

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
September 24, 2010

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, September 24, 2010 at 11:00 a.m. in Room 182 of the Capitol Annex, Frankfort, Kentucky. Other members present were Katie Smith, proxy for Larry Hayes, Secretary, Cabinet for Economic Development, Mary Lassiter, State Budget Director, Ed Ross, Controller, Finance and Administration Cabinet and Ryan Green, proxy for Mary Lassiter, Secretary, Governor's Executive Cabinet.

Other guests present were Tom Howard, Executive Director of the Office of Financial Management and Secretary to the Committee, Brett Antle, Deputy Executive Director, Rob Ramsey, Tom Midkiff, Rachael Dever and Marcia Adams, staff from OFM; also Kristi Culpepper and Kelly Dudley from the Legislative Research Commission (LRC) and Bob Pennington and Kristen Millard from Morgan Keegan.

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 March 31, 2010 minutes. A motion was made by Mr. Ed Ross and the motion was seconded by Ms. Katie Smith to approve the minutes. **Motion CARRIED.**

2010 Available Volume Cap – Mr. Ramsey presented the application from Butler County on behalf of the Kentucky Rural Water Finance Corporation (KRWFC). This project will benefit five local water associations and the application is requesting \$11,930,000 of Private Activity Volume Cap for refinancing outstanding loans to those five associations. Mr. Bob Pennington, representative from Morgan Keegan and Financer for the bonds, discussed the project benefits and the total savings of \$2 million collectively for the five associations. Mr. Howard added that allocating Cap for refunding transactions was normally not contemplated but with over \$100 million of local unused Cap, the Commonwealth can offer a tremendous relief and benefit for these entities. A motion was made by Ms. Mary Lassiter to approve staff recommendation for the 2010 Bond allocations that was seconded by Ms. Katie Smith. **Motion CARRIED.**

2010 QECB Allocations – Mr. Ramsey presented the summary of allocations for Qualified Energy Conservation Bonds (QECB) and stated there are recent developments in Federal Legislation for tax credit bonds. Now there is an irrevocable option to receive the tax credit as a direct payment from the Treasury, which is 70% of the applicable interest payment. Also included is a memorandum of Energy Conservation Bonds restating the amount of qualified bonds allocated to the city of Louisville. The initial allocation of \$5,786,745 was adjusted to \$7,408,699, after it was confirmed the calculation should include the greater Metro area of Louisville in determining the allocation.

Mr. Ramsey noted that the 2010 General Assembly authorized bond projects for Energy Savings Performance. Applications by the University of Kentucky for \$13,037,377 and University of Louisville for \$20,860,000 are amounts based on a pro-rata allocation between

the amounts the General Assembly appropriated to each of the respective universities. Mr. Howard added that the energy conservation bonds for projects were originally offered as a tax credit but the market was not viable. In order to stimulate Qualified Energy Conservation Bonds but also Qualified School Construction Bonds, Congress has authorized a 70% subsidy for energy conservation bonds versus a 100% subsidy for school bonds. This is similar to the Build America Bond (BABs) program that is very successful. Terms vary on a monthly basis but currently have a maximum 17-year amortization schedule. Staff is recommending these allocations. A motion was made by Mr. Ryan Green to approve staff recommendation for the 2010 Recovery Zone allocations that was seconded by Ms. Katie Smith. **Motion CARRIED.**

2010 Recovery Zone Allocations – Mr. Ramsey continued and noted the initial allocations put forth by the Federal Government were standardized and in place since 2008. Mr. Ramsey also noted a summary of the Cap Allocations after all issuance and transfers have occurred to date. Approximately \$26.3 million in Recovery Zone Facility Bonds and \$115,000 of the Economic Development Bonds have been transferred between counties. In addition, \$3.143 million of Recovery Zone Facility Bonds have been waived back to the Commonwealth as well as \$1.865 million in Recovery Zone Economic Development bonds. Staff recommends the Committee accept the waivers of the Recovery Zone Facility Bonds and the Recovery Zone Economic Development Bonds. Mr. Howard added that the Recovery Zone program expires December 31, 2010 unless Congress decides to extend it. Unfortunately, the waived amounts are not large enough for sufficient state usage at this time. With Recovery Zones, it requires a separate series of bonds issued and designated for a specific area. Staff encourages the counties to trade or directly allocate the Economic Development bonds so the resource can be used. The Facility Bonds are a Private Activity Bond and without proper outside support, it is difficult to complete transactions. If more Cap is received, the Committee will be requested to meet for approval of the additional allocations. A motion was made by Ms. Mary Lassiter to approve staff recommendation for the 2010 Bond allocations that was seconded by Mr. Green. **Motion CARRIED.**

2010 Summary of Bond Allocation – Mr. Ramsey noted that \$26 million was allocated to Kentucky American Water in June of this year and was the only applicant at this time. There remains \$129,308,068 left in local issuer Volume Cap. If Butler County issues in full, \$117,378,068 would revert to the State Issuer pool on December 15, 2010.

2009 Summary of Bond Allocation - Mr. Ramsey brought to the Committee's attention the details showing the Kentucky Housing Corporation (KHC) and the Kentucky Higher Education Student Loan Corporation (KHESLC) both carrying forward approximately \$156+ million dollars in Volume Cap from last year.

2010 Summary of HATA Cap – Mr. Ramsey showed the Committee details showing the complete use of 2010 Housing Assistance Tax Act (HATA) Volume Cap for the Commonwealth by KHC.

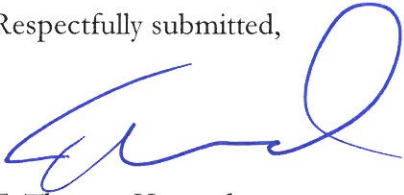
2009 Summary of HATA Cap – Mr. Ramsey detailed the carry forward from 2008 to 2009 issued as 2009 carry forward in 2010 by KHC.

September 24, 2010

Other Business – Mr. Howard noted that Louisville Metro Government did issue their QECBs last week.

With no further business before the Committee, a motion was made by Mr. Ryan Green to adjourn the meeting and seconded by Ms. Smith. **Motion CARRIED.** The meeting stands adjourned.

Respectfully submitted,

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

F. Thomas Howard
Secretary