

KENTUCKY ASSET/LIABILITY COMMISSION
Minutes
September 18, 2006

The Kentucky Asset/Liability Commission was called to order at 11:00 a.m. on Monday, September 18, 2006 by Chairman John Farris, Secretary, Finance and Administration Cabinet, in Room 76 of the Capitol Annex. Other members present were Allen Holt, proxy for Brad Cowgill, State Budget Director; Eugene Harrell, proxy for State Treasurer Jonathan Miller; Bonnie Howell, proxy for Attorney General Gregory Stumbo; and Ed Ross, Executive Director, Office of the Controller.

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

A motion was made by Mr. Ross and seconded by Ms. Howell to approve the minutes of the June 14, 2006 meeting. Motion **CARRIED**.

Secretary Farris introduced Resolution 2006-04:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$235,000,000 OF UNIVERSITY OF KENTUCKY (I) GENERAL RECEIPTS REFUNDING PROJECT NOTES, 2006 SERIES A, (II) GENERAL RECEIPTS TAXABLE REFUNDING PROJECT NOTES, 2006 SERIES B, AND (III) GENERAL RECEIPTS PROJECT NOTES, 2007 SERIES A OF THE KENTUCKY ASSET/LIABILITY COMMISSION FOR THE PURPOSE OF PROVIDING FINANCING FOR AN AUTHORIZED PROJECT; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, ESCROW AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

F. Thomas Howard, Executive Director, Office of Financial Management, introduced Brett Antle to the Commission members. Mr. Howard indicated that Mr. Antle recently joined the staff of the Office of Financial Management and would serve as the lead staff person for the Commission.

Mr. Howard stated that Resolution 2006-04 provides financing through the Commission for the University of Kentucky under their General Receipts Indenture. He stated that the first piece of the transaction was the complete refunding and defeasance of the Housing and Dining System Bonds. Mr. Howard indicated that the original Indenture dating back to 1965 was restrictive and underutilized an inordinate amount of reserves. He further indicated that this gives the University of Kentucky an opportunity to eliminate the Indenture and finance future housing and dining needs under their General Receipts pledge. Mr. Howard stated that based on the current market estimates, the present value savings on this particular transaction would be approximately \$600,000 to \$800,000. He indicated that the State Property and Buildings Commission Agency Fund Project 70

Bonds were issued debt to finance the Crisp and Allied Health Services facilities because UK can not issue debt for facilities located outside of Fayette County under their Con Ed Resolution. He stated that it was economically advantageous to advance refund the maturities from 2012-2021 (approximately \$6.1 million) which would not normally be refinanced on a stand-alone basis. Mr. Howard stated that the third piece of the transaction is a delayed delivery of \$75 million of bonds for the UK Hospital project. Mr. Howard stated UK wanted to hedge a portion of their future issuance. He stated that this transaction would hedge the future cost of debt and capture the rates that exist in the current market. Mr. Howard pointed out that the expected all-in financing cost is almost identical to the \$100 million transaction in October 2005 for the first phase of the hospital. Mr. Howard stated that the transaction provides the university with a number of favorable financing alternatives to help them meet their goals and missions.

Ms. Howell asked if the 1965 Indenture had been paid off. Mr. Howard indicated that it was paid off but the University continued to issue bonds under the trust estate as recently as last August before the University moved to the General Receipts pledge.

Mr. Holt asked if the University would continue to use the 1965 Indenture. Mr. Howard indicated that the University would not issue any more Housing and Dining System bonds.

A motion was made by Ms. Howell and seconded by Mr. Holt to adopt Resolution 2006-04 providing for the authorization, issuance, sale and delivery of ALCo University of Kentucky General Receipts Refunding Project Notes, 2006 Series A; General Receipts Taxable Refunding Project Notes 2006 Series B and General Receipts Project Notes, 2007 Series A in an aggregate principal amount not to exceed \$235 million. Motion carried and Resolution 2006-04 was **ADOPTED**.

Secretary Farris introduced Resolution 2006-05:

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL TRUST INDENTURE RELATING TO PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION; AUTHORIZING THE EXECUTION OF A SECOND SUPPLEMENTAL TRUST INDENTURE; AND TAKING OTHER RELATED ACTION.

