The Kentucky Asset/Liability Commission ("ALCo") was called to order by Tom Ferree, Chief of Staff, Finance and Administration Cabinet and proxy for Mike Burnside, Secretary, Finance and Administration Cabinet on August 20, 2007 at 10:00 a.m. in Room 76 of the Capitol Annex in Frankfort, Kentucky. Other members present were: Bonnie Howell, proxy for Attorney General Greg Stumbo; Sari Kirschenbaum, proxy for Jonathan Miller, State Treasurer; Allen Holt, proxy for Brad Cowgill, State Budget Director; and Gerald Hoppmann, proxy for Edgar C. Ross, Executive Director, Office of the Controller.

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

A motion was made by Mr. Holt and seconded by Ms. Howell to approve the minutes of the June 18, 2007 meeting. There were no corrections or addition to the minutes and the motion to approve carried. The minutes of the June 18, 2007 meeting were APPROVED.

Chairman Ferree introduced Resolution 2007-03:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2007 FEDERAL HIGHWAY TRUST FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $300,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AUTHORIZED PROJECTS; AND AUTHORIZING A SERIES TRUST INDENTURE, FIRST SUPPLEMENT TO FINANCING/LEASE AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.

Brett Antle, Financial Analyst, Office of Financial Management, stated that Resolution 2007-03 approves the issuance of Project Notes, 2007 Federal Highway Trust Fund First Series for the purpose of funding certain projects authorized in House Bill 380 of the 2006 Regular Session of the General Assembly. Mr. Antle stated that the Notes will be fixed rate notes and are expected to have a 14-year term. Mr. Antle stated that the debt service on the Notes will be structured along with the original 2005 Grant Anticipation Revenue Vehicle (GARVEE) transaction to provide level debt service for the overall GARVEE program. Mr. Antle stated that Kutak Rock will serve as bond counsel for the transaction; Citigroup Global Markets will service as underwriter for the transaction; Ballard Spahr Andrews & Ingersoll will serve as
underwriter's counsel; and the Bank of New York Trust Company will remain as trustee. Mr. Antle noted that the proceeds from the Notes will be used to make improvements to interstate highways. Mr. Antle stated that monies from the Federal Highway Trust Fund will be security for the transaction and the Transportation Cabinet has a Memorandum of Agreement with the Federal Highway Administration for payment of the GARVEEs. The estimated true interest cost on the transaction is 4.34 percent.

F. Thomas Howard, Executive Director, Office of Financial Management, stated that this transaction is part of the $440 million total GARVEE authorization for I-75, I-65 south of Bowling Green, and I-64 east of Gene Snyder Freeway to be paid for out of Federal highway receipts and not Road Fund appropriations. Mr. Howard noted that several years ago the GARVEE program was created with ALCo to leverage the Federal Highway receipts to accelerate completion of those highway projects. He added that the Transportation Cabinet expects to expend the balance of the original $150 million borrowed in 2005 by September 2007.

Mr. Holt asked why the term of the Notes was 14 years. Mr. Howard stated that the maturity date of 14 years considers the two years remaining on the existing Federal authorization cycle plus two additional 6-year authorization cycles. Mr. Holt asked if there were any state or federal restrictions with the bond market that limit the term. Mr. Howard stated it was a national issue related to the gasoline tax apportionment formula. He added that there was some risk in the last reauthorization cycle because Congress could not reach an agreement on how the resources would be allocated. The market has been reserved in accepting GARVEEs with longer maturity dates. Mr. Howard stated that from a marketing perspective, the term of 14 years should be acceptable to maintain the AA credit rating and the credit spreads that are expected.

A motion was made by Ms. Howell and seconded by Mr. Holt to adopt Resolution 2007-03 authorizing the issuance, sale and delivery of Project Notes, 2007 Federal Highway Trust Fund First Series in an aggregate principal amount not to exceed $300,000,000. There was no objection to the motion and Resolution 2007-03 was ADOPTED.

