KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
August 28, 2009

The Kentucky Private Activity Bond Allocation Committee (the "Committee") meeting was called to order by Chairman Lori Flanery, Deputy Secretary, and proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet, on Friday, August 28, 2009 at 2:00 p.m. in Room 386 of the Capitol Annex, Frankfort, Kentucky. Other members present were Katie Smith, proxy for Larry Hayes, Secretary, Cabinet for Economic Development, Mary Lassiter, Secretary, Governor's Executive Cabinet, Ed Ross, Controller, Finance and Administration Cabinet and Kathi Marshall, proxy for Mary Lassiter, State Budget Director.

Other guests present were Tom Howard, Executive Director of the Office of Financial Management and Secretary to the Committee, Brett Antle, Robin Brewer, Rob Ramsey, Rachael Putnam and Marcia Adams, staff from OFM; also Travis Powell, Finance Legal Department and Kristi Culpepper from LRC.

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

The first item on the agenda was the approval of the June 30, 2009 minutes. A motion was made by Ms. Mary Lassiter and the motion was seconded by Ms. Katie Smith to approve the minutes. **Motion CARRIED**.

2009 Carryforward - Rob Ramsey stated there are applications from both the Kentucky Higher Education Student Loan (KHESLC) and Kentucky Housing Corporation (KHC). They have agreed to split the pre-allocated Cap, $82,302,810, which is the remainder of the local issuer pool less the $26 million that has been authorized to Kentucky American Water Corporation. KHC is taking $41,152,820 and KHESLC is taking $41,150,000. Mr. Tom Howard noted that we are also allocating the unused amount of $26 million from Kentucky American Water of which the notice of issuance is due today at 4:00 p.m. EST. If not received, then the full amount will be available. If they issue a partial amount less than the $26 million, we are asking the Committee to allocate up to the maximum of $108,302,802 as carryforward for next year. KHC and KHESLC have already agreed to split the $82,302,820 and then the additional $26 million as well. We are asking the Committee to agree with that and the concurrence would eliminate the need for another meeting. Ms. Lassiter asked for clarity that we are allocating the $41,152,820 to KHC and the $41,150,000 to KHESLC and an additional $13 million each or unused amount split evenly for a total not to exceed $108,302,820 if the notice of issuance is not received by 4:00 p.m. today. Mr. Howard concurred affirmatively.

A motion was made by Mr. Ross to approve staff recommendation for the Carryforward allocations that was seconded by Ms. Katie Smith. **Motion CARRIED**.

Recovery Zone Bonds – Mr. Ramsey stated there are several staff recommendations with regard to Recover Zone Bonds. The federal government has provided for local municipalities to have the authority to transfer or waive their Recovery Zone Cap. Staff recommends that the local governments inform us if there is any Cap issued, transferred or waived. We created web forms to ease this reporting process. We also have mailed letters to each county judge executive or county head notifying them they have received this Recovery Zone Economic Development Bond and Facility Bond Cap and some general provisions regarding the Cap. On the OFM (Office of Financial Management) website, we have placed regulations and additional information pertaining to Recovery Zone Bonds so the local municipalities will have access.

Mr. Howard added that as we read the regulation, it is in the local's hands and our staff recommendation is to allow both communities to transfer Cap amongst themselves if they deem a project worthy or they may benefit from. In consultation with the Economic Development Cabinet, we felt that this was prudent to do and the state would gladly accept any amounts that were waived and returned. Some responses have been, "What do I do with this and it's not a lot of money so what do I do?" There will be some formal communication on that issue forthcoming and we have told them they should be able to transfer it or waive it back to the state to possibly promote some larger economic development project. We have also directed them to bond counsel to talk about this issue. There are a couple of projects that will probably use their allocations but those are the larger counties where they have already planned to issue debt and this is an add-on feature that lowers the cost on a smaller portion. The use of these funds is strictly voluntary but we will ask them to let us know if they issue it, transfer it, or waive it back to the Commonwealth.

