

**Only firms which have been prequalified by the Office of Financial Management for FY 2012 and FY 2013 to provide underwriting services to the Kentucky Asset/Liability Commission may submit a response to this Request for Proposal.**

May 17, 2012

**Request for Proposals (“RFP”) to Serve as Senior Managing Underwriter and/or Remarketing/Index Agent to the Kentucky Asset/Liability Commission during Fiscal Years 2013 and 2014.**

The Office of Financial Management (“OFM”) of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the “Commonwealth”), on behalf of the Kentucky Asset/Liability Commission (the “Commission” or “ALCo”) is requesting proposals from prequalified firms for the services of senior managing underwriter and/or remarketing/index agent for the period of July 1, 2012 through June 30, 2014. The firms selected as a result of this RFP will be contracted for a twenty-four (24) month period. OFM will have the option to extend the contract, on the same terms and conditions, for an additional twenty-four (24) month period.

The Commission seeks to hire **one** senior managing underwriter and/or remarketing/index agent for Tax and Revenue Anticipation Note (“TRANS”) issues and **two** senior managing underwriters and/or remarketing/index agents for Grant Anticipation Revenue Vehicles (“GARVEEs”) issues. The firms chosen to provide services relative to GARVEE issues will serve on a rotating basis. The rotation schedule will initially be based upon rank order. OFM reserves the right to amend the order taking into consideration the timing and expected par amount of GARVEEs to be issued by the Commission as well as market conditions or other relevant factors. The Commission also seeks to hire **one** senior managing underwriter and/or remarketing/index agents for Project Note issues during the period. Also, the Commission seeks to hire **one** senior managing underwriter and/or remarketing/index agent for the issuance of Funding Notes and/or Pension Obligation Bonds (“POBs”). Remarketing or index agents, if assigned to a specific series of notes, are expected to provide these services until the notes mature or are replaced with permanent financing. The Commission intends to issue all transactions on a negotiated sale basis. Firms may be selected for one or more appointments.

The Commission currently doesn’t anticipate issuing a General Fund supported TRAN but does anticipate issuing GARVEEs (supported by Federal Highway Trust Fund appropriations) during the engagement period. In addition, the Commission does anticipate issuing General Fund supported Funding Notes during this engagement period. The Commission may issue Project Notes, primarily in the form of Bond Anticipation Notes, to fund authorized projects supported by General Fund, Agency Fund or Road Fund appropriations. The Commission may also consider utilizing a line of credit during the engagement period to provide interim funding for a variety of General Fund or Road Fund projects depending on funding needs and timing. At the present time, there is no authorization to issue POBs.

The 2012 General Assembly authorized debt financing for projects totaling \$238,860,000 for various capital initiatives of the Commonwealth: \$182,860,000 are General Fund supported, \$43,500,000 are Agency Fund supported, and \$12,500,000 are Road Fund supported.

Additionally, there are over one billion of appropriation-supported bond projects, previously authorized by the General Assembly, that have not been permanently financed: \$288,099,840 are General Fund supported, \$85,683,531 are Agency Fund supported, \$410,500,000 are Road Fund supported, and \$566,000,000 are Federal Fund supported GARVEEs.

Depending on the funding needs of the existing capital project authorizations, the Commission may wish to establish one or more interim borrowing programs to provide short-term financing for authorized projects, including commercial bank loans. Currently, the Commission does not have any active trust indentures for Bond Anticipation Notes (“BANs”) and may decide to create one or more new trust indentures for the purpose of providing interim financing for the Commonwealth’s capital programs through the issuance of Project Notes. It is anticipated that, depending on fund source, the State Property and Buildings Commission, Turnpike Authority or the respective University will ultimately issue permanent bonds to refund any bond anticipation notes, if any. The Commission could issue permanent notes depending upon the nature of the project and the credit.

The timing of note issues will depend on project needs and market conditions. While the Commonwealth has authorized capital projects to be funded by the issuance of debt, there is no assurance by OFM or the Commission that any of the transactions contemplated in this RFP will be completed during the contract period.

The primary objectives of the Commission are to:

1. Provide interim and/or permanent financing for capital projects as necessary;
2. Provide low cost funding alternatives;
3. Minimize budgetary process complications;
4. Maintain variable rate exposure for a portion of the Commonwealth’s debt;  
and
5. Maximize administrative flexibility with minimal effort.

The transactions will proceed under the direction of OFM, which serves as staff to the Commission. The issues will require the approval of the Commission, the State Property and Buildings Commission, and the Capital Projects and Bond Oversight Committee of the Legislative Research Commission prior to the sale dates, if any.

### **Description of Services Sought**

The firms engaged to provide senior managing underwriter and/or remarketing/index agent services to the Commission will be working with OFM and bond counsel, currently Kutak Rock LLP. The firms selected to perform these services for the Commission will be responsible for the oversight of each respective financing and for coordinating the entire bond issue(s), unless certain responsibilities have been delegated to a financial/municipal advisor, if any. Duties include, but are not limited to: structuring the issue; providing debt

management and marketing advice; competitively bidding a credit facility or standby note purchase agreement provider (the “liquidity facility”), a verification agent, if needed, and printing and electronic delivery services for preliminary and final official statements; posting the POS and OS on the MSRB’s EMMA web site; coordinating the sale and closing of the securities with the trustee, bond counsel and the Commonwealth, and serving as a point of contact with the rating agencies.

