

1 Sixty-eight and 69.

2 TREASURER KENNEDY:

3 I'm sorry. Subject to those conditions,
4 Mr. Kleckley moves approval of Items 68 and
5 69. Mr. Alario seconds those motions. Is
6 there any objection?

7 Without objection, Items 68 and 69 are
8 approved.

9 Thank you, Madam Secretary.

10 MS. LEBAS:

11 Thank you.

12 TREASURER KENNEDY:

13 All right.

14 MR. BRIDGES:

15 Thank you.

16 TREASURER KENNEDY:

17 All right.

18 MR. KLING:

19 The final item is basically an
20 informational item for you. And Renee will be
21 making the presentation. You should have a
22 handout. And really, it's regarding the Net
23 State -- our position on Net State Tax
24 Supported Debt capacity, which is an update
25 and, I guess, some parameters that you can be

1 thinking about in terms of how we do things
2 moving forward.

3 MS. BOICOURT:

4 Okay. I think as you probably all
5 recall, earlier this year, we recognized there
6 was a -- the possibility that the State could
7 be in a position where the Lines of Credit
8 that had been authorized would require more
9 bonding than would be allowed under the
10 Constitution. This possible scenario emerged
11 for a couple of reasons; one was the revenue
12 forecast coming from the wreck had come down;
13 and then the second dynamic was that the State
14 had drawn down cash that had been set aside
15 from the General Fund over many years to fund
16 pay GO capital and that was sort of being used
17 to front the money that would ultimately be
18 bonded.

19 Those two dynamics accumulated. And when
20 we ran the forecast out, it looked like we
21 were getting very, very close to the capacity
22 of the State to borrow money as defined by the
23 Constitution. Prior to that last GO sale that
24 we did a few months ago, 300 million, I think
25 the balance was precariously low. And I

1 think -- how low did it get? It got very low.

2 So my --

3 TREASURER KENNEDY:

4 Sixty million; is that what it was? What
5 was it, Whit?

6 MR. KLING:

7 It was -- it was certainly under, I
8 think, \$150 million --

9 TREASURER KENNEDY:

10 Okay.

11 MR. KLING:

12 -- between all three components.

13 TREASURER KENNEDY:

14 Okay. But it's better now.

15 MR. KLING:

16 Yes, sir.

17 MS. BOICOURT:

18 It is. So the Bond Commission asked a
19 team to look at this problem. The team
20 included the Bond Commission Staff, along with
21 the House, Senate, and AG, and Division Staff.
22 We've passed out an issuance plan, I think you
23 all have, that provides for scheduled bond
24 transactions that will meet the liquidity
25 needs of the projects on the pipeline that

1 already have GO Lines of Credit.

2 So as these bills come due as Facilities
3 Planning manages these projects and DOTD
4 through the construction pipeline, we will
5 have enough money to pay the bills. Good
6 thing. The plan also provides for issuing the
7 bonds authorized for the SHIF program and for
8 --

9 TREASURER KENNEDY:

10 That's the Rural Roads Program?

11 MS. BOICOURT:

12 Rural Roads and also for Unclaimed
13 Properties, Secured Bonds.

14 TREASURER KENNEDY:

15 And how much in the Rural Roads?

16 MS. BOICOURT:

17 Sure. Let's walk through that.

18 MR. KLING:

19 Two hundred twenty-five million.

20 MS. BOICOURT:

21 Two hundred twenty-five. If you take a
22 look at the first page, you'll see exactly
23 what we are proposing to bond. It's an --
24 and, again, this is a plan. We're not
25 authorizing these bonds today. So this is

1 informational at this point.

2 MR. KLING:

3 This is what you can -- this is what you
4 could do, and you can slice and dice it
5 however --

6 MS. BOICOURT:

7 However y'all want.

8 MR. KLING:

9 -- y'all decide to do it.

