# Semi-Annual Report of the Kentucky Asset/Liability Commission

36TH EDITION

Steven L. Beshear

Governor

Commonwealth of Kentucky

Lori H. Flanery

Secretary

Finance and Administration Cabinet

Ryan Barrow

Executive Director

Office of Financial Management

*For the period ending December 31, 2014*

This report may be viewed at:

http://finance.ky.gov/services/ofm/Pages/semi-annualreports.aspx

The Commonwealth's Comprehensive Annual Financial Report (CAFR)
may be viewed at:

http://finance.ky.gov/services/statewideacct/Pages/ReportsandPublications.aspx

The Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) website is located at:

http://emma.msrb.org/

## TABLE OF CONTENTS

# INTRODUCTION

This is the Kentucky Asset/Liability Commission's (ALCo or the Commission) thirty-sixth semi-annual report pursuant to KRS 56.863 (11) for the period beginning July 1, 2014 through December 31, 2014. Several factors on both the state and national level had an impact on activity during the reporting period. The most significant factors were:

**On the national level**

- The Federal Reserve ended the quantitative easing program of purchasing government securities and is indicating that short interest rates will soon "lift off" from 0% as the move to more normal levels begins.
- Job creation has jumped significantly as over 3 million jobs were created in 2014 with a strengthening trend headed into year-end matched with increasing real wages.
- The price of oil dropped over 50% during the second half of the year bringing meaningful price relief at the gas pump. Although this hurts the energy industry, the consumer relief outweighs that impact.
- The value of the dollar related to foreign currencies rose significantly during the last 6 months driven in large part by weakness in Europe and China.

**On the state level**

- General Fund receipts increased 3.5% for the first six months of Fiscal Year (FY) 2015 compared to the same timeframe in FY 2014.
- Increases were realized in the General Fund in spite of declines in sales and property taxes and only moderate growth in individual income tax collections.
- General Fund official revenue estimates by the Consensus Forecast Group (CFG) for FY 2015 are $9,801.2 million and $10,046.6 million for FY 2016. The Office of the State Budget Director is projecting General Fund collections to increase $8.0 million over the enacted estimate to a total of $9,809.2 million.
- Road Fund receipts increased 1.1% for the first six months of FY 2015 compared to the same timeframe in FY 2014.
- The CFG official estimates for Road Fund revenues for FY 2015 are $1,546.7 million and $1,558.4 million for FY 2016.
- Because of a substantial decline in the price of motor fuels, growth in Road Fund revenues is expected to decline significantly over the final six months of the fiscal year and then fall even more in the first quarter of FY16.
- Unemployment rates in several regions of the Bluegrass remain above the national average; however, Kentuckians' wage and salary growth is projected to grow at a faster pace of the U.S. as a whole over the next three quarters.
- Implementation of bond authorizations from prior-year sessions of the General Assembly continues.

# INVESTMENT MANAGEMENT

## *MARKET OVERVIEW*

The last 6 months have been marked by several strong trends which indicate the possibility that the economy may soon experience a period of rapid expansion. However, there are still headwinds that need to be overcome. The first trend is the price of oil. As measured by the price for West Texas Sour Crude (USCRWTSM Index), the price has fallen over 51% from a high of $102.06 on June 13, to end the year at $49.67. Because the US is still a net energy importer, the benefit to consumption outweighs the harm to producers.

Paralleling this drop in oil prices is a rapid rise in the value of the dollar compared to other currencies. Without opining on the causal relationship, the price of oil and the value of the dollar normally are inversely related. When the price of oil is falling, the price of a dollar, measured in other currencies, will generally rise. This relationship is driven by the fact that most international oil transactions are denominated in dollars. Measured against an exchange (DXY Curncy) weighted index of major world currencies, the value of the dollar has risen 13% from June 30, 2014, to the end of the year.