Alternatively, the Commonwealth would like to explore the possibility of a commercial bank loan or line of credit to facilitate the funding of projects on an interim basis. The firm would be working with Kutak Rock as ALCo’s counsel and OFM to develop a credit structure that would not impinge on existing or future state General Fund or Road Fund appropriation bondholders and that complies with the spirit of SEC Rule 15C(2)(12) and MSRB suggested best practices.

### **Fees and Expenses**

Final management fees and total expense limits will be established prior to each financing, pursuant to KRS 45A.857(4)(a). The Executive Director of OFM will negotiate a fee schedule with the number one ranked firm in each category (TRANs, GARVEEs, Project Notes, and Funding Notes and/or POBs) and for each interest rate mode contemplated under a standard multi-modal indenture, which are daily, weekly, commercial paper, index and fixed rate modes. **The fee(s) established for the GARVEE rotating pool will apply to all firms in the rotating pool and will be the upper limit for all GARVEE transactions.** In addition, along with the fee(s) for Project Notes, proposed not to exceed fees, including any reimbursement of legal expenses will be established for a commercial bank loan or line of credit. A management fee, remarketing/index agent fee and expense proposal must be submitted for each interest rate mode. If no fee is being proposed, please indicate as such. The successful managing underwriters will select their own underwriter’s counsel. Underwriter’s counsel services will be reimbursed by the Commission within the expense component for each transaction in accordance with the provisions of 200 KAR 21:050. Takedown, if applicable, will be determined during the pre-pricing phase of each transaction. Fees are considered as part of the overall financing plan and are not weighted separately for calculating each firm's final score. **All fees incurred will be payable only upon successful closing of an issue.**

## **GENERAL INFORMATION**

### **The Commission**

The Kentucky Asset/Liability Commission was established by the Third Extraordinary Session of the General Assembly (May 1997) for the purpose of managing the Commonwealth’s working capital needs, to act as the central short-term debt issuing authority and to manage the interest rate risk profile of the Commonwealth. The Commission is currently comprised of five members, each serving in an ex-officio capacity. The members are the Secretary of the Finance and Administration Cabinet, who acts as Chairman; the Attorney General; the State Treasurer; the State Budget Director and the State Controller. The Secretary to the Commission is the Executive Director of OFM. More

information on the Commission, including its semi-annual reports can be found at <http://finance.ky.gov/services/ofm/Pages/default.aspx>.

The Commission was created to develop policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and interest-sensitive liabilities. The Commission is authorized to issue Tax and Revenue Anticipation Notes, Project Notes and Funding Notes. Tax and Revenue Anticipation Notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project Notes are to be used for authorized projects upon the request of state agencies, to be repaid through financing/lease agreements or alternative agreements. Funding Notes are to be used for the purpose of funding obligations payable under KRS 161.550(2) and KRS 161.553(2), or judgments against the Commonwealth or any state agency. OFM serves as staff to the Commission.

### **Debt Service Appropriation Process**

The Commonwealth of Kentucky is constitutionally mandated to budget on a biennial cycle, with the new biennium beginning July 1 of the even numbered calendar years. The biennium consists of two (2) fiscal years, each fiscal year beginning July 1 and ending June 30 of the next calendar year.

The budget process normally begins in August prior to the start of each new biennium. Each cabinet and agency prepares a budget request for the upcoming biennium, which is submitted to the Office of the State Budget Director ("OSBD"). Each cabinet and agency only requests the amount of new debt service dollars required to support new or expansion projects to be funded via the debt issuance process. General Fund supported debt service for all existing bonds is requested by OFM in the Finance and Administration Cabinet's budget request. Debt service for new projects is estimated using a debt service template which provides rate assumptions for 5-, 7-, 10-, and 20-year bonds issued on a tax-exempt or taxable basis. The OSBD further refines the cabinet and agency budget requests into the Governor's Executive Budget Request, which is then presented to the General Assembly. However, the General Assembly may or may not choose to use the debt service template to estimate debt service for proposed projects at its discretion. New money debt service appropriations are moved to the Finance and Administration Cabinet and combined with existing General Fund debt service appropriations at the beginning of each fiscal year. General Fund debt service, which is not expended in the fiscal year for which it is appropriated, cannot be carried forward into the subsequent fiscal year and will lapse to the General Fund Surplus Account.

### **REQUIRED COMPONENTS OF THE PROPOSAL**

Each response to the RFP must include and address the following items. **Failure to comply with the requirements of the RFP will result in the firm's response not being evaluated by the Selection Committee.** (See Selection and Notification.)

## **I. Disclosure**

- A. Certify that there has been no material change to any of the statements and certifications made by the firm in its response to the Request for Qualifications, Section II, Disclosure, issued by OFM on January 25, 2011. In the event there has been a material change, please specify the nature of the change and the impact of the change on the firm and its ability to provide the desired services.
- B. Detail any criminal investigation, indictment, prosecution or other proceeding that has ever been brought against your firm (provide attachment if necessary). Also, describe any civil litigation pending or concluded within the last three years against your firm that would impair the firm's ability to provide the requested services (provide attachments if necessary).
- C. Disclose any potential conflicts of interest with representing the Commonwealth in these matters, including any potential conflicts of interest of employees assigned to this project and potential conflicts with any Commission members. The Commonwealth reserves the unqualified right to disqualify an entity or cancel any contract for any potential conflict of interest issues raised initially and/or during the life of any contract awarded.