10 MS. BOICOURT:

11 Right. So this is your sort of outside
12 capacity.

13 TREASURER KENNEDY:

14 This has -- does this have the sculpting
15 already built in?

16 MS. BOICOURT:

17 It does.

18 TREASURER KENNEDY:

19 Okay.

20 MS. BOICOURT:

21 So there's \$800 million of GO this fiscal
22 year. And next fiscal year, 500 of it will be
23 issued by the end of the calendar year, and
24 the other 300 million in the next fiscal year.
25 In addition, it provides for a total of

1 225 million in the Rural Roads Program. The
2 way it's modeled here, it's all -- this year,
3 225 all at once. It also provides for two
4 \$85 million pieces of unclaimed property
5 bonding for purposes of the I49 projects.

6 Now the funds that are raised through
7 unclaimed property --

8 TREASURER KENNEDY:

9 Let me interrupt you for just a second.

10 MS. BOICOURT:

11 Sure. Sure.

12 TREASURER KENNEDY:

13 And realistically, given what happened
14 with the credit markets in '08 and all of the
15 changes, do you think we're today, we're going
16 to be able to get an acceptable rate of
17 interest on Unclaimed Property Bonds if they
18 are structured purely as a Revenue Bond?

19 MS. BOICOURT:

20 I think it's going to be very difficult.
21 The -- what will drive that will be the nature
22 of the information that we can assemble
23 regarding why the amount of the revenue
24 stream, how it's behaved in the last ten years
25 or so in terms of on how much money leaves the

1 Unclaimed Property Program and comes over
2 traditionally to the general fund now in part
3 to these bonds. We're going to need to be
4 able to explain why --

5 MR. KLING:

6 The source, the type, the stratification,
7 everything.

8 MS. BOICOURT:

9 Yeah, why can't investors count on that
10 continuing to flow. And that -- we'll have to
11 tell that story in a tremendous amount of
12 detail to convince investors that this is a
13 reasonable bond. We don't know yet whether
14 we're going to be able to produce that data
15 that will be convincing. And that's -- you
16 know, that's the project we're about to embark
17 upon.

18 TREASURER KENNEDY:

19 I think we can produce the data in terms
20 of the collections. Now there have been
21 some -- some exceptions created through the
22 years statutorily that we might have to clean
23 up. But what concerns me about it is the
24 appetite for risks and, you know, the concern
25 about interest rates.

1 And, you know, I just don't know how
2 realistic it's going to be without a State
3 guaranty. I think if we had done these bonds
4 back in '02, '03, '04, that would have been
5 one thing. But after '08, things have
6 changed.

7 MS. BOICOURT:

8 I think you're right. I think investors
9 are more skeptical now about risks than they
10 once were. This will be a more expensive way
11 to borrow than a GO.

12 TREASURER KENNEDY:

13 Yeah.

14 MS. BOICOURT:

15 I think the possibility of putting a
16 Cooperative Endeavor Agreement on this, still
17 using the Unclaimed Property revenue, but
18 enhancing it with the State backup, should be
19 something that we consider if we conclude that
20 this just isn't something that could be sold
21 without that. I think we should keep that on
22 the table.

23 TREASURER KENNEDY:

24 Is there a way to sculpt it so it doesn't
25 contribute to a Net State Tax Supported

1 Debt --

2 MR. KLING:

3 No, sir.

4 TREASURER KENNEDY:

5 -- without a State guaranty?

6 MR. KLING:

7 No, sir.

8 MS. BOICOURT:

9 Either way --

10 MR. KLING:

11 Either way, it's Net State Tax Supported

12 Debt.

13 MS. BOICOURT:

14 Either way, it counts. Yeah, we have it
15 modeled in.

16 TREASURER KENNEDY:

17 Well, I mean, the rating agency is going
18 to count it anyway.

19 MS. BOICOURT:

20 In the Constitutional calculation, it's
21 counted.

22 TREASURER KENNEDY:

23 Okay. All right. Go ahead.

24 MS. BOICOURT:

25 Let's see, so in terms of the bonding

1 here for the non-GO transportation, we have a
2 particular schedule here. Nobody is wedded to
3 it. DOTD will be working out the disbursement
4 plans for these two programs for the I49
5 projects and for SHIF. And then, the precise
6 timing of bonds in those two programs will be
7 driven by when they need cash.

8 So as we, you know, as we move toward
9 from the planning point to the actual point
10 where we're seeking authorization to sell a
11 particular deal, those details will get
12 flushed out. What this shows you is you can
13 afford to do this much if you need to do it
14 this fast.

