

TURNPIKE AUTHORITY OF KENTUCKY

February 15, 2012

10:00 A.M.

Room 386, Capitol Annex

The Turnpike Authority of Kentucky ("Authority" or "TAK") met on Wednesday, February 15, 2012 at 10:00 a.m. in Room 386 of the Capitol Annex.

Members present were Lori Flanery, Secretary of the Finance and Administration Cabinet, in the Chair; Mary Lassiter, proxy for the Honorable Steven L. Beshear, Governor of the Commonwealth and Chairman of the Authority; Honorable Jerry Abramson, Lt. Governor of the Commonwealth; George Burgess, proxy for Larry Hayes, Secretary of Economic Development Cabinet; Taylor Manley, proxy for Mike Hancock, Secretary of Kentucky Transportation Cabinet; Steve Waddle, Kentucky State Highway Engineer; and Larry Clarke, proxy for Jack Conway, Attorney General of the Commonwealth of Kentucky.

Others present at the meeting were; Edgar C. Ross, Executive Director, Office of the Controller and Executive Director of the Authority; Tom Howard, Executive Director, Office of Financial Management and Secretary of the Authority; Brett Antle, Deputy Director, Office of Financial Management; Doris Howe; Office of Financial Management and Treasurer of the Authority; Shannon Tivitt, Lt. Governor's Office; Bruce Siegel; Lt. Governor's Office; Jason Hamilton, Office of Financial Management; Tom Midkiff, Office of Financial Management; Jennifer Kantner; Office of Financial Management; Rachael Dever, Office of Financial Management; Christina Keyes, Office of Financial Management; Marcia Adams, Office of Financial Management; John Bailey, Office of Financial Management; Marcia Hutcherson, Office of Financial Management and Authority Staff; John Merchant, of Peck, Shaffer and Williams; David Talley, Kentucky Transportation Cabinet; Kim Moore, Office of the Controller; Josh Nacey, Legislature Research Committee and Budget Review; Kelly Dudley, Legislature Research Committee and Budget Review; Chuck Truesdell, Legislature Research Committee and Budget Review; and Carla Wright, Office of State Budget.

Chairperson Flanery having verified that a quorum was present and that proper notice of the meeting was properly posted in accordance with KRS 61.800-61.850, called the meeting to order.

The first item on the agenda was approval of the minutes of the December 14, 2011 meeting as written. Mary Lassiter made a motion to approve and Taylor Manley seconded. The motion was carried unanimously.

The next item on the agenda for consideration was approval of the Economic Development 2012 Series Authorizing Resolution. Brett Antle informed the board that this issuance was not to exceed \$340 million of Economic Development Road Revenue and Revenue Refunding Bonds. Mr. Antle went on to say that the purpose of this transaction is to provide \$56 million Road Bonds for the Base Realignment

and Closure (BRAC) effort and to provide an additional \$200 million Economic Development Bond back from the 2009 Authorization and also a potential refunding of some of the currently outstanding 2005 Series B Bonds. Mr. Antle said that the refunding is pending due to market rates along with other conditions and asked for consideration for approval from the board to pursue if conditions are appropriate to take advantage of this. Mr. Antle also informed the board that included in the packet was the Thirteenth Supplemental Lease and Agreement, as well as a New Bond Issue Report which provided additional financial information pertaining to the bond deal.

Chairperson Flanery asked Mr. Antle to explain in further detail as to what we are looking for in order for the refunding to be considered appropriate conditions. Mr. Antle explained, looking at the numbers for the refunding, old versus new interest rates, there are present value savings that can be achieved but with the call date not being until 2015 we would have to fund an escrow and invest monies for 3 years and the cost of new bonds would be substantially more than what could be earned in the escrow as well as there being a lot of negative arbitrage within the escrow. Mr. Antle proceeded to explain that looking at the preliminary numbers we could achieve \$600 million of present value savings but there is about \$5 million plus in negative arbitrage in escrow and based on preliminary analysis, if rates held steady at where they are now it would be to our benefit of about the amount of \$150,000 a month to wait on this refunding. Mr. Antle said although seeking authorization to pursue, the call to proceed would be determined on what the rates do.