## **II. Qualifications (30%)**

### **A. Relevant Experience of the Firm (10%)**

Provide a brief discussion of the firm's relevant financing experience for each area of interest (TRANs, GARVEEs, Project Notes, Funding Notes and/or POBs) and identify the lead banker(s) who managed those transactions over the last two years. The transactions identified must each exceed \$25,000,000 in size. Provide specific references of the firm's and the lead banker's experience with similar issuers. Include names, addresses, and telephone numbers.

### **B. Staffing and Technical Support, Availability and Experience (20%)**

Identify the lead banker(s) and all personnel of the firm who will work on the proposed financial transactions. Provide relevant experience the individuals have had on similar issues. The Commission requires that the firm provide continuing availability of these key individuals if selected. **Any changes in the staff assigned to any issuance must be approved in writing by OFM.**

## **III. Financing Plan (40%)**

### **A. TRANs**

With the exceptions of Fiscal Years 2004, 2010, 2011, and 2012, the Commission has previously issued one or more TRANs every year since Fiscal Year 1998 as fixed rate notes and index rate notes to mature on a single date in late-June. The TRANs provide working capital to the General Fund during the fiscal year. General Fund

revenue fluctuations and budgeted expenditures have a significant impact upon the timing, number and actual size of each TRAN. For the past few fiscal years, current reinvestment yields on TRAN proceeds haven't been higher than the cost of funds for a TRAN, so borrowing internally from the state investment pools has been the most efficient and cost-effective way to provide short-term liquidity to the General Fund. Please discuss the current market environment and recommended strategies to fund the Commonwealth's working capital needs. Assume for purposes of your response that the Commission will issue a TRAN in the amount of \$400 million on a date early in July with a maturity in late June of the following calendar year. Please note that the Commonwealth does not currently anticipate issuing a TRAN for Fiscal Year 2013. However, the Commission may choose to issue TRANs in future fiscal years depending on budgetary and market conditions.

The primary objectives of the TRANs are to:

1. Fund mismatches of General Fund revenues and expenditures within a fiscal year.
2. Reduce the cost of funds through the use of external sources.
3. Maximize permissible arbitrage earnings.
4. Minimize administrative issues while maintaining flexibility.

## **B. GARVEEs**

The 2008 Regular Session of the General Assembly authorized \$231 million in GARVEE bonds designated to finance the Louisville-Southern Indiana Ohio River Bridges Project, \$131 million of which remains authorized but unissued. The 2010 Extraordinary Session of the General Assembly authorized \$435 million in GARVEE bonds for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. For purposes of this RFP assume that the full amount of GARVEE authorization will be issued during the engagement period. Currently, it is anticipated that the \$236 million in GARVEEs for the Louisville-Southern Indiana Ohio River Bridges Project would be issued during 2013, and a portion of the \$330 million for the Lake Barkley and Kentucky Lake Bridges Project would be issued in 2014. Discuss the timing of issuance(s) and the maximum term length of the GARVEEs considering the federal authorization cycles.

The goals of the transaction are to:

1. Accelerate the funding of much needed bridge and interchange improvements.
2. Pledge a portion of the Commonwealth's federal transportation receipts as sole security for the obligations.
3. Utilize federal resources within limits of assumed six-year authorization funding cycles.
4. Maintain ALCo GARVEE rating and administrative flexibility for the program to fund additional projects and/or phases of this project.
5. Manage the program within the Commonwealth's appropriation process.
6. Execute a highly cost-effective transaction.

## C. Project Notes

It is possible that some of the General Fund projects and Road Fund projects may receive financing through the issuance of Project Notes, but no issuance is certain at this time under this engagement. Any issuance will be driven by funding need.

Since inception, the objectives of the note program have been to:

1. Maintain a core variable rate component in the Commonwealth's debt portfolio.
2. Provide interim construction financing for bond funded projects prior to the issuance of permanent financing.
3. Provide ease and flexibility in raising funds to meet expenditure requirements, within tax code limitations.
4. Provide interest rate hedges and access to derivative products for new or refunding issues, where applicable.
5. Maintain a combined twenty-year funding cycle for all long-term projects.
6. Manage the cost and capacity constraints of credit facility providers or a direct loan with regard to appropriation supported credits.
7. Reduce the costs of borrowing and minimize the fluctuation of debt service appropriation requests in future budget periods.

Please assess the current market and identify opportunities to provide low cost funding for the Commonwealth's proposed capital investment. For purposes of the RFP, assume that \$100 million of Project Notes will be placed under a standard multi-modal indenture. Discuss credit support, i.e. standby agreements versus other types of credit facilities available, and any other relevant items related to an interim note program. Please recommend your firm's specific plan under the following constraints:

1. The Commission may finance some or all of the authorized debt funded projects in the coming biennium.
2. Debt service for tax-exempt projects is currently appropriated at 5.50 percent, and taxable debt service is currently appropriated at 6.50 percent.
3. The Commission will use standard multi-modal indenture allowing for daily, weekly, commercial paper, index and fixed rate modes.
4. The Project Notes are expected to be issued as funds are needed for project expenditures.

As previously stated, the Commission may also consider a commercial bank loan or line of credit to provide interim funding for General Fund or Road Fund projects depending on project needs, timing, and market rates. Discuss your firm's ability and willingness to provide a loan or line of credit of approximately \$100 million for up to one year. Please provide a brief summary of expected general terms, fees and expenses associated with a line of credit and the credit approval process.