The third major trend has been a marked increase in the pace of job creations. In 2011, 2012, and 2013, slightly over 2 million jobs were created each year as measured by the change in non-farm payroll. In 2014, over 3 million jobs were created with the pace of creations accelerating through the year. In fact the November increase of 423,000 jobs was the strongest single month, excluding the months of decennial census hires, since 1997.

Related to the increased job creation is an increase in real wages. The growth in wages on a nominal basis has settled in at slightly over 2%, year over year (AHE YOY% Index). The drop in oil prices has caused inflation to fall with some measures indicating negative inflation. On an inflation adjusted basis, this translates into a substantial acceleration of real wages.

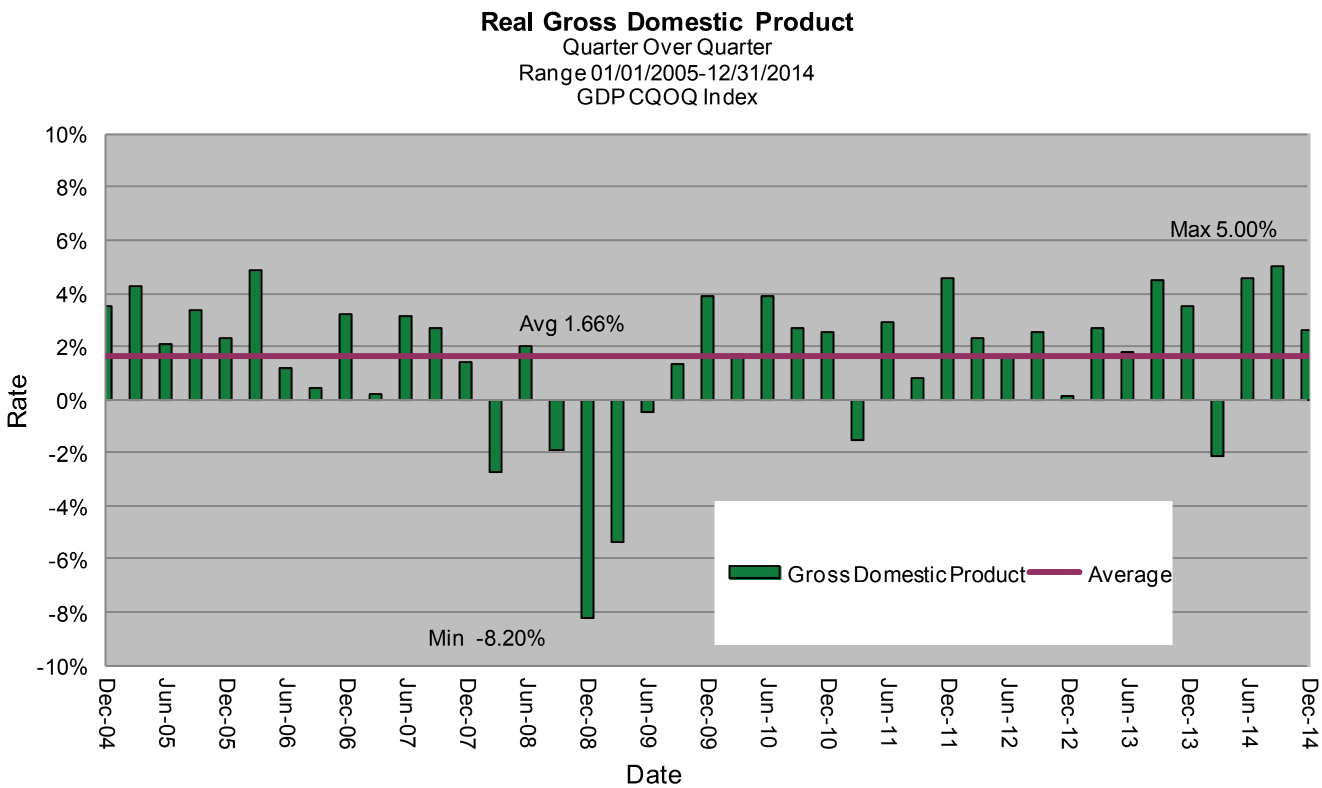
Roughly 70% of gross domestic product is consumption. The drop in oil prices, translating into dropping gasoline prices, plus the increasing number of employed people and increasing wages lead to a meaningful jump in real consumption. Real personal consumption (GDPCTOT% Index) jumped 4.3% in the 4th quarter of 2014. This is the strongest growth since 2006 and the strongest 6 month period since 2004.