Chairman Ferree introduced Resolution 2007-04:

A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2007 ROAD FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $350,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AN AUTHORIZED PROJECT IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE TURNPIKE AUTHORITY OF
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KENTUCKY; AND AUTHORIZING A TRUST INDENTURE,
FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT,
LIQUIDITY FACILITY, REMARKETING AGREEMENT, EXCHANGE
AGREEMENT, DISCLOSURE AGREEMENT, PRELIMINARY
OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO
SUCH NOTES.

Mr. Antle stated that Resolution 2007-04 approved the issuance, sale and delivery of Project
Notes, 2007 Road Fund First Series of the Commission in an aggregate principal amount not to
exceed $350 million for the purpose of providing interim financing for an authorized project in
anticipation of issuing bonds for the Turnpike Authority of Kentucky. Mr. Antle stated that the
program will provide interim funding for the $350 million of Road Fund projects authorized in
House Bill 380 of the 2006 Regular Session of the General Assembly. Mr. Antle noted that
the program is similar in nature to the 2005 General Fund Second Series program. He added
that a Remarketing Agreement for the transaction will be executed as well as a Letter of Credit
Facility for approximately $200 million to provide for program liquidity. Mr. Antle stated that
it is anticipated that the Notes issued will be taken out with permanent financing from the
Turnpike Authority. Mr. Antle stated that the expected initial tranche size of $100 million will
be issued in late September 2007. Mr. Antle indicated that the financing team will consist of
Kutak Rock as bond counsel; J. P. Morgan as the underwriter and remarketing agent; and Peck,
Shaffer & Williams as underwriter's counsel.

Mr. Howard noted that this transaction is the second interim Road Fund program which is
being used to meet the expenditure test established by the Internal Revenue Service and to
afford arbitrage opportunities to keep the difference between the taxable investment rate on the
proceeds versus the funding costs. Mr. Howard stated the transaction is similar to obtaining a
construction loan when building a house and then converting to permanent financing when the
monies are expended and the house is completed.

Mr. Holt asked when the existing funds would be expended. Mr. Howard indicated that it is
expected that monies will be expended by late September or early October 2007.

Ms. Kirschenbaum asked if the funds had already been allocated or was the Resolution
reauthorizing funds. Mr. Howard stated that the funds were appropriated in House Bill 380 of
the 2006 General Assembly as a new authorization of $350 million. He noted that TAK is
now in the process of expending the old authorization and this will allow for interim
construction financing for the new authorization.

A motion was made by Mr. Holt and seconded by Ms. Howell to adopt Resolution 2007-04
authorizing the issuance, sale and delivery of Project Notes, 2007 Road Fund First Series of the
Kentucky Asset/Liability Commission in an aggregate principal amount not to exceed $350,000,000. There was no objection to the motion and Resolution 2007-04 was ADOPTED.

Rob Ramsey, Financial Analyst, Office of Financial Management, presented an update on the 2007 General Fund Tax and Revenue Anticipation Notes (TRAN). Mr. Ramsey stated that on June 26, 2007, the Commonwealth sold $350 million in par amount of Notes with net proceeds totaling $352,614,500. He added that the Notes were delivered on July 3, 2007 with a maturity date of June 26, 2008. Mr. Ramsey stated that the coupon rate on the Notes was 4.5 percent with a yield of 3.71 percent. Mr. Ramsey added that the Notes received the highest rating from Moody's, Standard & Poor's and Fitch of MIG 1, SP 1+, and F1+ respectively. Mr. Ramsey stated that bond counsel for the transaction was Kutak Rock; underwriter was Citigroup Global Markets; underwriter's counsel was Bowles Rice McDavid Graff & Love LLP; and U.S. Bank National Association was trustee. Mr. Ramsey stated that a chart comparing General Fund balances from fiscal year 2007 with 2008 was also included in the agenda that indicated that the TRAN is on target to meet the required expenditure test.

Ms. Howell asked if the dates on the chart were correct. Mr. Howard indicated that the format of the dates should be in months. Mr. Howard reiterated that the TRAN is on track to meet or exceed the target and is expected to realize approximately $5 million in net earnings to the General Fund.

