETING AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO SUCH NOTES.

Mr. Howard stated that Resolution 2005-03 finances the Phase II tobacco settlement payment to Kentucky tobacco farmers authorized by House Bill 267 of the 2005 Regular Session of the General Assembly. Mr. Howard indicated that these notes would be issued in two series. Series A will be a fixed rate series of notes through ten years and the balance will be issued as synthetic fixed rate with

variable rate notes swapped back to fixed rate. Mr. Howard indicated that in the event the assignment came back, it would allow for the Notes to be paid off or redeemed if necessary under certain tax circumstances. Mr. Howard further indicated that the safe harbor with the IRS is effectively a 10-year call option. Mr. Howard said that Citigroup Global Markets, Inc. was selected from a rotating pool to serve as the underwriter on this transaction.

Secretary Rudolph asked how the transaction would be affected if the North Carolina Supreme Court reversed a lower court ruling. Mr. Howard stated that there would be two options if this happened. He stated that one option would be to substitute funding for another authorized project either in the existing budget bill or a future budget bill. Mr. Howard further stated that another option would be to redeem the Notes, if interest rates were to go down.

A motion was made by Mr. Harrell and seconded by Mrs. Howell to adopt Resolution 2005-03 authoring a financial agreement (Swap), the issuance, sale and delivery of Project Notes in an aggregate principal amount not to exceed \$90,000,000. Motion carried and Resolution 2005-03 was **ADOPTED**.

Secretary Rudolph introduced Resolution 2005-04:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2005 FEDERAL HIGHWAY FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$155,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AUTHORIZED PROJECTS; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

Mr. Howard indicated that Resolution 2005-04 authorizes the issuance of the first series of Grant Anticipation Revenue Vehicles (GARVEEs) that will be used to fund interstate projects. This Resolution securitizes future receipts from the Federal Highway Administration to accelerate projects and to avoid cost increases. Mr. Howard continued that the Federal Government has encouraged states to utilize this program and with the low interest rate environment it is a perfect opportunity to issue these Notes. Mr. Howard stated that legislation was passed in the 2004 Regular Session of the General Assembly that would allow the Commission to enter into these transactions. House Bill 267 of the 2005 Regular Session of the General Assembly authorized the Commission to issues these Notes to securitize future Federal highway revenues. Mr. Howard indicated that the Notes are 12 year, fixed rate Notes and the Notes will be issued on a tax-exempt basis. Mr. Howard indicated that Citigroup Global Markets, Inc. would serve as the underwriter for the transaction.

Mrs. Howell asked how the Commonwealth would be reimbursed for these Federal highway projects. Mr. Howard stated that the Federal Highway Administration signs an agreement which

states that they will pay the debt service for the specific projects. Mr. Howard continued that this transaction was strictly a Federal Fund appropriation and not secured by the Commonwealth.

A motion was made by Mrs. Howell and seconded by Mr. Harrell to adopt Resolution 2005-04 authorizing the issuance, sale and delivery of Project Notes, 2005 Federal Highway Fund First Series in an aggregate principal amount not to exceed \$155,000,000. Motion carried and Resolution 2005-04 was **ADOPTED**.

Secretary Rudolph introduced Resolution 2005-05:

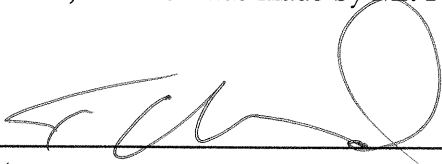
A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF TAXABLE PROJECT NOTES, 2005 AGENCY FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$15,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AN AUTHORIZED PROJECT; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

Mr. Howard stated that this Resolution was authorized by House Bill 267 of the 2005 Regular Session of the General Assembly and approved the issuance of Project Notes for the expansion of Bluegrass Station. Mr. Howard indicated that the U.S. Government anticipates having the first phase of this project operational by late 2005. Mr. Howard further indicated that the issuance of these Notes is being combined with the issuance of the Phase II Notes to achieve cost efficiencies.

Mr. Holt asked if staff worked with Military Affairs to structure the transaction. Mr. Howard indicated that staff is working closely with the agency on the final structuring of the transaction. Mr. Howard stated that the estimates were completed approximately a year ago and were preliminary estimates.

A motion was made by Mr. Holt and seconded by Mr. Harrell to adopt Resolution 2005-05 authorizing the issuance, sale and delivery of taxable Project Notes, 2005 Agency Fund First Series in an aggregate principal amount not to exceed \$15,000,000. Motion carried and Resolution 2005-05 was **ADOPTED**.

With no further business before the Commission, a motion was made by Mr. Holt and seconded by Mr. Harrell to adjourn the meeting.



Secretary
Kentucky Asset/Liability Commission