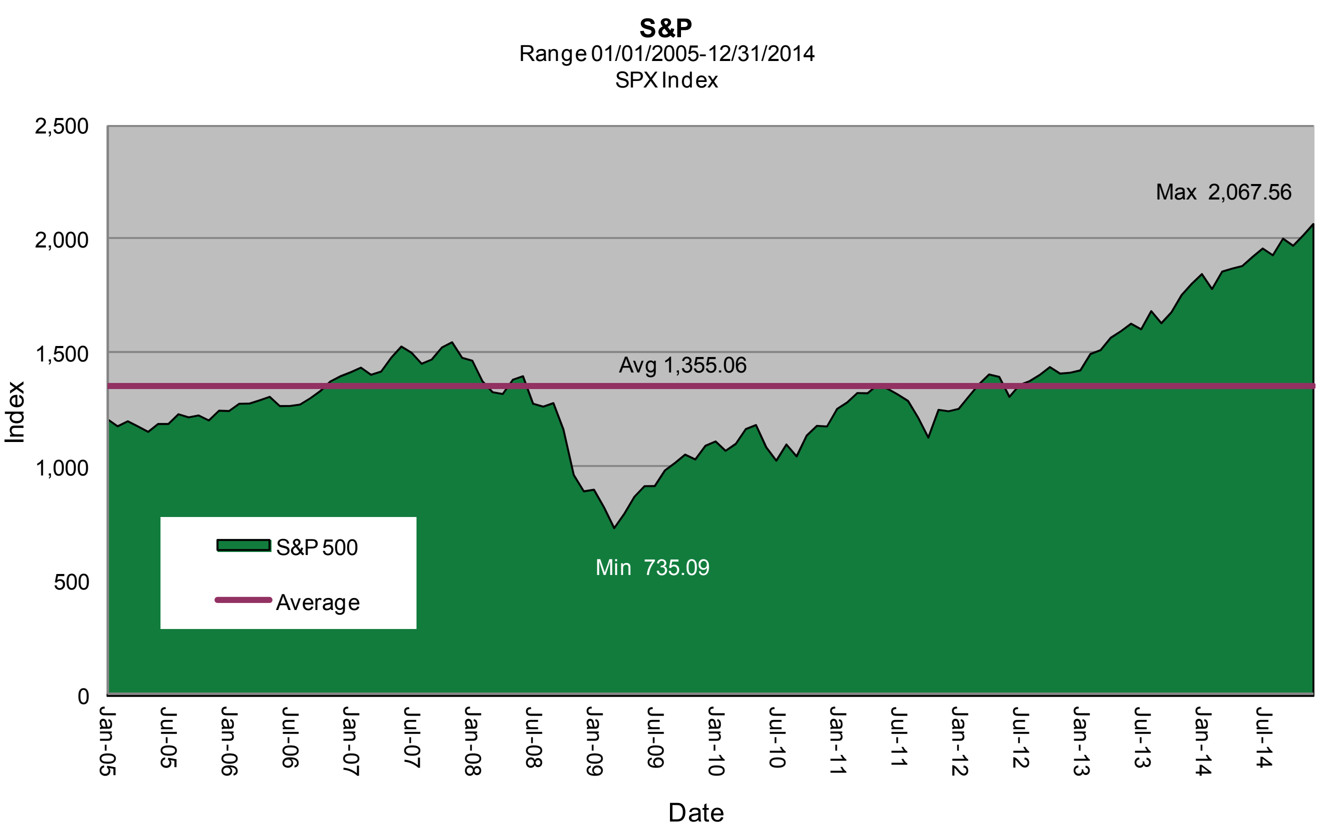
All of these trends have come together to generate an uptick in economic growth. Real GDP grew 5.0% in the third quarter and 2.6% in the fourth quarter. The fourth quarter dropped because the trade deficit increased (strong dollar), business investment declined (falling oil prices) and government spending fell (primarily variability in defense spending). While the first two factors will continue to be a drag on the economy, the previously noted strength in consumption leads to the expectation of improving economic growth moving forward.