15 If you look at the graph, a couple of
16 things to point out, this does use up all the
17 capacity. This explains all the available
18 capacity, this plan does. Just to walk you
19 through this very briefly, but the dark blue
20 shaded area is the existing debt with the LA1
21 restructuring that you all just approved baked
22 in.

23 Then, you see we layer on the deals, the
24 GO deals, the Unclaimed Property and SHIF
25 deals and then in the first year and then

1 again in '14/'15. The light blue is 350
2 million a year indefinitely to deal with new
3 capital authorizations that will come up this
4 June and the June after that and the June
5 after that and so forth.

6 MR. KLING:

7 And that's layered on a three-year delay
8 basis from the year of authorization. So
9 basically, the plan -- the model assumes that
10 you fund three years after the authorization.

11 MS. BOICOURT:

12 Yeah. And then just briefly, I want to
13 make you aware that in the process of coming
14 up with this plan, the Team had to confront a
15 number of legal and administrative issues
16 related to both State law and tax law
17 constraints about just exactly how you can
18 spend money. And the AG's office, together
19 with bond counsel, have provided important
20 guidance on those issues. In addition, DOTD
21 and Facilities Planning are doing a lot of
22 work to fine tune the process of projecting
23 how fast money will go out the door.

24 You know, for a long time, that could be
25 done. And if actual capital spending didn't

1 go at that pace, it was okay because there was
2 so much money in the Capital Outlay Escrow
3 Fund, it didn't have to be that precise. You
4 could come back, update it with the actuals.
5 You had enough cushion, you had enough Bond
6 capacity cushion. You had enough cash. You
7 didn't have to really finely tune it. Now,
8 you do.

9 So various folks in the Division and in
10 DOTD are working on making sure we're in a
11 position to do that so that we don't get --
12 the State doesn't get too far ahead of itself
13 and grant approved contracts, first approve
14 Lines of Credit, then approve contracts that
15 it can't fund. And that's going to take a lot
16 of administration attention to make sure it
17 stays on an even kill.

18 TREASURER KENNEDY:

19 Okay. My understanding of what you've
20 told us, and tell me if I've got it wrong,
21 just kind of simplify it, things are better.
22 We've had some refundings, refinancings, which
23 have saved money. The Revenue Estimating
24 Conference has been out a couple of times and
25 recognized more revenue, which gives us more

1 capacity.

2 We're still going to have to sculpt the
3 deal to make sure it fits within the debt
4 limit, because in some years, we don't sculpt,
5 but it will pop us over. And we can't go over
6 without a two-thirds vote. We're -- we will
7 probably do an issue before the end of the
8 year. We need to be ready first, but sooner
9 is probably better than later because of the
10 move in interest rates.

11 The 10-year Treasury came down a little
12 bit after Mr. Bernanke spoke yesterday, but
13 it's probably going to go back up. The Bond
14 Commission is going to have to decide,
15 obviously, some of this money is going to go
16 to pay for existing projects, but we're going
17 to have to decide how much to do, for example,
18 in Rural Roads. That's going to be one of the
19 issues, and we'll have to get a recommendation
20 from the Secretary about how much can they --
21 can be done.

22 No -- one argument, I think, is going to
23 be that even if there's not enough capacity,
24 they can't do all of it right now, we may be
25 better off financially borrowing all the money

1 now at the cheaper interest rate given the --
2 given the cost of construction, inflation, and
3 the inevitability of interest rates rising.

4 MS. BOICOURT:

5 Correct.

6 TREASURER KENNEDY:

7 Okay. Even if the money is not used, we
8 would save money by borrowing it now.

9 MR. KLING:

10 Right.

11 TREASURER KENNEDY:

12 So that's my understanding of where we
13 are.

14 MR. KLING:

15 And just, and I guess two clarifications,
16 you know, this is the model. It doesn't
17 provide a 100 percent catch-up, but it gets
18 close. Two, it's based on capacity. What it
19 actually turns out to be will be the result of
20 the work from the Division and DOTD in terms
21 of actual cash outflow. So, you know,
22 capacity determination versus what's actually
23 required because of actual cash flow activity
24 will be different. But, you know, this just
25 kind of gives you a parameter of what -- of

1 how much you can do. And, again, you can
2 slice and dice it however you choose to do so.

