

**KENTUCKY ASSET/LIABILITY COMMISSION**  
**MINUTES**  
**MAY 12, 2008**

The Kentucky Asset/Liability Commission was called to order on Monday, May 12, 2008 at 10:00 a.m. in Room 76 of the Capitol Annex by Lori Flanery, Deputy Secretary, Finance and Administration Cabinet and proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Mary Lassiter, State Budget Director, and Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet.

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

A motion was made by Mary Lassiter and seconded by Ed Ross to approve the minutes of the October 15, 2007 minutes. Motion carried and the minutes of the October 15, 2007 meeting were approved.

Deputy Secretary Flanery introduced Resolution 2008-01:

**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 \$600,000,000 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.**

Brett Antle, Financial Analyst, Office of Financial Management, stated that Resolution 2008-01 authorizes the issuance, sale and delivery of General Fund Tax and Revenue Anticipation Notes (TRANs) in a principal amount not to exceed \$600,000,000 for the purpose of funding the expenditure demands on the General Fund; authorizing of pledge of revenues to secure the Notes; authorizing a trust indenture; and a financial (swap) agreement. Mr. Antle stated this is the 2008 Series A TRAN and will be used to provide working capital for the General Fund during fiscal year 2009. He stated preliminary numbers indicate that the General Fund could reach a negative balance of \$900,000,000 in the fall.

F. Thomas Howard, Executive Director, Office of Financial Management, stated that the size of the TRAN depends on several factors, including the projected deficit (for tax purposes) in the General Fund. He stated that availability of returns on high quality investments and the amount of projected June receipts are also considered when estimating the size of the TRAN. Mr. Howard stated that while borrowing a large amount could be justified from the natural deficit, it would not be practical to borrow a large amount with the relationship between taxable and tax

exempt bonds in the current market. Mr. Howard stated that he anticipates the size of the 2008 TRAN to be between \$300 million and \$350 million.

Mary Lassiter, State Budget Director, asked if a smaller TRAN is issued now, will there be an opportunity later in the year to issue an additional TRAN in the event market conditions change. Mr. Howard stated that was correct and in past years there have been two series of TRANs issued in one year. He noted that September is traditionally the time of year that another TRAN would be considered.

A motion was made by Mary Lassiter and seconded by Ed Ross to adopt Resolution 2008-01 approving the authorization, issuance, sale and delivery of General Fund Tax and Revenue Anticipation Notes in an amount not to exceed \$600,000,000 for the purpose of funding expenditure demands on the General Fund of the Commonwealth. Motion carried and Resolution 2008-01 was adopted.

Rob Ramsey, Financial Analyst, Office of Financial Management, presented an overview of the FY08 TRAN. Mr. Ramsey stated that to date the 2007 TRAN has earned approximately \$4.8 million dollars and is expected to earn a total of \$5.7 million through June 30, 2008. He stated that the expenditure target for the TRAN was met on August 16, 2007; the lowest balance for CY08 was met on November 21, 2007 and the lowest balance for FY08 was reached on March 11, 2008.

Mr. Howard noted that the low balance in March was a result of electronic processing of early refunds. He added that this negative balance would not have qualified for tax purposes for meeting the expenditure test since the low point was not reached within 6 months of the original issuance date.

Deputy Secretary Flanery introduced Resolution 2008-02:

**A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF A SUPPLEMENTAL TRUST INDENTURE RELATING TO PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION; AUTHORIZING THE EXECUTION OF A SUPPLEMENTAL TRUST INDENTURE; AND TAKING OTHER RELATED ACTION.**

Mr. Antle stated that Resolution 2008-02 supplements the 2005 General Fund Second Series Note program by adding a single project for Morehead State University, Replace Power Plant Pollution Control System and Boiler Tube, in the amount of \$5.7 million. Mr. Antle stated that the project was authorized in HB 406 of the 2008 General Assembly.

Minutes --Kentucky Asset/Liability Commission  
Page 3  
May 12, 2008

A motion was made by Ed Ross and seconded by Mary Lassiter to adopt Resolution 2008-02 authorizing the execution and delivery of a Supplemental Trust Indenture relating to Project Notes, 2005 General Second Series. Motion carried and Resolution 2008-02 was adopted.

Mr. Howard informed the Commission that UBS is closing its municipal bond department. Mr. Howard stated that UBS is the remarketing agent on the existing Series A-2 ALCo Project Note Program. Mr. Howard stated that approximately \$200 million is outstanding under this program and recommended that remarketing be transferred to JP Morgan who is the existing remarketing agent on the Series A-1 Notes.

Mary Lassiter asked if any cost to the Commonwealth is anticipated in the switch from UBS to J.P. Morgan. Mr. Howard indicated that no cost to the Commonwealth is anticipated. He added that the other remarketing agent (J.P. Morgan Chase) is currently remarketing our paper regularly. He noted that some Notes will be available for remarketing in June and staff will notify J.P. Morgan with those dates. He further noted that if the 30-day notice is not met, he anticipates that UBS will waive the notice and allow to J.P. Morgan to remarket the Notes

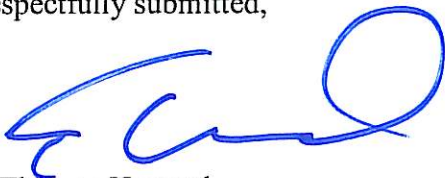
Mary Lassiter asked if the current paper is the only holdings that UBS currently has with the Commonwealth. Mr. Howard stated that UBS is in the rotating pool for State Property and Buildings Commission but is not next in the rotation. He noted that UBS serves as a Rotating Manager for the Kentucky Housing Corporation and they are involved in discussions to determine the next step to take.

Mr. Antle added that there is an outstanding hedge that is due next November. Mr. Howard stated that this transaction is with the bank and not the municipal bond department. He further stated that similar situations such as this have occurred in the past (Salomon Brothers, Credit Suisse and Merrill Lynch) and felt that transferring the outstanding \$100 million from UBS to J.P. Morgan would be in the best interest of the Commonwealth

A motion was made by Mary Lassiter and seconded by Ed Ross to allow the Office of Financial Management to file the necessary notices to transfer the remarketing of the ALCo Project Notes, 2005 Series A-2 to J.P. Morgan. Motion carried.

With no further business before the Commission, the meeting was adjourned.

Respectfully submitted,



F. Thomas Howard  
Secretary