The Federal Reserve Board has noted the economic strength and growing recovery. In October, they ended the quantitative easing program (purchasing of government securities) and began indicating an approaching "lift off" from zero interest rates as they strive to "normalize" interest rates. The largest questions going forward are when is the first move and how high will they ultimately go. Most, but by no means all, projections are for the first move in either June of 2015 or the third quarter reaching the long range target by the end of 2017 at roughly 4%. It should be noted that there is a great deal of uncertainty in the path to the long run rate and how high it will be. As always, Fed actions are driven by economic conditions.

# INVESTMENT MANAGEMENT

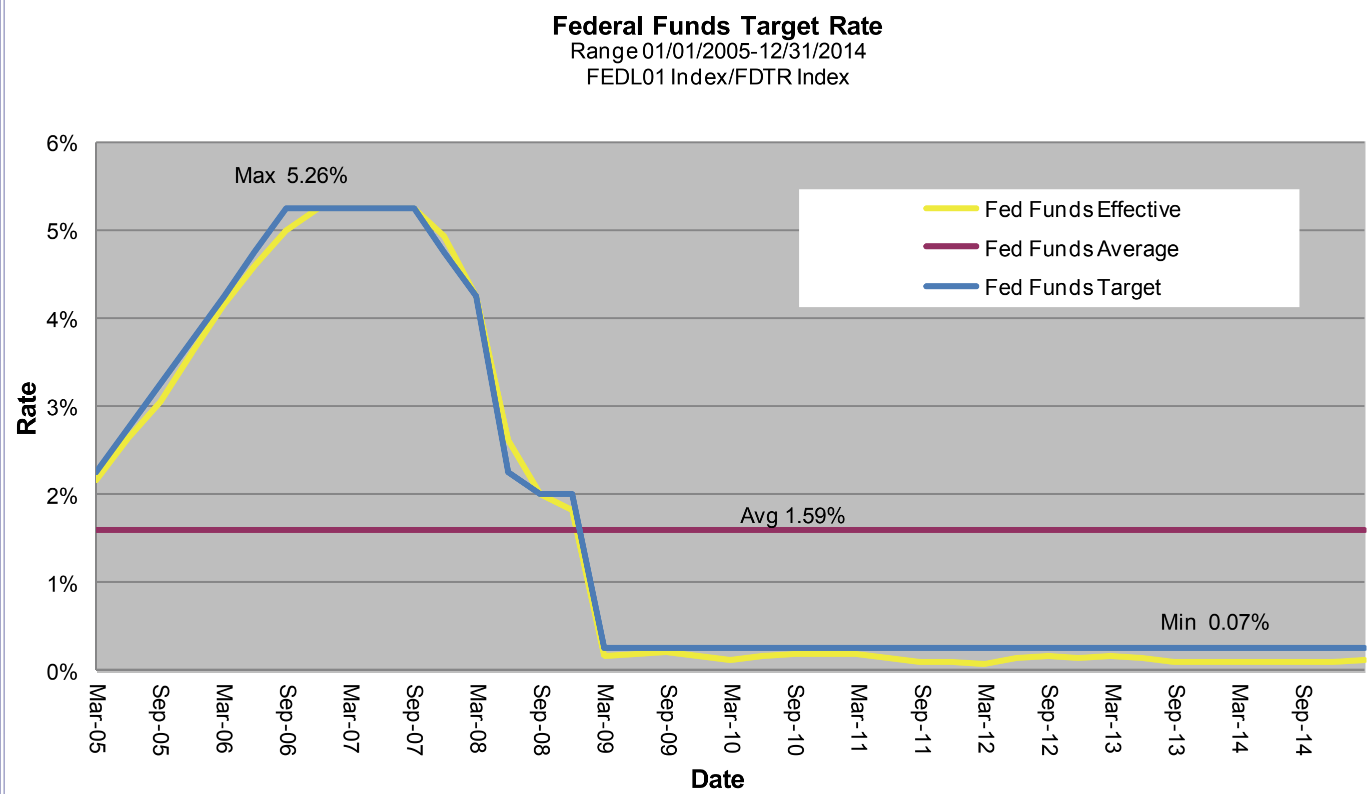
## Real Gross Domestic Product & S&P 500

