

KENTUCKY ASSET/LIABILITY COMMISSION

MINUTES

June 18, 2007

A meeting of the Kentucky Asset/Liability Commission ("ALCo") was called to order by Mike Burnside, Deputy Secretary, Finance and Administration Cabinet and proxy for John Farris, Secretary, Finance and Administration Cabinet on Monday, June 18, 2007 at 10:30 a.m. in Room 76 of the Capitol Annex in Frankfort, Kentucky. Other members present were: Bonnie Howell, proxy for Attorney General Greg Stumbo; Chad Aull, proxy for Jonathan Miller, State Treasurer; Allen Holt, proxy for Brad Cowgill, State Budget Director; and Gerald Hoppmann, proxy for Edgar C. Ross, Executive Director, Office of the Controller.

Chairman Burnside verified with staff that a quorum was present and the press was notified of the meeting.

A motion was made by Allen Holt and seconded by Bonnie Howell to approve the minutes of the April 16, 2007 meeting. Motion carried and the minutes were approved.

Chairman Burnside introduced Resolution 2007-02:

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 \$600,000,000 FOR THE PURPOSE OF FUNDING EXPENDITURE DEMANDS ON THE GENERAL FUND OF THE COMMONWEALTH OF KENTUCKY; AUTHORIZING A PLEDGE OF A 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.

F. Thomas Howard, Executive Director, Office of Financial Management, stated that Resolution 2007-02 authorizes the sale of General Fund Tax and Revenue Anticipation Notes for the purpose of funding expenditure demands on the General Fund for fiscal year 2008. Mr. Howard noted that this is the Commonwealth's annual cash flow borrowing program. He continued that typically the size of the program is authorized at \$600,000,000. Mr. Howard stated that the size of the TRAN will depend on the ending balance in the General Fund at June 30, 2007 and the TRAN is expected to be considerably less than \$600,000,000. Mr. Howard stated that currently the ending balance is expected to be \$870,000,000 but the balance could increase depending upon revenues collected at the end of the year. Mr. Howard stated that it is anticipated that the Commonwealth will earn in excess of \$5,000,000 in fiscal year 2008 to the net benefit of the General Fund. Mr. Howard stated that a series of fixed rate notes will be issued and swapped back to a variable rate and the proceeds will be reinvested on a variable rate basis matching the asset and the liability and the net earnings will offset the cost of the negative balance in the General Fund for most of the fiscal year. Mr. Howard stated that the

financing team for the transaction will consist of Kutak Rock as bond counsel; Citigroup Global Markets, Inc. as underwriter; and Bowles Rice McDavid Graff & Love LLP as underwriter's counsel. Mr. Howard noted that the trustee had not been selected.

A motion was made by Bonnie Howell and seconded by Allen Holt to adopt Resolution 2007-02 authorizing the 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, 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. Motion carried and Resolution 2007-02 was adopted.

Brett Antle, Financial Analyst, Office of Financial Management, presented an update on the Fiscal Year 2007 TRAN delivered in July 2006 in a par amount of \$150,000,000. He stated that the TRAN will mature on June 28, 2007. Mr. Antle pointed out that the General Fund beginning balance was \$852,000,000 in July 2006 and the low point was a negative balance of \$519 million in late November 2006. Mr. Antle stated that to date the economic benefit of the TRAN to the Commonwealth is approximately \$2.5 million and it is anticipated that the total earnings for the fiscal year will be \$3,000,000.

Mr. Howard pointed out that last year the TRAN was downsized because of the \$800,000,000 estimated beginning balance in the General Fund. He stated that this year the TRAN is expected to be \$350,000,000 but will depend on the fiscal year 2007 projected ending balance in the General Fund. Mr. Howard pointed out that the IRS rule regarding the TRAN requires that the deficit must be at least 90 percent of what is borrowed and if that test is not met, all of the earnings from the transaction must be returned. Mr. Howard stated that is the reason that staff is very conservative in sizing the TRAN such that a certain level of economic benefit can be guaranteed to the General Fund.

Mr. Holt asked how much could have been issued. Mr. Howard stated that \$600,000,000 could have been issued and that target must be 90 percent of the absolute low point within six months of the issuance date. Mr. Holt asked what the net benefit to the Commonwealth would have been if \$600,000,000 was issued. Mr. Antle estimated that earnings under current market conditions on this year's TRAN are roughly \$800,000 for every \$50,000,000 issued. Mr. Howard stated that the ending balance is difficult to predict. Statistical data since 1993 which shows movement in the cash balance is used in trying to determine what the balances may be on any given day.

Mr. Antle reported on the \$243,080,000 General Fund Floating Rate Project Notes ("FRN") that were sold and delivered in May 2007. Mr. Antle stated that the FRNs were issued to permanently finance \$100,000,000 of General Fund supported bond projects authorized by the 2006 General Assembly in House Bill 380; \$75 million for the Louisville Arena project and

\$25 million for the Petroleum Storage Tank Environmental Assurance Fund. Mr. Antle stated that the remaining portion of the Notes was sold to advance refund certain maturities of State Property and Buildings Commission Project 79 and Project 85 bonds. He further stated that the structure included four Term Notes that were sold which had an accompanying interest rate swap which turned the Notes transaction into a synthetic fixed rate product. Mr. Antle stated that the financing team consisted of Citigroup Global Markets as the underwriter, Kutak Rock LLP as bond counsel, and the trustee was Bank of New York. He also stated that Citibank served as the swap counterparty on the swaps. Mr. Antle noted that the net present value savings from the refunding portion of the transaction was \$3,388,523 for a net present value percentage savings of refunded principal of approximately 2.582 percent.

Mr. Howard recognized Dr. Eugene Harrell, who recently retired from the State Treasurer's Office, and thanked him for his service to not only the people of the Commonwealth but to the Office of Financial Management. Mr. Howard read into the record a Resolution of Appreciation. A motion was made by Bonnie Howell and seconded by Allen Holt to adopt the Resolution of Appreciation of the Kentucky Asset/Liability Commission for Dr. Eugene Harrell. Motion carried and the Resolution of Appreciation was adopted.

With no further business before the Commission, a motion was made by Bonnie Howell and seconded by Allen Holt to adjourn the meeting. Motion carried and the meeting was adjourned.

Respectfully submitted,

F. Thomas Howard
Secretary