3 MS. BOICOURT:

4 And just to follow up, this, of course,
5 is a forecast, right.

6 MR. KLING:

7 Right.

8 MS. BOICOURT:

9 So it has a bunch of substance in it,
10 revenue being one of them and interest rates
11 another. We've built a fair amount of cushion
12 in here for interest rate risks.

13 MR. KLING:

14 Yeah. Why don't you tell them about
15 (inaudible).

16 MS. BOICOURT:

17 Yeah. Basically, what we did and we
18 worked with the Division on this as well, we
19 looked at historic interest rates over the
20 last 20 years, and we picked a baseline for
21 the outer years that where the rates were
22 assuming 80 percent of the time over the last
23 20 years, rates have been lower than that. So
24 we've put this forecast pretty high up on the
25 20-year trend of historic actual interest

1 rates. There was a fair amount of caution in
2 there.

3 Between now and over the next two years,
4 we looked at consensus forecast among
5 economists about how fast treasuries are going
6 to step up. And there isn't really such a
7 forecast for muni rates. So we just took the
8 muni rates and trended them up at the same
9 pace, and then we put a little bit of padding
10 on that.

11 So there's some cushion here. But, you
12 know, the cushion could get -- the actual
13 could be worse than the cushion we've built.
14 The revenues could come down.

15 So I think this is just an area where, as
16 I understand it, under the Statute, you take
17 stock formally of this once a year and do the
18 sort of official capacity snapshot. But we
19 would recommend that you monitor this
20 quarterly and at the Staff level, and that we
21 all bring to your attention any trends that we
22 see indicating that this might be running off
23 course.

24 And, you know, following the actual
25 spend-down of the projects, looking at the

1 projections for the new projects that are
2 coming online by virtue of stuff that was just
3 authorized, and making sure that the
4 equilibrium stays in place so that, as you've
5 stated, if you have to react. You know, if
6 you have to bring something in, you have some
7 lead time to confront that decision.

8 TREASURER KENNEDY:

9 Okay. Well, we've got July and August
10 revenue numbers. I mean, it's only two months
11 of the fiscal year. And, you know, we're
12 behind. As of August, we were behind where we
13 were this time last year which is not good.
14 But we weren't as behind as much in August as
15 we were in July, so that's good. But we will
16 have to monitor it. When do you think we
17 should go into the market?

18 MS. BOICOURT:

19 Well, I think we should sell this
20 upcoming GO deal before the end of the year.
21 We need the cash. We want to avoid getting
22 into kind of the Christmas dull drum. So --

23 TREASURER KENNEDY:

24 So you're thinking November?

25 MS. BOICOURT:

1 Yeah.

2 TREASURER KENNEDY:

3 Do we have the Team?

4 MS. BOICOURT:

5 November, early December.

6 TREASURER KENNEDY:

7 The Team is put together?

8 MR. KLING:

9 No, sir. It will be a competitive --

10 TREASURER KENNEDY:

11 I'd rather go in --

12 MS. BOICOURT:

13 It will be a competitive deal.

14 MR. KLING:

15 It will be a competitive issue.

16 TREASURER KENNEDY:

17 Okay.

18 MR. KLING:

19 It will not be a negotiated issue.

20 TREASURER KENNEDY:

21 All right. Would you --

22 MR. KLING:

23 And -- and --

24 TREASURER KENNEDY:

25 -- get back to us specifically about when

1 you think we ought to do it?

2 MR. KLING:

3 Well, it all depends on a number of
4 issues, most importantly, what the Division
5 wants to bring forward in terms of size. Of
6 course, size is a big factor because that
7 determines the debt service requirement for
8 next year and that impacts the budget, and
9 that's issues for the House and the Senate to
10 consider. You know, these are capacity
11 projections. There are budgetary issues
12 associated with those capacities.

