

**KENTUCKY ASSET/LIABILITY COMMISSION  
MINUTES**

**JUNE 18, 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, June 18, 2001 at 2:30 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 Dana Mayton, Secretary, Revenue Cabinet.

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 April 12, 2001 meeting. A motion for approval was made by Mr. Rose and seconded by Mr. Holt. Motion **CARRIED**.

Mr. Mullis introduced Ms. Kimberly Raybon, the newest member of the OFM staff, to the members of the Commission.

Ms. Fugate gave an overview of the cash flow projections for the 2001 General Fund Tax and Revenue Anticipation Notes (TRAN). Ms. Fugate referenced a number of charts in Exhibit A that gave a history and projection of the General Fund monthly average, revenues and expenditures, and daily cash balance. Secretary Flanery reported to the Commission that Gordon L. Mullis, Executive Director, Office of Financial Management, and staff keep the projection numbers conservative. Secretary Flanery noted that the history of being conservative helped during the Rating Agency trip to New York last month. He reported to the Commission that the Consensus Forecasting Group has revised the official revenue estimates for FY 2001 and FY 2002. Secretary Flanery explained that under the Statutes the Commonwealth can use up to 25 percent of the Budget Reserve Trust Fund in the first year of the biennium and up to 50 percent in the second year. These presumptions have been taken into consideration in the projections Ms. Fugate and staff have presented before the Commission. Secretary Flanery pointed out to the Commission that the TRAN proceeds will carry the Commonwealth when the General Fund balances are negative.

Mr. Mullis stated for planning purposes OFM has attempted to incorporate the best information available right now, the public statements by the State Budget Director and the Governor in conjunction with other actions, is what we have based our current work on. Mr. Mullis added the critical thing for us is to be sure that we have disclosed to the

participants in this transaction, the underwriter, bond counsel as well as the potential purchasers, the best information available concerning the financial circumstances, the economic circumstance and the proposals for reaching a structurally balanced budget.

Ms. Fugate reported to the Commission that the underwriter is Salomon Smith Barney, Peck Shaffer and Williams, L.L.P. is bond counsel and underwriter's counsel is Frost Brown Todd. Ms. Fugate distributed a chart detailing the history of the earnings and the economic benefit of the TRAN. Mr. Howard stated that this reinforces the fact that in fiscal year 2001 the General Fund has been more negative than it has been in recent years. It is, in fact, more negative than the TRAN proceeds borrowed. If the deficit had been borrowed from another agency then it would have to be paid back at a taxable interest rate, where as borrowing the money through the TRAN program has allowed the Commonwealth to pay the money back at a tax-exempt rate, a lower cost. Ms. Fugate reported to the Commission that a similar scenario is predicted for next fiscal year. Mr. Mullis commented that the state is expenditure front-loaded and receipt back-loaded and that is where the TRAN helps fill the gap.

Mr. Howard noted that the plan is to sell the notes sometime next week, probably after the Federal Reserve meeting when it is expected they will lower interest rates again. If the TRAN was issued today, the yield would be approximately 2.65 percent and next week it could be in the low-mid 2 percent range.

Secretary Flanery introduced Resolution 2001-03, which reads as follows:

**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 \$650,000,000 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; AND AUTHORIZING A TRUST INDENTURE SECURING SUCH NOTES.**

Mr. Mullis reported to the Commission that unlike in prior years instead of issuing in two separate tranches the intent for this fiscal year is to issue the full amount for delivery on July 2 or 3, 2001. The staff feels like there is enough comfort from the previous years' history and analysis to know that the expenditure requirements can be met if issued in one series which will give the greatest benefit of the TRAN. It is the recommendation of the staff for approval. Secretary Flanery asked the staff for questions. Mr. Rose made a motion for adoption of the resolution and Mr. Harrell seconded the motion. Motion **CARRIED.**

Secretary Flanery noted to the Commission that the Rating Agencies continue to be pleased with the performance of the Kentucky Asset/Liability Commission and its contribution to the budget reduction plan. Mr. Mullis commented that Kentucky is not alone, there are probably 42 other states in similar situations, some much more significant than Kentucky's.

With no further business before the Commission, the meeting was adjourned at 2:40 p.m.

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Secretary, Kentucky Asset/Liability  
Commission