#### **D. Funding Notes and/or POBs**

As explained further in Attachment C, in the 2010 Regular Session of the General Assembly, legislation was enacted to allow Funding Notes to be issued by the ALCo for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to the Kentucky Teachers' Retirement System ("KTRS"). As a result, General Fund supported Funding Notes were authorized for the Fiscal Year 2011-2012 budget biennium in the amount not to exceed \$875 million of which \$737.37 million was issued. In addition, \$152.4 million of Funding Notes has been authorized in House Bill 265 (the Executive Branch Budget) for the Fiscal Year 2013-2014 biennium in order to provide the non-recurring state share of healthcare costs for KTRS required during the biennium and are expected to be issued during the engagement period.

At this time, there is no authority to issue Pension Obligation Bonds by the Commission or other state issuing authority. However, the Commonwealth may seek advice relating to the funding of its pension liabilities as well as underwriting services related to POBs should such authorization be forthcoming in a regular or special session of the General Assembly. For purposes of the RFP, present a strategy to optimally fund with POBs the pension and other post employment benefit liabilities of the Kentucky Retirement System (excluding the County Employees Retirement System) and the Kentucky Teacher's Retirement System (at a level not to exceed eighty-five percent of the liabilities). For further information on the State Retirement Systems please see **Attachment C**.

#### **E. Fee Component - Per Issue**

For each type of transaction (TRANS, GARVEEs\*, Project Notes, Funding Notes and/or POBs) - Please provide a fee proposal on a per \$1,000 note basis inclusive of management fee and all expenses for each of these interest rate modes: daily, weekly, commercial paper, index and fixed rate modes. Also, provide a remarketing agent fee proposal applicable to notes issued in the daily, weekly or commercial paper mode, payable quarterly in arrears for the term of the notes. Takedown, if applicable, will be negotiated prior to the sale. (See **Fees and Expenses** above).

**\*The proposed fees for the GARVEEs rotating pool will establish a maximum fee, which can be paid by the Commission.**

Do **not** include expense components for underwriter's counsel. Underwriter's counsel fees will be reimbursed based upon a percentage of bond counsel fees pursuant to 200 KAR 21:050.

#### **IV. Marketing (30%)**

Discuss your firm's marketing and remarketing agent capabilities for each area of interest (TRANS, GARVEEs, Notes, Funding Notes and/or POBs) and each of the following interest rate modes: VRDO/CP/Index and Fixed Rate Notes. Compare

the Commission with other similar issuers of short-term debt in the categories of market acceptance, liquidity and trading value.

### **Reservation of Rights**

OFM and the Commission reserve the right to:

1. Review and approve any change in staff members significantly involved in a financing during the contract period, as well as the right to discharge the firm promptly based upon such personnel change, or inability to provide access to key staff members.
2. Reject any and all proposals with cause.
3. Reject all proposals and seek new proposals when such procedure is reasonable in the best interest of the Commission.
4. Make investigations regarding qualifications of any or all respondents, as the Selection Committee deems necessary.
5. Request and receive such additional information as the Selection Committee may reasonably require. Failure to comply with such a request will result in disqualification.
6. Waive minor irregularities in all the RFP process.
7. Make all submitted proposals and any attached materials available for Open Records requests pursuant to KRS 61.870.

### **Liability**

OFM and the Commission shall not be liable for:

1. Any costs incurred in the preparation and submission of any proposal.
2. Any costs incurred in connection with any interview or negotiation relating to this RFP (i.e., travel, accommodations, etc.).
3. Any disclosure, whether by negligence or otherwise, of any material or information in any form submitted in response to this RFP.

### **Questions**

All questions and requests for information concerning this RFP must be submitted by facsimile, e-mail or in writing to the address below not later than **noon EDT on Thursday, May 31, 2012**. Any questions submitted, and answers, may be distributed to all prequalified firms at the discretion of the Chairperson of the Selection Committee. Please note that questions submitted after the deadline will not receive a response.

### **Submission of Proposals**

**Six (6) hard copies of each proposal, one electronic copy, and all related materials must be received no later than 2:00 p.m. (EDT) on, Thursday June 14, 2012 at the following address:**

Office of Financial Management  
Kentucky Asset/Liability Commission  
Selection Committee Chair  
RFP for Managing Underwriter/Remarketing Agent for FYS 2013 and 2014  
702 Capitol Avenue, Suite 76  
Frankfort, Kentucky 40601-3453  
Phone: (502) 564-2924 Fax: (502) 564-7416  
E-mail: Marcia.Adams@ky.gov

NOTE: Proposals received after the stated deadline will NOT be accepted. It is NOT the responsibility of courier services to meet the deadline. It is the responsibility of the proposer. Facsimile copies will NOT be accepted for submission of proposals. One electronic copy must be received by the stated deadline in addition to the hard copy submittal for the submittal package to be considered complete.

### **Selection and Notification**

The Selection Committee, established pursuant to KRS 45A.843, is composed of five employees from OFM (voting) and one merit employee from the Auditor of Public Accounts (nonvoting). A majority of the voting members must be merit employees of the Commonwealth. Proposals will be evaluated by all voting members pursuant to the evaluation criteria outlined on **Attachment A**. The Selection Committee will determine whether to hold interviews with proposing firms. The Selection Committee will make a recommendation for selection pursuant to KRS 45A.840 to 45A.870, KRS 45A.877 to 45A.879, and KRS 45A.490 to 45A.494. The scoring of proposals is subject to reciprocal preference for a Kentucky resident bidder and preference for a Qualified Bidder. (See Attachment F for recently enacted KRS 45A.490 to 45A.494 “Kentucky Preference Laws”.)

