

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
August 26, 2005

The Kentucky Private Activity Bond Allocation Committee (the "Committee") meeting was called to order by Chairman John Farris, proxy for Secretary Robbie Rudolph, Finance and Administration Cabinet, on Friday, August 26, 2005 at 1:35 p.m. in Room 386 of the Capitol Annex, Frankfort, Kentucky. Other members present were: Warren Nash, proxy for Marvin E. Strong, Jr., Secretary, Cabinet for Economic Development; Mary Lassiter, proxy for Brad Cowgill, State Budget Director; Matthew Hall, proxy for Governor Ernie Fletcher, and Edgar C. Ross, Controller, Finance and Administration Cabinet.

Chairman Farris declared that a quorum was present and verified that the press had been notified of the meeting.

The first item on the agenda was the approval of the April 15, 2005 minutes. A motion was made by Ms. Mary Lassiter and seconded by Mr. Edgar C. Ross to approve the minutes.
Motion CARRIED.

Chairman Farris turned the floor over to F. Thomas Howard, Acting Executive Director, Office of Financial Management. Mr. Howard stated that on April 15, 2005 this Committee allocated sixty percent of volume cap to the state issuers and forty percent of volume cap to the local issuers in accordance with KRS 103.286. He indicated that at that time there was an unallocated balance from the local issuer pool of \$82,402,554. Mr. Howard stated that all but one issuer utilized their maximum allocation from the local issuer pool, which resulted in a surplus of \$82,902,554 as of June 30, 2005. Mr. Howard indicated that the Committee is required to allocate the available surplus volume cap after July 1 of each calendar year through a lottery process. The lottery process is broken down into two drawings. The first drawing is for local issuers that did not receive an allocation of volume cap from the local issuer pool. The second drawing is for local issuers that received an initial allocation from the local issuer pool but did not receive the maximum of twenty five percent of the pool. The amounts are limited to ten percent for single issuers or a maximum of twenty five percent for a single project with multi-county issuers. Any remaining cap is to be allocated by the Committee to the state issuers for use in the current calendar year or as carry-forward. Mr. Howard stated that nine applications were received on Friday, August 26, 2005, between the posted 8:30-9:30 a.m. timeframe. Seven applications were from local issuers totaling \$58,131,950 and two applications were from state issuers requesting the remaining balance. Mr. Howard indicated that out of the seven local issuer applications, six of them had not received volume cap in the original round. Kentucky Utilities was the only local issuer application that did receive volume cap from the original round. Mr. Howard pointed out that one local issuer application from the city of Morehead, (requesting \$33,000,000 as part of a multi-county project) was found to be incomplete in two of the required components. The final inducement resolution did not list an amount for the bond authorization and was missing a financial commitment letter. Mr. Howard stated that staff recommends that this application be disqualified from consideration because the application was incomplete. Mr. Howard stated that at 10:15 a.m. on Friday, August 26, 2005 a lottery was held to determine

the order of distribution. The lottery did include the city of Morehead project pending further review and final determination by the Committee.

Mr. Rob Ramsey, Financial Analyst, Office of Financial Management, stated that all local issuers with the exception of the city of Morehead project received all the requested volume cap. Mr. Ramsey indicated the remainder of the cap would be split between the two state issuers, Kentucky Housing Corporation and Kentucky Higher Education Student Loan Corporation. The Student Loan Corporation requested \$20,000,000 and the remainder totaling \$37,770,604 was given to the Kentucky Housing Corporation. Mr. Howard stated that the total subscription from the six applicants totaled \$58,000,000 minus the \$33,000,000 for the city of Morehead project and that left a larger amount to be allocated to the state issuers.

Mr. Warren Nash asked what was the reason for the first drawing and second drawing lottery process. Mr. Howard stated that the first drawing was for applicants that had not received volume cap from the local issuer pool and the second drawing was for the applicants that had received volume cap from the local issuer pool. Mr. Howard stated that Kentucky Utilities had to go to into second drawing since they had received volume cap earlier in the year.

Ms. Lassiter asked if the project that was disqualified for an incomplete application would be able to receive volume cap in calendar year 2006. Mr. Howard stated that the project would be able to reapply in 2006. Ms. Lassiter asked if the Kentucky Housing Corporation and the Student Loan Corporation would be expected to use the allocated volume cap this calendar year or would the cap go towards a carry forward balance. Mr. Howard indicated that both would be using the volume cap this year. He went on to add that the Student Loan Corporation is preparing for a \$400,000,000 transaction and all of the allocation they receive will go towards that transaction. The Kentucky Housing Corporation actually issued taxable bonds because they did not have any remaining volume cap left and now that they have volume cap available so the need to issue any additional taxable bonds will be reduced in future transactions this year. Mr. Nash asked if the lottery no longer applies to the state issuers. Mr. Howard stated that was correct, the lottery no longer applied to the state issuers. Mr. Nash asked if that is an agreement between them. Mr. Howard stated that when the regulations were drafted, staff incorporated everyone involved in the process. The benefit to the state issuers is that they have until December 15th to issue instead of July 1st.

Chairman Farris asked if there were any further comments or questions. With no further questions or comments a motion was made by Ms. Lassiter and seconded by Mr. Matthew Hall to approve the lottery results to allocate volume cap to the state and local issuers. **Motion CARRIED.**

Mr. Nash asked if the notification letter to the local issuers could state that there is a review process that they need to go through for purposes of approving the reduction of state property tax. Mr. Howard stated that would be something staff would be happy to incorporate and suggested that Mr. Nash forward any language to staff to add to the letter.

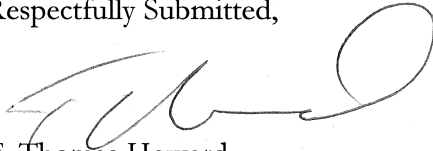
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With no further business before the Committee a motion to adjourn was made by Mr. Nash and seconded by Mr. Ross. **Motion CARRIED.**

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'F. Thomas Howard', with a large, stylized flourish at the end.

F. Thomas Howard

Secretary