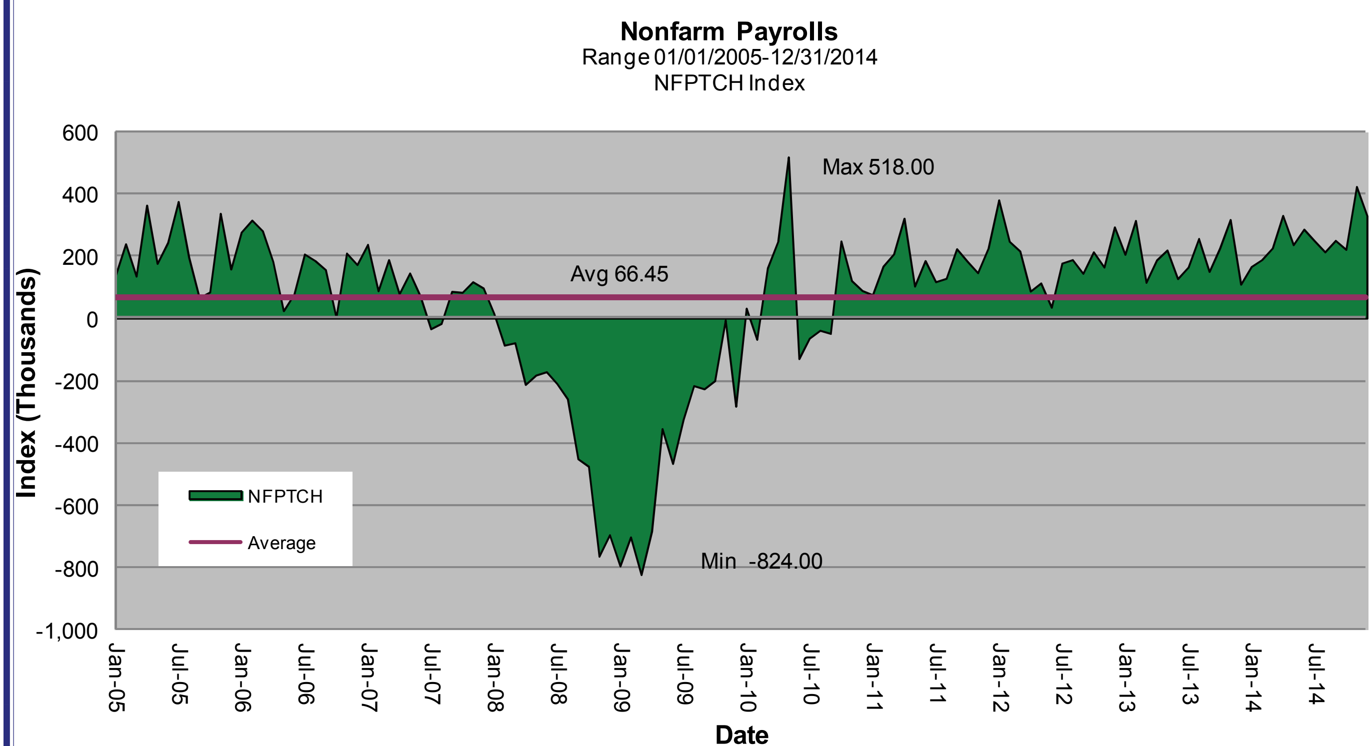


# INVESTMENT MANAGEMENT