Kentucky Revised Statutes and the Kentucky Administrative Regulations referenced in the RFP may be found at <http://www.lrc.ky.gov/law.htm>.

### **Contact with Selection Committee Members**

Please note that any contact made by the firm with any member of the Selection Committee, from the date of issuance of the RFP until an award of contract, is required to be disclosed by such Committee member to the entire Committee and will become a part of the permanent file for this selection process which is subject to “open records requests” pursuant to Kentucky Open Records laws.

The Office of Financial Management respectfully solicits the submission of a proposal by your firm.

Attachment A: Evaluation Criteria  
Attachment B: Evaluation Form  
Attachment C: State Retirement Systems  
Attachment D: Outstanding Debt of the Commission  
Attachment E: General Fund and Road Fund Authorized But Unissued Debt  
Attachment F: Kentucky Preference Laws (KRS 45A.490-494)

**ATTACHMENT A**

**EVALUATION CRITERIA**

**Kentucky Asset/Liability Commission Request for Proposals  
Senior Managing Underwriter/Remarketing Agent  
For TRANS / GARVEEs / Project Notes / (Funding Notes and/or POBs)  
Fiscal Years 2013 and 2014**

<u>Evaluation Criteria</u>	<u>Weight</u>
1. Relevant Experience of the Firm and Staff	30%
2. Financing Plan	40%
3. Marketing	<u>30%</u>
Total	100%

**ATTACHMENT B**

**EVALUATION FORM**

**Kentucky Asset/Liability Commission Request for Proposals  
Senior Managing Underwriter/Remarketing Agent  
For TRANS / GARVEEs / Project Notes / (Funding Notes and/or POBs)  
Fiscal Years 2013 and 2014**

FIRM: \_\_\_\_\_

REVIEWER: \_\_\_\_\_

DISCLOSURE:        \_\_\_\_\_ Yes        \_\_\_\_\_ No

1. **RELEVANT FIRM AND STAFF EXPERIENCE** - (qualifications, recent similar transactions, firm organization, etc.)

Score (30 points possible): \_\_\_\_\_

Notes: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. **FINANCING PLAN** - (discussion of financing plan, reasonableness of assumptions, factors that could reasonably expect to lower costs, liquidity issues, fee proposals, etc.)

Score (40 points possible): \_\_\_\_\_

Notes: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. **MARKETING** - UNDERWRITING and REMARKETING - (market share, marketing experience and ability, comparative performance, similar issues, experience with contemplated interest rate modes)

Score (30 points possible): \_\_\_\_\_

Notes: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Total Score:** \_\_\_\_\_

## ATTACHMENT C

### State Retirement Systems

Following is information about the state's retirement system, including pension plans and other post employment benefits. Capitalized terms used under this heading and not otherwise defined shall have the respective meanings given by the CAFRs, as herein defined.

**Pension Plans.** Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in The Kentucky Comprehensive Annual Financial Report. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2011, Note 8 beginning on page 84. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at <http://kyret.ky.gov> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

**Pension Funding.** Based upon the assumptions employed in the Pension Plans' June 30, 2011 actuarial valuation reports used in preparing the associated Pension Plans' 2011 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$8,014 million, while KTRS had a UAAL of \$11,061 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2011 had funding percentages of 36.1 percent for the Kentucky Retirement Systems and 57.4 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 pension benefits was \$421.0 million versus the Actual Contribution of \$225.6 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 was \$678.7 million; \$1,038.5 million was contributed.

On April 23, 2012, House Concurrent Resolution 162 was signed by the Governor, establishing the Kentucky Public Pensions Task Force. The purpose of the Task Force is to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. The Task Force is required to submit its findings and recommendations and any proposed legislation to the Legislative Research Commission by December 7, 2012.

**Other Post Employment Benefits (“OPEB”).** The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the “Health Plans”) for which the state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013. KTRS’ last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2011 has been estimated to not exceed \$4,320 million for the Kentucky Retirement Systems and \$3,128 million for KTRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2011. The actuarial estimates for the Kentucky Retirement Systems’ OPEB liabilities decreased slightly from the \$4,487 million previously reported in the Kentucky Retirement Systems’ 2010 CAFR. The actuarial estimates for KTRS showed a slight increase from the \$2,970 million previously reported in their 2010 CAFR.

The Kentucky Retirement Systems’ state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 healthcare benefits was \$350.3 million versus the Actual Contribution of \$160.3 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 was \$479.4 million; \$190.4 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2011 had funding percentages of 17.3 percent for the Kentucky Retirement Systems and 10.9 percent for KTRS.

The Commonwealth’s 2012-2014 biennial budget increased employer contribution rates by 35 percent for the Kentucky Retirement Systems’ non-hazardous duty retirement system. The increase for the State Police Retirement System is 36 percent.