Mr. Howard presented an update on the 2005 General Fund Second Series program and the related interest rate hedges. Mr. Howard stated that the Commonwealth has approximately $2.6 billion in authorized General Fund debt (2005-2006 combined authorizations). Mr. Howard stated that approximately $1.1 billion has been permanently issued with $1.5 billion remaining in authorized but unissued debt which represents interest rate risk to the Commonwealth. Mr. Howard stated that in an effort to address the volatility in interest rates, and to lower budgeted debt service amounts, in recognition of delayed program expenditures, and the Commonwealth has hedged a portion of the interest rate risk in the future issuances. Mr. Howard noted that currently the Commonwealth has $200 million of 2005 General Fund Second Series Notes outstanding and approximately $165 million has been expended. Mr. Howard continued that the Commonwealth has $450 million in interest rate swaps currently outstanding that hedge against future debt issuances. Mr. Howard noted that debt service appropriated at 6 percent based upon the budget template rate insures sufficient to meet the commitments. Mr. Howard stated the initial LIBOR swap transactions were executed in January 2006 and converted to BMA tax-exempt swaps in September and November 2006. He further added that the conversion of the swap transactions resulted in million of dollars of savings to the General Fund. Mr. Howard continued that in August 2007, based upon updated expenditure estimates from Facilities Management, the Commonwealth entered into two additional interest rate swaps to hedge future issuances of bonds anticipated to be sold in the fall of 2008 and fall of 2009. Mr. Howard noted that as additional expenditure updates are
received, that staff will consider adding swaps to hedge roughly one-half of the position going forward in an effort to manage the budgetary process and limit the amount of debt service appropriated in any given fiscal year. Mr. Howard stated that in February 2007, a $150 million swap associated with State Property and Buildings Commission ("SPBC") Project 87 was terminated which resulted in an additional savings of $596,500 as a result of adverse movement in rates against the Commonwealth's BMA swap position. He stated that the swap rate was 3.77 percent and the actual bond interest cost was 4.27 percent. Mr. Howard noted that the primary difference between the two rates represents optionality between the Notes and the ability to call the SPBC 87 bonds.

Mr. Holt asked if the annual savings on the 2005 General Fund Second Series was compared to the budgeted rate. Mr. Howard indicated that was correct. Mr. Holt asked if the $596,500 savings was compared to the actual rate rather than the budgeted rate. Mr. Howard stated that the savings was an additional savings in addition to a previous appropriation reduction. He noted that the bonds were appropriated at 6 percent but the funding rate was 4.27 percent. Mr. Holt asked if the comparisons were made at the budgeted rate and not necessarily what the savings would have been if the bonds had been issued at the prevailing rate at the time. Mr. Howard stated that the prevailing rate is the extra value difference between the swap rate and the market rate at the time the bonds are sold. Mr. Holt indicated that interest rates have not been 6 percent for some time. Mr. Howard stated that the budgeted rate is 6 percent to allow for volatility in the markets because interest rates have increased on more than one occasion in the past several years over 100 basis points which at today's market rates of 4.4 percent would be an increase to approximately 5.60 percent. Mr. Howard stated that budgeting at a 6 percent rate allows for an increase in rates during the budget cycle. He added that as expenditure estimates are received, the Commonwealth may enter into swaps to hedge a portion of the risk to reduce the rate and capture the savings out of the debt service appropriations.

Ms. Howell asked if the additional savings of $600,000 was strictly a result of the savings achieved on the swap based on the 4.27 percent and not the 6 percent. Mr. Howard stated that was correct in this case. He added that it was additional savings as a result of unwinding of the swap.

Terri Fugate, Deputy Director, Office of Financial Management, further explained that a 6.5 percent template rate was actually used when debt service was originally appropriated. She added that when the Commonwealth entered into the swap, the appropriation was reduced to 4.2 percent and the initial savings were captured at that time. She noted that additional savings were captured when the swap was terminated.

Ms. Howell asked for the budgeted rate that would be used in the new budget. Mr. Howard stated that for new projects and the existing authorized but unissued debt that hasn't been
hedged, the rate will be 6 percent. He added that for those that have been hedged, the rate would be approximately 4.2 percent.

With no further business before the Commission, a motion was made by Allen Holt and seconded by Bonnie Howell to adjourn the meeting. There was no objection to the motion and the meeting was adjourned.

Respectfully submitted,

[Signature]

F. Thomas Howard
Secretary