

**KENTUCKY ASSET/LIABILITY COMMISSION  
MINUTES**

**JULY 16, 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, July 16, 2001 at 10:15 a.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; Karen Mays, 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 June 18, 2001 meeting. A motion for approval was made by Mr. Rose and seconded by Mr. Holt. Motion **CARRIED**.

Secretary Flanery introduced Resolution 2001-04, which reads as follows:

**A RESOLUTION APPROVING THE EXECUTION AND DELIVERY OF A FINANCIAL (SWAP) AGREEMENT IN CONNECTION WITH THE SALE OF TOLL ROAD REVENUE BONDS, 1986 SERIES A, OF THE TURNPIKE AUTHORITY OF KENTUCKY; AUTHORIZING THE OFFICE OF FINANCIAL MANAGEMENT TO TAKE ALL NECESSARY ACTIONS; AND TAKING OTHER RELATED ACTION.**

Mr. Gordon L. Mullis, Executive Director, Office of Financial Management, reported to the Commission that this Resolution is similar to a resolution that was executed on behalf of Resource Recovery bonds issued by the Turnpike Authority of Kentucky. The difference with this transaction is instead of a single SWAP, as with the previous bond, there are actually two SWAPs. The net of effect is to lock in a lower fixed rate for the outstanding 1986 TAK Toll Road Revenue Bonds. This transaction would normally be executed on an interest payment date, the next interest payment date being January 1, 2002. However there is the possibility of executing this trade on a forward delivery basis, which would allow staff to lock in the savings in advance of the interest payment date. Staff will continue to monitor the market, subject to the approval of the Resolution and the attached confirmations in order to execute the trade when conditions are favorable to generate the savings target. This is an idea that was brought to the Commonwealth by Morgan Stanley Dean Witter through the creation of a Trust Certificate program. We are able to call but not redeem the outstanding bonds, deposit them into the Trust and initiate the SWAPs to lock in savings. These bonds will mature in 2007 and the estimate of savings is approximately \$1,500,000, or 3 percent of par, which will be available at the conclusion of the transaction. Bond counsel is Peck, Shaffer & Williams, L.L.P. Mr. Mullis informed the Commission that there was a chart behind the Resolution in the Commission

agenda that shows the general trade based on the estimates provided by the underwriters. Staff recommended approval. Secretary Flanery stated that this transaction like the previous allows staff a call but not redeem option. The fixed rate on this transaction gives more security regarding the expected savings. Mr. Mullis noted that this transaction does not change any of the underlying debt service requirements of the TAK issue with regards to debt service. There is no change in the debt service appropriation and we do retain the call rights associated with the bonds in the event that we need to exercise that right. Secretary Flanery asked if there are any questions of the staff. Mr. Rose made a motion for adoption of the Resolution and Mr. Holt seconded the motion. Motion **CARRIED**.

Ms. Fugate gave an update of the Tax and Revenue Anticipation Notes (TRAN) issue. Ms. Fugate reported that \$650,000,000 par amount of the 2001 General Fund TRAN was issued in two series. Series A is a fixed rate note of \$440,000,000 that sold at a premium and Series B which carries an index rate tied to one-month LIBOR in the amount of \$270,000,000. The proceeds from both issues that were deposited with the Treasurer was just over \$655,000,000. The TRAN was delivered on July 3, 2001. The Notes will mature before the end of the fiscal year on June 26, 2002. Secretary Flanery complimented the staff on being able to deliver this issue on July 3, 2001. Mr. Mullis indicated that Salomon Smith Barney and the staff of the Office of Financial Management worked very hard to finalize everything by July 3. Mr. Mullis noted that the Series B index rate notes were a product that hadn't been in the market in years. Mr. Howard had been looking for an opportunity to utilize this type of note, which does not require credit support. Secretary Flanery asked if the Rating Agencies had any reaction. Mr. Mullis reported that the rating agencies were comfortable with the index-based notes. Mr. Howard noted the rating agencies were very positive for a couple of reasons. First the short-term investment pool, where these proceeds are invested, is based on taxable markets. Second, the hedging options are much greater and more accessible given the high correlation between the short-term investment pool and one-month LIBOR. Also, spreads are usually narrower and should provide for a lower cost to the Commonwealth. Mr. Howard noted that given bank liquidity cost it was a favorable time to re-establish this market in a tax-exempt arena. Mr. Mullis noted that a number of institutions were interested in the sale and some good order sizes sold. Mr. Mullis commented that the underwriters were very pleased with the acceptance of the index rate notes. Mr. Mullis noted that the Commonwealth paid 4 basis points in initial rate versus the Series A Notes to get the index rate reestablished as a marketable product. He commented that it was a value that should pay for itself many times over in implementing our project note program. He also noted that staff would report the performance of the index rate throughout the year. Secretary Flanery asked the Commission members for questions. No questions were presented at that time, and with no further business before the Commission, the meeting was adjourned at 10:20 a.m.

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Secretary, Kentucky Asset/Liability Commission