**Changes to State Retirement Systems.** During the 2008 Regular Session, there was significant discussion and debate between both the House and the Senate regarding pension reform. However both sides of the General Assembly failed to reach an agreement. On May 29, 2008, the Governor issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. In June 2008, the Governor called a special session of the General Assembly after both the House and Senate reached an agreement on pension reform, which ultimately became House Bill 1. The final agreement accomplished several things, including: a schedule to improve state funding by reaching the full actuarially required

contribution (“ARC”) by 2025; proposed a new benefit tier for future hires that would require workers to stay longer and place more money into their own retirement over time in order to reach their full retirement benefit; established a floor for annual cost of living adjustments (“COLA”) equal to 1.5% of the Consumer Price Index with the potential for future increases if the COLA is pre-funded; closed several loopholes; and created increased legislative oversight of the pension funds in future years.

As a result of the passage of House Bill 1, the growth in the Commonwealth’s unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth’s investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group and by following the schedule of payments included in House Bill 1, the Commonwealth expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky Retirement System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

In addition, House Bill 540 was signed by the Governor on April 13, 2010, creating the Teachers’ Retirement System of the State of Kentucky insurance trust fund to supplement the current medical insurance fund, specifically dedicated to health benefits. The purpose of this bill is to increase over a six-year period the active employee and employer contributions to the KTRS for retiree health benefits and to authorize the KTRS Board to require retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage. Once the medical insurance fund achieves sufficient funding status, the KTRS Board may recommend to the General Assembly that the member contributions be decreased, suspended, or terminated.

Also, House Bill 545 was signed by the Governor on April 26, 2010, amending certain sections of KRS 161 regarding the administration of KTRS including federal tax compliance relating to establishing a medical insurance trust fund under Section 115 of the Internal Revenue Code to supplement the current Section 401(h) medical insurance trust fund as well as other technical amendments. The legislation will not increase or decrease benefits or the participation in benefits or change actuarial liability of KTRS.

**Financing and Refinancing of Certain KTRS Obligations.** On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of “funding notes” and authorizing funding notes to be issued by the Kentucky Asset/Liability Commission (“ALCo”) for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the “Funding Obligation”). This authorization, together with certain authorizations in the Budget Act, authorized ALCo to issue Funding Notes during the 2010-12 biennium in an amount not to exceed \$875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its \$467.555 million

Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its \$269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. In addition, \$152.4 million of Funding Notes were authorized for this purpose in the State Budget for Fiscal Years 2013-2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

## ATTACHMENT D

COMMONWEALTH OF KENTUCKY  
ASSET/LIABILITY COMMISSION  
SCHEDULE OF NOTES OUTSTANDING  
AS OF 12/31/11

FUND TYPE SERIES TITLE	AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
<b>General Fund Project &amp; Funding Notes</b>				
2003 Series A	\$171,260,000	7/2003	7/2013	\$8,365,000
2005 1st Series	\$81,850,000	6/2005	5/2025	\$64,240,000
2007 A, B Series	\$243,080,000	5/2007	11/2027	\$216,475,000
2010 1st Series-KTRS Funding Notes	\$467,555,000	8/2010	4/2020	\$420,280,000
2011 1st Series-KTRS Funding Notes	\$269,815,000	3/2011	4/2022	\$269,815,000
<b>FUND TOTAL</b>	<b>\$1,233,560,000</b>			<b>\$979,175,000</b>
<b>Agency Fund Project Notes</b>				
2005 1st Series	\$11,275,000	6/2005	6/2025	\$9,185,000
2005 Series A-UK Gen Recpts	\$107,540,000	11/2005	10/2025	\$93,885,000
2006 Series A-UK Gen Recpts	\$66,305,000	10/2006	10/2022	\$52,835,000
2007 Series A-UK Gen Recpts	\$77,905,000	11/2007	10/2027	\$72,295,000
2007 Series B-UK Gen Recpts	\$80,245,000	11/2007	10/2027	\$75,515,000
<b>FUND TOTAL</b>	<b>\$343,270,000</b>			<b>\$303,715,000</b>
<b>Federal Hwy Trust Fund Project Notes</b>				
2005 1st Series	\$139,635,000	6/2005	9/2017	\$77,960,000
2007 1st Series	\$277,910,000	9/2007	9/2019	\$210,310,000
2010 1st Series	\$89,710,000	3/2010	9/2022	\$89,710,000
<b>FUND TOTAL</b>	<b>\$507,255,000</b>			<b>\$377,980,000</b>
<b>ALCo NOTES TOTAL</b>	<b>\$2,084,085,000</b>			<b>\$1,660,870,000</b>