Tom Howard informed the board that the Authority will be back in the market about this time next year to fund the annual construction fees. Mr. Howard also mentioned that we have a significant amount of authorized but unissued bonds in the amount of \$660 million before the issuance of these bonds. Mr. Howard also stated the expectation is to come to the market with is \$200 million a year to fund the construction activities and could easily package this refunding with the next new money segment and make an additional \$200 million plus in additional savings if the rates stay the same. Mr. Howard went on to say that we will continue to discuss this matter with Secretary Hancock and his staff as how to proceed with the refunding. Mr. Howard also noted that next year would probably make more economic sense for the refunding, however sometimes there are dislocations within the market and if the cost of the escrow or the reduction in tax-exempt rates shift from where they are now it would reduce the cost of that escrow and negative carry, and if so we would come back to try and get this transaction accomplished. Mr. Howard informed the board that ongoing dialogue with the Kentucky Transportation Cabinet would continue considering the refunding and compare the savings levels and what the objectives and tradeoffs would be for future benefit.

Taylor Manley added that next year the Authority would be asking for another \$200 million which will be the first tranche of the bonds approved by the 2010 General Assembly to continue the construction of the Economic Development Road Program. Mr. Manley also stated that many of the projects are under way and are being funded with cash on hand and will sell those bonds as the need for cash presents itself.

Mr. Howard informed the board that the Underwriter for this deal is Goldman Sachs and Bond Counsel is Peck, Shaffer and Williams, LLP and stated that John Merchant of Peck, Shaffer & Williams was present to answer any legal questions regarding the documents before them.

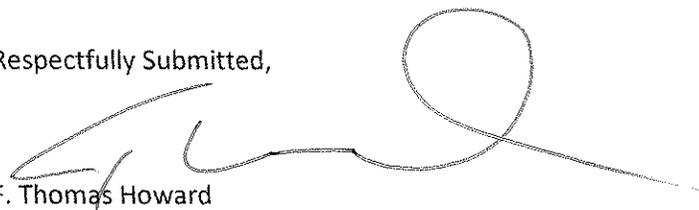
Lt. Governor Abramson questioned as to what company served as Financial Advisor to us. Mr. Howard stated it was the Office of Financial Management (OFM). Mr. Howard further explained that OFM has sufficient resources such as DBC in which The Wall Street and other financial advisory firms use to run cash flows. Mr. Howard also added that OFM has capable staff of producing and evaluating the cash flows in house for this particular type of transaction. Mr. Howard also noted that this is the Thirteenth Supplemental Lease Agreement to the same indenture and is a tried and true structure so we understand how the mechanics and the flow of funds work to produce certain documents to allow us to do such transactions in house. Mr. Abramson stated that his question was pertaining more to the effect of "when you pull the trigger" on the negative arbitrage and how that is decided in house. Mr. Antle explained that we developed an in house policy that came along in more recent years as you have seen short term rates come way down and when you are funding an advanced refunding escrow, not being able to earn the bond rating or escrow, you really have to take a look at how much negative carry there is in that escrow. Mr. Antle also noted that as a general rule of thumb, if the negative arbitrage is more than 50 percent of the current value savings in the transaction that is when we decide the need to hold off on the transaction and by doing so, every day we wait and the rates remain constant, money will be saved by doing it at a later date.

Mr. Howard also noted that OFM has the investment function for the state which gives us access to current updated market knowledge on a moment by moment basis, that on the debt side as well. Mr. Howard went on to mention that OFM can access all the pricings of the transactions in the market at the same time as well as accessing where the tax-exempt yield would be versus the reinvestment yield. Chairperson Flanery suggested that OFM provide the Lt. Governor's Office and staff an information package explaining the functions and work flow of the Office of Financial Management.

Chairperson Flanery asked if there were any further questions or comments; none were presented and therefore proceeded to seek approval of the 2012 Series Authorizing Resolution. Mr. Manley made a motion to approve and Mr. Burgess seconded. The motion carried unanimously.

Chairperson Flanery asked if there was any further business that need to be presented to the board; none was presented. Chairperson Flanery called for a motion to adjourn; Ms. Lassiter made a motion and the meeting was adjourned.

Respectfully Submitted,



F. Thomas Howard

Secretary of the Authority