We have been working with the Cabinet for Economic Development, which has regional staff, to get the word out to the judge executives and will also reach out to local governments. We do not want these funds to be wasted so OFM will follow that up with a letter to explain the process of using, waiving, or transferring the funds and then follow that up with an additional letter questioning what transpired with the funds. This is a tremendous subsidy, 45% for governmental bonds in the Economic Development Series.

Ms. Marshall asked if they can transfer it to a non-government entity, like KACO. Mr. Howard responded that could potentially happen and some states are "pooling" their funds for a conduit issuer. It is still unclear at this time if that will be able to be done.

Mr. Howard ended by saying that Staff recommends the Committee adopt the interpretation of the federal regulations so that we may communicate to the local governments and the word can get out.

A motion was made by Ms. Mary Lassiter to accept the staff's recommendation of the federal regulations for the Recovery Zone Bonds that was seconded by Mr. Ross. **Motion CARRIED**.

Amendments to 200 KAR 15:010 – Mr. Ramsey stated that the first regulation is the emergency regulation that was passed earlier to effectively revert the local issuer/state issuer pool split to the statutorily required 60/40 split from the previous required 80/20. The regulation we looked to replace this with is identical except for an additional section you can see highlighted in your packet. The details we have changed in regard to the Recovery Zone Bonds bring us in line with the current federal regulations. Ms. Lassiter asked if the ordinary regulation reflects the e-regulation changes and the highlighted area. Mr. Ramsey answered affirmatively. Mr. Howard added that the e-regulation expires Monday, August 31st, and we are filing this as regular regulation knowing that we will not have any business to attend to until this passes, sometime in December and the Committee will not reconvene until January. Knowing the ARRA (American Recovery and Reinvestment Act) provisions will expire, be renewed or even changed, we will have to file additional regulations later. This is an attempt to communicate that we intend to try to provide for the Recovery Zone, the Qualified Energy Conservation Bonds and do this in a manner consistent with the federal regulations.

Ms. Lassiter asked if this proposed rate in this form is what Staff recommends that we file. Mr. Howard answered affirmative and that Staff had spoken with Finance Legal on the regulation. Ms. Marshall provided her concern about the regulation "speculating," what the Federal Government might do by the wording "the federal government has made and will likely continue to make". Deputy Flanery suggested the regulation say, "the Federal Government has made and may continue to make additional" or "will continue to make future allocations of Volume Cap". Ms. Lassiter asked that if this Committee adopts this draft regulation and in the normal course of events working the regulation through the normal process, it is determined that some amendments are needed, does this Committee have to reconvene to consider those or not. Mr. Howard asked that when a motion is made, it be asked in a substantially similar form. Ms. Marshall stated that the Finance Cabinet promulgates the regulation on behalf of the Committee so we can authorize the Finance Cabinet to amend as required. Travis Powell, from Finance Legal, added that if there was a major change, or something technical, he would want it brought back before the Committee.

A motion was made by Ms. Lassiter to approve the draft regulation in it's substantially, final form and authorizing the Finance and Administration Cabinet to follow through with any technical or minimal amendments that was seconded by Ms. Katie Smith. **Motion CARRIED.**

2009 Summary of HATA Cap - Mr. Ramsey stated the packet information at this time is blank, as the Housing Cap has not been recorded by us as used. After contacting counsel at Kentucky Housing Corporation, they expect to attribute $87,630,814 of the HATA Cap as being used in 2009. Normally around December 15th at their expiration date, they usually file their notice of issuance. If no more is utilized, that will leave them about $45 million, meaning two-thirds of the HATA Cap has be utilized.

With no further business before the Committee, a motion was made by Ms. Smith to adjourn the meeting and seconded by Ms. Lassiter. The meeting stands adjourned.

Respectfully submitted,

F. Thomas Howard
Secretary