ATTACHMENT E

General Fund and Road Fund Authorized But Unissued Debt

<u>Session Authorized</u>	<u>Agency</u>	<u>Project Description</u>	<u>Anticipated</u>		<u>Budgeted</u>
			<u>Tax Status</u>	<u>Bond Authorization</u>	<u>Rate</u>
<b>GENERAL AND TOBACCO FUND BONDS</b>					
2005	Governor's Office of Agricultural Policy	Kentucky Agriculture Finance Corporation - Loan Pool	TE	2,000,000	5.50%
2005	Kentucky Community Technical College System	LCC Classroom/Lab Building	TE	20,000,000	5.50%
2006	Kentucky Infrastructure Authority	Infrastructure for Economic Development Fund for Coal-Producing Counties	TE	10,000,000	5.50%
2006	Economic Development-Financial Incentives	Economic Development Bond Pool	TE	17,500,000	5.50%
2006	Finance-Facilities and Support Services	Capital Plaza Complex - Renovation and Design	TE	2,500,000	5.50%
2007(2nd)	Economic Development-Financial Incentives	Energy Bonds	T	95,000,000	6.50%
2008	Agriculture	Animal Shelters	TE	400,000	5.50%
2008	Governor's Office of Agricultural Policy	Kentucky Agriculture Heritage Center	TE	2,000,000	5.50%
2008	Department for Local Government	Flood Control Matching Funds	TE	2,200,000	5.50%
2008	Natural Resources	Heritage Land Conservation Fund - Additional	TE	3,311,040	5.50%
2008	Kentucky Community Technical College System	LCC Classroom/Lab Building-Additional for Eastern St Hospital Site	TE	4,000,000	5.50%
2010 Special	Kentucky Infrastructure Authority	Ky Infrastructure Authority- Fund A Federally Assisted Wastewater Revolving Loan Program	TE	17,700,000	5.50%
2010 Special	Kentucky Infrastructure Authority	Ky Infrastructure Authority-Fund F Drinking Water Revolving Loan Program	TE	9,000,000	5.50%
2010 Special	Kentucky Infrastructure Authority	Infrastructure for Ec-Dev Fund for Coal Producing Counties 06-08 Add'l	TE	955,100	5.50%
2010 Special	Kentucky Infrastructure Authority	Infrastructure for Ec-Dev Fund for Non-Coal Producing Counties 06-08 Add'l	TE	1,250,000	5.50%
2010 Special	Kentucky Infrastructure Authority	Infrastructure for Ec-Dev Fund for Coal Producing Counties 08-10 Add'l	TE	4,240,000	5.50%
2010 Special	Kentucky Infrastructure Authority	Infrastructure for Ec-Dev Fund for Non-Coal Producing Counties 08-10 Add'l	TE	10,584,700	5.50%
2010 Special	Department for Local Government	Flood Control - Matching Fund 2010-2012	TE	3,000,000	5.50%
2010 Special	Economic Development-Financial Incentives	Economic Development Bonds-Base Realignment and Closure (BRAC)	TE	26,495,000	5.50%
2010 Special	Economic Development-Financial Incentives	Economic Development Bonds	TE	7,500,000	5.50%
2010 Special	Economic Development-Financial Incentives	Kentucky Economic Development Finance Authority Loan Pool	T	25,000,000	6.50%
2010 Special	Environmental Protection	State Owned Dam Repair 2010-2012	TE	2,000,000	5.50%
2010 Special	Finance and Administration-Department of Revenue	Comprehensive Tax System - Additional	TE	4,500,000	5.50%
2010 Special	Health and Family Services-Behavioral Health	Oakwood Specialty Clinic	TE	1,964,000	5.50%
2010 Special	Energy & Environment-Office of Secretary	Ky Heritage Land Conservation Fund - Additional	TE	15,000,000	5.50%
2012	Kentucky Infrastructure Authority	KIA FUND A - Federally Assisted Wastewater Program 2012-2014	TE	1,500,000	5.50%
2012	Kentucky Infrastructure Authority	KIA FUND F - Drinking Water Revolving Loan Program 2012-2014	TE	2,200,000	5.50%
2012	Department for Local Government	Flood Control Matching Fund 2012-2014	TE	2,000,000	5.50%
2012	Department of Veterans' Affairs	Construct Fourth State Veteran's Nursing Home	TE	14,000,000	5.50%
2012	Energy and Environment Cabinet	Maxey Flats Cap	TE	17,000,000	5.50%
2012	Energy and Environment Cabinet	State-Owned Dam Repair 2012-2014	TE	2,500,000	5.50%
2012	Finance and Administration Cabinet	Maintenance Pool 2012-14	TE	6,000,000	5.50%
2012	Finance and Administration Cabinet	Statewide Microwave Network (KEWS) Maintenance	TE	2,200,000	5.50%
2012	Finance and Administration Cabinet	Parking Garage Maintenance	TE	1,500,000	5.50%
2012	Finance and Administration Cabinet	Council of State Government's Building Complex	TE	5,500,000	5.50%
2012	Health and Family Services Cabinet	Maintenance Pool 2012-14	TE	5,000,000	5.50%
2012	Health and Family Services Cabinet	Electrical Systems Upgrade at Western State Hospital- Design	TE	960,000	5.50%
2012	Health and Family Services Cabinet	Medicaid Eligibility System	TE	5,000,000	5.50%
2012	Justice and Public Safety Cabinet	Demolition and Construction of Training Academy Building	TE	2,000,000	5.50%
2012	Justice and Public Safety Cabinet	Maintenance Pool 2012-14	TE	5,500,000	5.50%
2012	Tourism Cabinet	Maintenance Pool 2012-14	TE	6,000,000	5.50%
2012	Tourism Cabinet	Upgrade Wastewater System-Fort Boonesborough	TE	2,000,000	5.50%
2012	Kentucky State Fair Board	Parking Garage Maintenance	TE	2,000,000	5.50%
				<b>370,959,840</b>	
<b>ROAD BONDS</b>					
2010 Special	Transportation Cabinet	Aviation Development	TE	10,500,000	5.50%

