

**KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE  
MINUTES  
November 6 , 2008**

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 Thursday November 6, 2008 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; Ryan Green, proxy for Larry Hayes, Secretary, Governor's Executive Cabinet; John Hicks, Interim State Budget Director; and Edgar C. Ross, Controller, Finance and Administration Cabinet.

Other guests present were Tom Howard, Executive Director, Brett Antle, Rob Ramsey, Rachael Putnam, Tom Midkiff and Marcia Adams from the Office of Financial Management 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 July 23, 2008 minutes. A motion was made by Ms. Katie Smith and the motion was seconded by Mr. John Hicks to approve the minutes. **Motion CARRIED.**

Mr. Rob Ramsey, Financial Analyst, Office of Financial Management stated that the 2008 Cap Summary details the issuers that received volume cap in the lottery designated at the last meeting. KEDFA, on behalf of Republic Services, Inc. as well as the County of Carroll on behalf of Kentucky Utilities Company, issued bonds in the amount of \$36,051,256 leaving \$1,265 to be carried forward. This in addition to the balance of the cap that was returned to the local issuers pool leaves a total of \$953,793 to be allocated, to the Kentucky Housing Corporation as 2008 Carryforward. A motion was made by Ms. Katie Smith and seconded by Mr. John Hicks to approve the Carryforward. **Motion CARRIED.**

Mr. Ramsey discussed the Housing Assistance Tax Act of 2008 (HATA) passed by the Congress, which allocated a specific amount of volume cap for use in qualified housing issuances. The amount of cap received by Kentucky is \$132,810,201. This is for qualified single family as well as multi-family housing and must be allocated to Kentucky Housing Corporation (KHC) as they are the only state issuer of housing for Kentucky. Staff recommends that KHC be allocated the \$132 plus million of volume cap under HATA and that the committee allow for any unused cap this year to be recycled as Carryforward for 2009.

Mr. Howard added that due to the market conditions, the federal government took action to provide relief through the state housing authorities and KPABAC, by statute, is required to allocate volume cap. The Committee does not have any discretion over the amount of volume cap but it says we shall allocate the federal volume cap. That is the reason we are asking you to take this action today to make sure we are in line with the statute and there is no question. Also, as part of the tax act, retroactively, based on the amounts that were

previously allocated to the Housing Corporation, would not be subject to the Alternative Minimum Tax (AMT). Typically, Private Activity Volume Cap is subject to the AMT. One of the reasons the interest rates on AMT bonds is so much higher is the corporations generally couldn't buy those nor could individuals that may be subject to the AMT, so there is a limited market for those securities. Congress removed the AMT designation for a specific period of time to provide some relief. Now the interest rates have come down somewhat, for non-AMT issuers but not nearly as much as a typical non-AMT issuer because of a particular fear for housing and of the embedded prepayment options and things that go with housing bonds that change the life of the holding for the investor. It helped KHC with a retroactive cap back in September and they are planning an issuance late this month or early December that will utilize the non-AMT component.

There is a difference between HATA cap and regular volume cap as far as carryforward provisions and those provisions are only for two years for the Non-AMT portions. Congress may come back and change that but initially this was meant to be a shot in the arm. We have to account for the HATA cap completely separate from the regular Volume Cap. KHC will only be able to issue about another \$50 million this calendar year before it automatically goes into carryforward for 2009. Since we do not have any discretion to change the carryforward amount between any issuers, we are asking the committee to grant the carryforward as a standing balance to automatically happen rather than reconvening the Committee in December to do so.

Mr. Hicks asked how the HATA allocation compared to last year or if it was new. Mr. Ramsey responded that it is a new program, that was given to all states, \$11 billion dollars total, and we received a pro-rated volume based on population. Mr. Howard added that the HATA amount is based on a state's initial volume cap allotment. We have a per capita amount of \$85 or about \$360 million this year in aggregate. We received a percentage of that total volume cap that is allocated as additional cap specifically for housing. Mr. Hicks asked if this legislation was because of the housing crisis that was going on and Mr. Howard stated yes and that it actually passed in July 2008. A motion was made by Mr. Ed Ross and seconded by Ms. Smith to approve the HATA allocation. **Motion CARRIED.**

Mr. Ramsey discussed the summary of the volume cap allotted to Kentucky this calendar year 2008. The \$360,525,290 dollars was the original volume cap awarded from the per capita amounts per Kentucky population. The 2008 HATA addition of \$132,810,201 dollars for a total of \$493,335,491 dollars, which is the total amount of Private Activity Cap that has been awarded to Kentucky for calendar year 2008. Again, the HATA allocation is reserved solely for housing issuances.

Mr. Hicks questioned Mr. Howard about with the regular pool allotment and with the HATA allocation; the KHC has about \$338 million in cap. Out of the \$338 million, what will the total be that they have issued by the end of the calendar year? Mr. Howard responded that with the upcoming \$50 million issuance, and the previous issuances, the total is around \$160 million, which included some old refunding that was AMT. The first issuance was under the old cap allocation so it was AMT before HATA passed. The second issuance became subject to the HATA (non-AMT) as well as the third, \$50 million dollar issuance. If

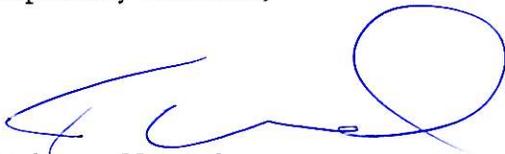
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you have any issuances done before the date of the passage of the bill, you cannot go back and do a refunding before that date. Deputy Secretary Flanery added that a couple years ago, KHC did \$500 million in volume so times have changed. Mr. Howard added with the market slow down now, that KHC is selling about \$5 million per week, which is not bad considering circumstances. Hopefully, the carryforward will allow them to have a good year in 2009.

The statute states that there currently is an 80/20 split between state and local issuers but only requires a minimum of 60%. Depending on housing demand and other things, there may need to be some considerations made in changing those allocations next year. The Feds could extend the HATA program. Deputy Secretary Flanery added that on the state level, they mainly compete with Student Loan Corporation. Mr. Howard added that this may be the largest carryforward we have had in a long time.

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

Respectfully submitted,



F. Thomas Howard  
Secretary