

**KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE
MINUTES
December 19, 2011**

The Kentucky Private Activity Bond Allocation Committee (the "Committee") meeting was called to order by Chairman Lori Flanery, Secretary, Finance and Administration Cabinet, on Monday, December 19, 2011 at 2:00 p.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, Ed Ross, Controller, Finance and Administration Cabinet, and John Hicks, proxy for Mary Lassiter, State Budget Director.

Office of Financial Management (OFM) and staff to the Committee present: Tom Howard, Executive Director of OFM and secretary to the Committee; Robin Brewer, Rachael Dever, Jennifer Kantner, Tom Midkiff and Marcia Adams.

Other guests present were Kristi Culpepper and Eric Kennedy from the Legislative Research Commission ("LRC"), and Jim Ackinson, from Kentucky Higher Education Student Loan Corporation ("KHESLC").

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 August 3, 2011 minutes. A motion was made by Mr. Ed Ross and the motion was seconded by Mr. John Hicks to approve the minutes. **Motion CARRIED.**

Allocation of 2011 Carryforward – Mr. Tom Midkiff presented information for the applications from the Kentucky Housing Corporation ("KHC") and the Kentucky Higher Education Student Loan Corporation ("KHESLC") for 2011 Volume Cap Carryforward allocations. In 2011, KPABAC allocated State Volume Cap to KHC & KHESLC but they were not able to use the Volume Cap due to the backlog in previous year Carryforward.

In 2011, the Local Cap allocation was approximately \$150,000,000. Two projects had been previously authorized by the Committee to receive a portion of the volume cap but neither project was able to issue.

KHC has Carryforward remaining from 2010 of \$76,628,047 (a non-action item) and is applying to carry forward \$123,673,909 allocated by the Committee on May 27, 2011 and \$82,447,973 of unused Local Volume Cap for CY 2011. KHESLC has \$156,150,000 Carryforward from 2009, \$176,135,085 Carryforward from 2010 (also a non-actionable item) and has applied \$123,670,000 of Carryforward from the Committee's allocation of State Volume Cap on June 14, 2011 and \$82,447,973 of unused Local Volume Cap for CY 2011.

Mr. Midkiff then invited Mr. Jim Ackinson from KHESLC to speak to the Committee.

Mr. Ackinson stated that with the elimination of the FFEL program in 2010, KHESLC is no longer issuing bonds or holding student loans in the same manner that the Corporation has for decades. However, KHESLC introduced a new supplemental, private loan program in late 2010 that provides an alternative loan product for those who have exhausted their

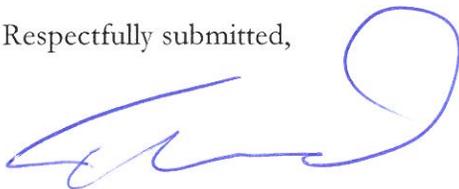
federal loan resources. This product only appeals to a small segment of the college bound population. Currently it is estimated that the program will expend about \$4 million per year in Volume Cap, nowhere near KHESLC's previous production of \$500 million per year. KHESLC does have some debt that may require refinancing in the future, which may find a use for their carried forward volume cap, but currently, tax law does not allow the use of volume cap for refinancing. Mr. Ackinson mentioned that there is approximately \$630 million in Adjustable Rate Securities still outstanding in the 1997 Trust Indenture. There is also \$700 million outstanding in commercial paper made available by the federal government a couple years ago that will need to be refinanced before 2014. Mr. Ackinson told the Committee that it would be extremely challenging for KHESLC to use its Carryforward Volume Cap going forward. Mr. Ross asked for clarification regarding the "Straight A Funding Program". Mr. Ackinson replied that the commercial paper product that he spoke of previously was that program. He explained that the government agreed to guarantee funding and liquidity for the student loan industry with this commercial paper when the markets became disrupted. KHESLC expects the Strait A program to expire on schedule in January of 2014.

Mr. Midkiff directed the Committee to the Volume Cap Spreadsheet, indicating the 2011 Carryforward amount of \$412,239,865 was to be divided between KHC and KHESLC, the only actionable item by the Committee other than allowing the Cap to expire. He referenced additional charts showing the past 10 years Carryforward and Cap, including the additional Volume Cap from the Housing Assistance Tax Act (HATA), which started in 2008. These charts illustrate that KHC and KHESLC have increasingly been unable to make use of their allocated Volume Cap. Mr. Howard added that KHC has utilized portions of Cap for the Mortgage Credit Certificate program in addition to the issuance of bonds and that the housing authority is closing a transaction this week as part of the New Issue Bond Program (NIBP) Program to take advantage of a better rate calculation under that expiring program. Mr. Hicks asked what the cumulative Volume Cap Carryforward would be for housing and student loans should the Committee choose to act on staff recommendations for Carryforward allocations. Mr. Midkiff answered it would be over \$500 million for KHESLC and over \$278 million for KHC.

A motion was made by Mr. Hicks to approve the staff recommendation for the 2011 Volume Cap Carryforward allocation. Motion was seconded by Mr. Ed Ross. **Motion CARRIED.**

With no further business before the Committee, the meeting adjourned.

Respectfully submitted,



F. Thomas Howard
Secretary