Terri Fugate, Deputy Executive Director, Office of Financial Management, stated that Resolution 2006-05 was the second supplement of the General Fund Bond Anticipation Note Program. She added that Exhibit A lists the remaining projects authorized by the 2006 Session that are eligible for financing under this program. Ms. Fugate stated that the Resolution also increases the not-to-exceed amount from \$750 million to \$950 million. Ms. Fugate added that it is not expected that the outstanding amount will exceed \$950 million at any given time. Ms. Fugate stated that the Resolution also affirms the execution and delivery of future and related Exchange Agreements under the Indenture (swap agreements).

Mr. Howard pointed out that last fall in anticipation of the General Fund Second Series, the original Trust Estate was not to exceed \$750 million notional amount. He further stated that in January

2006, there was \$600 million in authorized but unissued General Fund projects. He stated that the original Resolution approved by the Commission authorized staff to enter into a hedge agreement. In January 2006, half of the authorized but unissued obligations were hedged in two LIBOR interest rate swaps with the expectation that \$150 million in bonds would be issued by February 2007 and \$150 million in February 2008. At that time, the relationship between tax exempt and taxable rates was close. Since then the rate spread has moved in the Commonwealth's favor, a portion of 2008 swap was converted back to a BMA based swap to reduce future basis risk. Mr. Howard added, in effect, that the Commonwealth has hedged the hedge. Mr. Howard added that it is expected that the amount of debt service lapse on the \$150 million will be approximately \$330,000 as a result of the conversion of the swap from LIBOR to a BMA based product. Mr. Howard stated that the flow chart behind Attachment D represents this conversion.

A motion was made by Ms. Howell and seconded by Mr. Ross to adopt Resolution 2005-06 authorizing the execution and delivery of a Second Supplemental Trust Indenture relating to Project Notes 2005 General Fund Second Series of the Kentucky Asset/Liability Commission and authorizing the execution of a Second Supplemental Trust Indenture. Motion carried and Resolution 2005-06 was **ADOPTED**.

Ms. Fugate provided a summary of the \$150 million TRAN that was sold in June 2006 and delivered on the first working day of July 2006. She indicated that the TRAN has a maturity date of June 28, 2007. She further added that the interest rate on the TRAN is 4.50 percent with a note yield of 3.70 percent. Ms. Fugate continued that the transaction had the highest rating of all three rating agencies. She pointed out that the 2005 TRAN (FY 2006) resulted in approximately \$6 million net benefit to the General Fund. Ms. Fugate further stated that based on the \$150 million, the 2006 TRAN (FY 2007) is expected to result in net income of \$2.5 million.

Mr. Howard explained that the reduction in the TRAN size was based upon the substantial ending balance of over \$800 million in the General Fund. He added that depending on future projections, it is possible an additional series of the TRANs may be considered.

Mr. Howard informed the members that the original derivatives policy was established by statute and regulation and derivatives transactions were always pre-approved by the Commission as associated with a particular financing. Mr. Howard stated that given the variety of interest rate swaps that have been executed to accomplish various objectives, staff felt a comprehensive policy should be developed that would ultimately be incorporated into current administrative regulation. He further stated that the proposed policy is compliant with a rating request for a formalized policy as well as Governmental Finance Officers Association's recommended practices. Mr. Howard asked the Commission to review the policy and return any comments they may have to staff.

Allen Holt, proxy for Brad Cowgill, State Budget Director, asked if staff was operating under this policy at the present time. Mr. Howard indicated that staff is operating under this policy now, but that each transaction is presented for approval. Mr. Holt asked if the policy would be put into current regulation. Mr. Howard stated that was correct and pointed out that similar investment policy had been incorporated into the regulations.

Mr. Ross asked what the time frame for returning comments on the policy was. Mr. Howard indicated that comments could be returned before the end of the calendar year.

With no new business before the Commission, a motion was made by Mr. Holt and seconded by Ms. Howell to adjourn the meeting.

Secretary
Kentucky Asset/Liability Commission