The Kentucky Asset/Liability Commission was called to order at 10:00 a.m. on Monday, August 15, 2005 by Chairman Robbie Rudolph 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; and Bonnie Howell, proxy for Attorney General Gregory Stumbo.

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

A motion was made by Mr. Holt and seconded by Ms. Howell to accept the minutes of the April 18, 2005 meeting. Motion CARRIED.

Secretary Rudolph introduced Resolution 2005-06:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $750,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AUTHORIZED PROJECTS IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE STATE PROPERTY AND BUILDINGS COMMISSION; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, REMARKETING AGREEMENT, EXCHANGE AGREEMENT, CONTINUING DISCLOSURE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

F. Thomas Howard, Acting Executive Director, Office of Financial Management, discussed Resolution 2005-05 which provides for the issuance, sale and delivery of Kentucky Asset/Liability Commission Projects Notes 2005 General Fund Second Series. Mr. Howard stated that the first General Fund series Project Notes were related to the Phase II tobacco payments which were issued in the spring of 2005. Mr. Howard further stated that the second series of the General Fund Project Notes will be used to fund $725,000,000 worth of projects authorized by House Bill 267. Mr. Howard indicated this represents the balance of the General Fund authorizations to be funded after the State Property and Buildings Commission Project No 85 bonds are issued. He further stated that the Resolution will provide interim financing; the Notes will be issued in a commercial paper mode and funds will be borrowed in anticipation of needs based on agency draws. Mr. Howard directed the members to the projects listed in Attachment B. Mr. Howard indicated that bond counsel for this issue is Peck, Shaffer & Williams. Given the size of the issue, the underwriter and remarketing agent will be split between J. P. Morgan and UBS Financial Services. Mr. Howard continued that counsel for these firms will be Frost Brown Todd and Ungaretti and Harris,
respectively. Mr. Howard stated that the structure of the program is similar to past transactions where commercial paper is issued for a period of time and once a critical dollar amount is outstanding the transaction would be converted to permanent financing.

Allen Holt, proxy for State Budget Director, Brad Cowgill, asked what the term of the transaction was. Mr. Howard indicated that ALCo notes may have a term of twenty years which would allow conversion to synthetic fixed rate notes rather than issue permanent financing through the State Property and Buildings Commission. Mr. Howard further stated that it was expected that this particular indenture would be outstanding for a two or three year timeframe at the most.

Mr. Holt stated that the Office of the State Budget Director has an issue with reauthorization of projects outside the budget process and the traditional language regarding the same. Mr. Holt indicated that the Office of the State Budget Director would like to avoid situations where projects captured in a plan of finance would be authorized in perpetuity.

Mr. Howard indicated those projects are generally authorized in a restricted Agency Fund type of environment rather than the General Fund.

Ms. Howell asked why staff was asking for approval in the amount of $750,000,000. Mr. Howard indicated that the $750,000,000 provides for the project amount and some expectation of cost. Mr. Howard indicated, in addition, if a small amount of bonds was immediately authorized by the General Assembly in January, the funding mechanism would already be available. Mr. Howard further stated that there was no additional cost associated with the transaction and it is expected that approximately $200 million would be outstanding at a given time.

Mr. Holt asked if all of the projects being approved were General Fund projects. Mr. Howard indicated that these projects were General Fund projects.

A motion was made by Mr. Holt and seconded by Mr. Harrell to approve Resolution 2005-05 approving the issuance, sale and delivery of Project Notes 2005 General Fund Second Series in an aggregate principal amount not to exceed $750,000,000. Motion carried and Resolution 2005-05 was ADOPTED.

Secretary Rudolph introduced Resolution 2005-06:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2005 AGENCY FUND SECOND SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $250,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AUTHORIZED PROJECTS IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE STATE PROPERTY AND BUILDINGS COMMISSION OR A STATE AGENCY; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENTS, NOTE PURCHASE AGREEMENT, REMARKETING
Mr. Howard indicated that Resolution 2005-06 was a similar program designated as 2005 Agency Fund Second Series for agency restricted fund projects including universities. Mr. Howard indicated that because of the distinct nature of the underlying university and Agency Fund credits it is difficult to market them under an umbrella. Mr. Howard continued that the program to be used, with Citigroup as the purchaser of the bonds, will provide a variable rate index product plus a spread based upon credit rating that is very flexible. Agencies are not required to use this program; they are able to borrow as little as $100,000 for a period up to three years until they get a second authorization. Mr. Howard indicated that some of the projects were authorized for one-half of the project amount and expects to receive the other half in the next budget cycle. Mr. Howard indicated that this transaction would provide interim financing for those projects. Mr. Howard informed the members that this type of financing is similar to the drawdown program used by the Kentucky Housing Corporation. Mr. Howard stated that the $250,000,000 authorization anticipates the additional half authorization of the projects and will enable universities to be able to fund dormitory and consolidated education building projects.

Mr. Holt stated that this transaction includes those projects of concern and asked if the old plan of finance would still exist or would it be rolled into the proposed financing. Mr. Howard indicated that the latter was correct. Mr. Holt also asked if there were any remaining projects that had not been funded. Mr. Howard indicated no projects were left to be financed. Mr. Holt asked what the term of the transaction was. Mr. Howard stated that the term was twenty years. Mr. Holt asked if there was a plan of finance or vehicle that could be less than twenty years. Mr. Howard indicated that the bond documents show a maturity of twenty-years. Mr. Howard indicated, however, that the actual product had a mandatory put in the third year. Mr. Holt asked if someone asked what the plan of finance for these projects would be would the answer be for a three year period. Mr. Howard stated that the legal documents provide for up to twenty years; the application of the actual financing is only good for a maximum of three years unless renewed.

Mr. Holt reiterated that this presents a problem with the current language in the budget bill, particularly with universities. Mr. Howard suggested that staff was open to working with the Legislative Research Commission and the Office of the State Budget Director to resolve any issues in terms of the reauthorization.

Secretary Rudolph asked what was the alternative to a financing plan of twenty years. Mr. Howard stated that the alternative would be to place a shorter final maturity date on the transaction and move the authorized but unissued projects into a new program in increments. Mr. Howard indicated, however, that this could cause a problem for an agency that wanted to enter into a synthetic fixed transaction with a longer maturity date.
A motion was made by Mr. Holt and seconded by Ms. Howell to adopt Resolution 2005-06 providing for the authorization, issuance, sale and delivery of Project Notes, 2005 Agency Fund Second Series in an aggregate principal amount not to exceed $250,000,000. Motion carried and Resolution 2005-06 was ADOPTED.

Ms. Terri Fugate, a financial analyst in the Office of Financial Management, presented an update on the TRAN for the Commission members. Ms. Fugate indicated that $600,000,000 was issued and deposited with Treasury on July 1, 2005. Ms. Fugate indicated that the coupon on the fixed rate TRAN was 4 percent and the yield was 2.67 percent. Ms. Fugate stated the proceeds were invested and that there was a swap outstanding which is expected to earn approximately $6,000,000 by the end of the fiscal year. Ms. Fugate also indicated that the maximum deficit on the TRAN is expected in mid-December 2005. She further stated that in mid-August the TRAN was $26,000,000 away from the target of negative $547,000,000. Ms. Fugate stated that when the target is met, the Commonwealth will be able to keep all of the earnings. Ms. Fugate continued by stating that the entire TRAN program had a cumulative economic benefit of approximately $29,000,000 million over the life of the TRAN program.

With no further business before the Commission, a motion was made by Ms. Howell to adjourn the meeting.

_____________________________
Secretary
Kentucky Asset/Liability Commission