**General Fund and Road Fund Authorized But Unissued Debt**

<u>Session Authorized</u>	<u>Agency</u>	<u>Project Description</u>	<u>Anticipated</u> <u>Tax Status</u>	<u>Bond Authorization</u>	<u>Budgeted</u> <u>Rate</u>
2010 Special	Transportation Cabinet	Economic Development Road Bonds	TE	400,000,000	5.50%
2012 Special	Transportation Cabinet -Vehicle Regulation	Replace Kentucky Driving Licensing System (KDLIS)	TE	<u>12,500,000</u>	5.50%
	<b>TOTAL-ROAD FUND BONDS</b>			<b>423,000,000</b>	
	<b>TOTAL-ALL BOND PROJECTS</b>			<b><u><u>793,959,840</u></u></b>	

\* (TE) Tax-Exempt, (T) Taxable

## ATTACHMENT F

### Kentucky Preference Laws (KRS 45A.490-494)

The scoring of bids/proposals is subject to Reciprocal preference for Kentucky resident bidders and Preferences for a Qualified Bidder. \*Vendors not claiming resident bidder or qualified bidder status need not submit the corresponding affidavit.

#### Reciprocal preference for Kentucky resident bidders

##### **KRS 45A.490 Definitions for KRS 45A.490 to 45A.494.**

As used in KRS 45A.490 to 45A.494:

- (1) "Contract" means any agreement of a public agency, including grants and orders, for the purchase or disposal of supplies, services, construction, or any other item; and
- (2) "Public agency" has the same meaning as in KRS 61.805.

##### **KRS 45A.492 Legislative declarations.**

The General Assembly declares:

- (1) A public purpose of the Commonwealth is served by providing preference to Kentucky residents in contracts by public agencies; and
- (2) Providing preference to Kentucky residents equalizes the competition with other states that provide preference to their residents.

##### **KRS 45A.494 Reciprocal preference to be given by public agencies to resident bidders -- List of states -- Administrative regulations.**

- (1) Prior to a contract being awarded to the lowest responsible and responsive bidder on a contract by a public agency, a resident bidder of the Commonwealth shall be given a preference against a nonresident bidder registered in any state that gives or requires a preference to bidders from that state. The preference shall be equal to the preference given or required by the state of the nonresident bidder.
- (2) A resident bidder is an individual, partnership, association, corporation, or other business entity that, on the date the contract is first advertised or announced as available for bidding:
  - (a) Is authorized to transact business in the Commonwealth; and
  - (b) Has for one (1) year prior to and through the date of the advertisement, filed Kentucky corporate income taxes, made payments to the Kentucky unemployment insurance fund established in KRS 341.490, and maintained a Kentucky workers' compensation policy in effect.
- (3) A nonresident bidder is an individual, partnership, association, corporation, or other business entity that does not meet the requirements of subsection (2) of this section.
- (4) If a procurement determination results in a tie between a resident bidder and a nonresident bidder, preference shall be given to the resident bidder.
- (5) This section shall apply to all contracts funded or controlled in whole or in part by a public agency.

(6) The Finance and Administration Cabinet shall maintain a list of states that give to or require a preference for their own resident bidders, including details of the preference given to such bidders, to be used by public agencies in determining resident bidder preferences. The cabinet shall also promulgate administrative regulations in accordance with KRS Chapter 13A establishing the procedure by which the preferences required by this section shall be given.

(7) The preference for resident bidders shall not be given if the preference conflicts with federal law.

(8) Any public agency soliciting or advertising for bids for contracts shall make KRS 45A.490 to 45A.494 part of the solicitation or advertisement for bids.

The reciprocal preference as described in KRS 45A.490-494 above shall be applied in accordance with 200 KAR 5:400.

### **Determining the residency of a bidder for purposes of applying a reciprocal preference**

Any individual, partnership, association, corporation, or other business entity claiming resident bidder status shall submit along with its response the attached Required Affidavit for Bidders, Offerors, and Contractors Claiming Resident Bidder Status. The BIDDING AGENCY reserves the right to request documentation supporting a bidder's claim of resident bidder status. Failure to provide such documentation upon request shall result in disqualification of the bidder or contract termination.

A nonresident bidder shall submit, along with its response, its certificate of authority to transact business in the Commonwealth as filed with the Commonwealth of Kentucky, Secretary of State. The location of the principal office identified therein shall be deemed the state of residency for that bidder. If the bidder is not required by law to obtain said certificate, the state of residency for that bidder shall be deemed to be that which is identified in its mailing address as provided in its bid.

**REQUIRED AFFIDAVIT FOR BIDDERS, OFFERORS AND CONTRACTORS**  
**CLAIMING RESIDENT BIDDER STATUS**

**FOR BIDS AND CONTRACTS IN GENERAL:**

The bidder or offeror hereby swears and affirms under penalty of perjury that, in accordance with KRS 45A.494(2), the entity bidding is an individual, partnership, association, corporation, or other business entity that, on the date the contract is first advertised or announced as available for bidding:

1. Is authorized to transact business in the Commonwealth;
2. Has for one year prior to and through the date of advertisement
  - a. Filed Kentucky income taxes;
  - b. Made payments to the Kentucky unemployment insurance fund established in KRS 341.49; and
  - c. Maintained a Kentucky workers' compensation policy in effect.

The BIDDING AGENCY reserves the right to request documentation supporting a bidder's claim of resident bidder status. Failure to provide such documentation upon request shall result in disqualification of the bidder or contract termination.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

Company Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Subscribed and sworn to before me by \_\_\_\_\_  
(Affiant) (Title)

of \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.  
(Company Name)

\_\_\_\_\_  
Notary Public

[seal of notary]

My commission expires: \_\_\_\_\_