

KENTUCKY ASSET/LIABILITY COMMISSION
Minutes
June 14, 2006

The Kentucky Asset/Liability Commission was called to order at 10:00 a.m. on Wednesday, June 14, 2006 by Chairman John Farris Secretary, Finance and Administration Cabinet, in Room 285 of the Capitol Annex. Other members present were John Hicks, 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 Farris declared that a quorum was present and verified that the press had been notified of the meeting.

A motion was made by Ms. Howell and seconded by Mr. Harrell to accept the minutes of the December 19, 2005 meeting. Motion CARRIED.

Secretary Farris introduced Resolution 2006-01:

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.

Ms. Terri Fugate, Deputy Executive Director, Office of Financial Management discussed Resolution 2006-01. She stated that the Resolution provides for the issuance of the General Fund TRAN for fiscal year 2007. Ms. Fugate pointed out that for several years this Commission has approved the issuance of a TRAN. She further indicated that Resolution 2006-01 allows for an amount not to exceed \$600,000,000 although it is expected that only \$200,000,000 will actually be issued. Ms. Fugate noted for the Commission that the financing team for the TRAN would be Peck Shaffer & Williams as ALCo bond counsel, Citigroup Global Markets Inc. as underwriter, Frost Brown Todd as underwriter's counsel and J. P. Morgan Trust will serve as the trustee on this transaction. Ms. Fugate stated that the TRAN is expected to sell the week of June 19, 2006. She reiterated that the size of the TRAN is being analyzed because of the anticipated ending balance of the General Fund of approximately \$700,000,000.

Ms. Fugate stated that the chart showing the General Fund Available Balance compares the fiscal year 2006 estimate of projected cash versus the actual daily cash balance. She pointed out that actual cash balance was very close to the projected cash balance. In addition, Ms. Fugate stated that the cash for fiscal year 2006 is well above previous years. She further stated that the charts showing the General Fund Monthly Average represent historical data from past fiscal years compared to the monthly average for fiscal year 2006. Ms. Fugate stated that the last chart shows the projected General Fund balance for fiscal year 2007.

Mr. Howard stated that the size of the TRAN will be the smallest since inception of the program based on current estimates. Mr. Howard indicated that the IRS has tightened enforcement of regulations which requires that the Commonwealth meets the test on the 90 percent of TRAN proceeds (deficit will have to be at least 90 percent of what is issued.) He continued that if the Commonwealth should fail the test, all the excess earnings would have to be returned. Mr. Howard indicated that this year earnings of approximately \$6.3 million are anticipated to be deposited to the General Fund.

Mr. Farris asked if the deficit was greater than \$600 million what would happen with the funds. Ms. Fugate stated that authorization is being sought for the not-to-exceed amount of \$600 million but it is expected that the actual amount issued will be much less. Mr. Howard added that in April when issuing a TRAN was first considered, it was anticipated that the size would be approximately \$500 million and documents were delivered with the not-to-exceed amount of \$600 million.

Mr. Hicks asked if the Budget Reserve Trust Fund was considered as an element in the cash analysis. Ms. Fugate indicated it is part of the analysis; however, these particular cash flows do not consider the reserve in the event revenues are even greater than expected for the fiscal year. Ms. Fugate added that 25 percent of the Budget Reserve Trust Fund may be spent and 75 percent is reserved in fiscal year 2007.

Mr. Hicks noted for the record that there is \$119 million in the budget reserve and a budgeted ending balance for the General Fund of approximately \$550 million and it appears that revenues will exceed the estimate.

Mr. Howard stated that the notes will be sold for delivery on the first business day of July which is before the prior fiscal year has been closed out and the ending balance and actual June receipts have been calculated.

Ms. Fugate stated that Resolution 2006-01 also authorizes a financial SWAP agreement. Ms. Fugate stated that the SWAP agreement would be similar to the one currently in place for the 2005 Series TRAN. Mr. Howard stated that the introduction of the SWAP into the transaction provides for asset/liability matching that produces a net effective spread. The TRAN proceeds are invested at a variable rate to match the assets which guarantees the spread that results in the expected net value.

A motion was made by Mr. Hicks and seconded by Ms. Howell to adopt Resolution 2006-01 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. Motion carried and Resolution 2006-01 was **ADOPTED**.

Secretary Farris introduced Resolution 2006-02:

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 FIRST SUPPLEMENTAL TRUST INDENTURE; AND TAKING
OTHER RELATED ACTION.**

Ms. Fugate stated that Resolution 2006-02 authorizes an existing indenture, the ALCO Project Notes, 2005 General Fund Second Series, to provide interim financing for additional projects. She added that it was intended that the financing structure could be used for projects identified at that time and future budgeted bond projects. Ms. Fugate stated that Exhibit A (Attachment C) identifies three (3) projects that are ready to move forward and are in need of financing. Ms. Fugate stated that the Wendell H. Ford Regional Training Center and the Louisville Arena are allowed to issue bonds after July 1, 2006. The Horse Park Indoor Arena financing will be issued after January 1, 2007, but the project is being placed under the Indenture and the establishment of a receivable such that funds can be reimbursed with bond proceeds.

Mr. Hicks explained that the General Assembly appropriated half year debt service for 90 percent of the General Fund bond projects in the second fiscal year (fiscal year 2008). Mr. Hicks stated that language was also added which stated that the bonds for the projects shall not be sold until after July 1, 2007. Mr. Hicks stated that the projects noted in Exhibit A reflect the General Assembly's intent on the bond projects. Mr. Hicks added that the Office of the State Budget Director will be determining what, if any, projects can be moved forward in the current fiscal year from available funds. He continued that it is likely that within the next six months, projects will be added to the list to be eligible to draw on the ALCo note program.

A motion was made by Mr. Hicks and seconded by Mr. Harrell to adopt Resolution 2006-02 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. Motion carried and Resolution 2006-02 was **ADOPTED**.

Secretary Farris introduced Resolution 2006-03:

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

Ms. Fugate indicated that Resolution 2006-03 is similar to the previous Resolution and provides interim financing for Agency Fund supported projects related to ALCo Project Notes, 2005 Agency Fund Second Series. Ms. Fugate indicated that permanent financing will be sought at a later date mostly likely through the respective universities. She continued that several Agency Fund projects received authorization in the 2006 budget and all of those projects except the University of Kentucky Hospital are being added to this Indenture. Ms. Fugate continued that these projects have similar debt service and issuance restrictions as previously discussed by Mr. Hicks. She added that putting these projects under a plan of finance will allow them to move forward with financing when the budget allows.

Mr. Howard pointed out that placing these projects under the Indenture establishes the ability from a bond perspective for the agencies to reimburse themselves from the bond proceeds. Mr. Howard added that reimbursement from the bond proceeds is a tax action that allows an agency to reimburse 60 days prior to expression of intent.

Ms. Howell asked why the University of Kentucky hospital project was not included. Ms. Fugate noted that the University of Kentucky will issue on their own through the University or ALCo because of the size of the authorization.

Ms. Fugate pointed out that the Agency Fund Indenture was structured so that each state agency determines the timing for drawing down the funds for their specific project rather than the pooled concept of the General Fund projects.

A motion was made by Ms. Howell and seconded by Mr. Hicks to adopt Resolution 2006-03 authorizing the execution and delivery of a supplemental trust indenture relating to Project Notes, 2005 Agency Fund Second Series. Motion carried and Resolution 2006-03 was **ADOPTED**.

With no new business before the commission, a motion was made by Ms. Howell and seconded by Mr. Hicks to adjourn the meeting.



Secretary
Kentucky Asset/Liability Commission