13 TREASURER KENNEDY:

14 We're also going to have to decide how
15 much of the Rural Roads Program to do.

16 MR. KLING:

17 That's correct. There is a -- you know,
18 there's a tradeoff. There's a tradeoff to
19 doing it in component units. I guess you can
20 get more precise in terms of actual need. But
21 if the program expenditures are going to occur
22 within three years, then that preciseness is
23 going to probably not need and it, and you can
24 do it all in one issue upfront.

25 And now, the rates are lower. You don't

1 know what they'll be in the future. You can
2 lock in the program, but that has a cost to
3 it. So you --

4 TREASURER KENNEDY:

5 We do know what the -- we don't know what
6 the future is, but the trend is pretty clear.
7 Okay.

8 Kristy?

9 COMMISSIONER NICHOLS:

10 Renee, when you guys come back -- or,
11 Whit, when you come back next month, in terms
12 of our first borrowing, what do you anticipate
13 that amount to be?

14 MR. KLING:

15 What we've -- what we've modeled is
16 500 million, but that's -- but that's a model.
17 That's subject to what you bring, as I said,
18 to what you bring and what the Legislative
19 membership is willing to support in terms of
20 debt service.

21 COMMISSIONER NICHOLS:

22 Is that your plan in terms of what you
23 plan to recommend next month and bring to
24 the -- or at least bring to the Commission for
25 review?

1 MR. KLING:

2 We're not bringing -- we're going to
3 wait -- what I bring to you will be what you
4 bring to me, okay. It's not, you know --

5 COMMISSIONER NICHOLS:

6 So the 500 million will be under
7 discussion at the next meeting --

8 MR. KLING:

9 Yes.

10 COMMISSIONER NICHOLS:

11 -- or whenever it's on the agenda?

12 MR. KLING:

13 Right. I mean whether you choose to do
14 500 or 300, if you want to do 300/500; if you
15 want to do 4/4 doesn't -- that's a capacity
16 issue. What you need to bring, of course, is
17 driven by what you anticipate to spend.

18 COMMISSIONER NICHOLS:

19 But what I heard today is that from a
20 cash flow perspective, the work that you've
21 done with DOTD and Facilities and Planning,
22 you're giving us your estimation of what is
23 needed with respect to cash flow based on
24 those projects.

25 MR. KLING:

1 Right, but that's --

2 COMMISSIONER NICHOLS:

3 Okay.

4 MR. KLING:

5 That's our estimation, you know. Y'all
6 are in control of the projects.

7 COMMISSIONER NICHOLS:

8 Sure, but --

9 MR. KLING:

10 -- and you have a better control or
11 knowledge of the actuals. So we have to rely
12 on you for that final determination.

13 COMMISSIONER NICHOLS:

14 I wanted to again just reflect on how we
15 started this process and where we are today
16 and just thank you guys for the work that
17 you've done. As I recall, as we began talking
18 about potential issues and our understanding
19 of our existing capacity as it relates to
20 borrowing and needs as it relates to
21 borrowing, we had some discussion about
22 process and whether or not we really had a
23 good understanding of both of those things,
24 both our borrowing capacity and our needs.

25 And I think Representative Fannin and

1 other members of the Bond Commission in their
2 leadership advised us to work together to
3 really look at those things in detail. And
4 you guys, I think in conjunction with the
5 Senate staff and House staff and the Division
6 staff and the assistant group have done a
7 really good job and really working through the
8 details to give us good recommendations.

9 And I think it's great that we're here
10 today and we've looked forward and looked at
11 our borrowing needs. And, essentially, you're
12 telling us we can borrow what we need and have
13 what we need to continue the projects going
14 forward. And I think that's good news for the
15 State and I just appreciate the work that you
16 guys have put into this. Thank you.

17 MS. BOICOURT:

18 Thank you.

19 TREASURER KENNEDY:

20 All right. Thanks, Kristy. Any action
21 we need to take today?

22 MR. KLING:

23 No, sir.

24 TREASURER KENNEDY:

25 Okay. Anybody have any questions? Any

1 other business to come before the Bond
2 Commission? If not, thank you, everybody, for
3 their patience.

4 Without objection, we're adjourned.

5 (Whereupon, the meeting adjourned.)

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1 R E P O R T E R ' S C E R T I F I C A T E

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