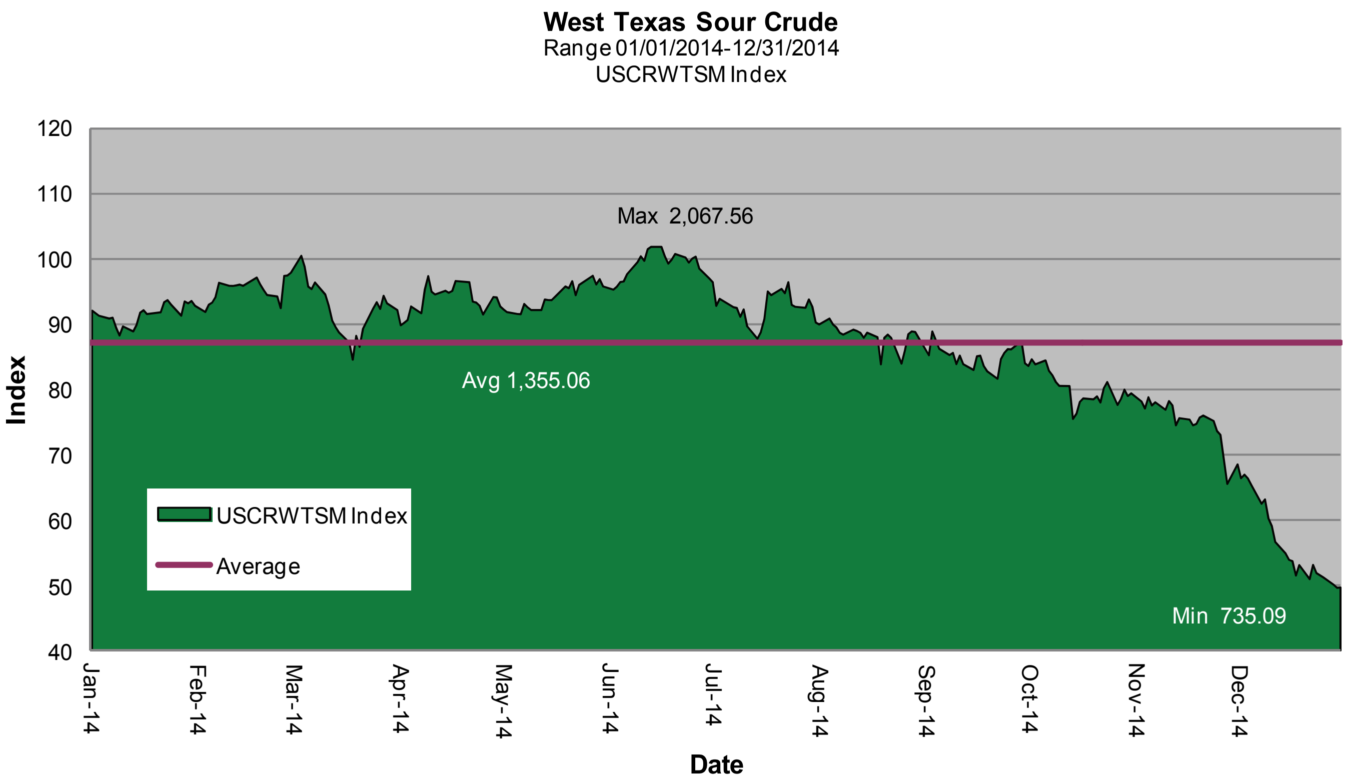
## Federal Funds Target Rate & NonFarm Payrolls

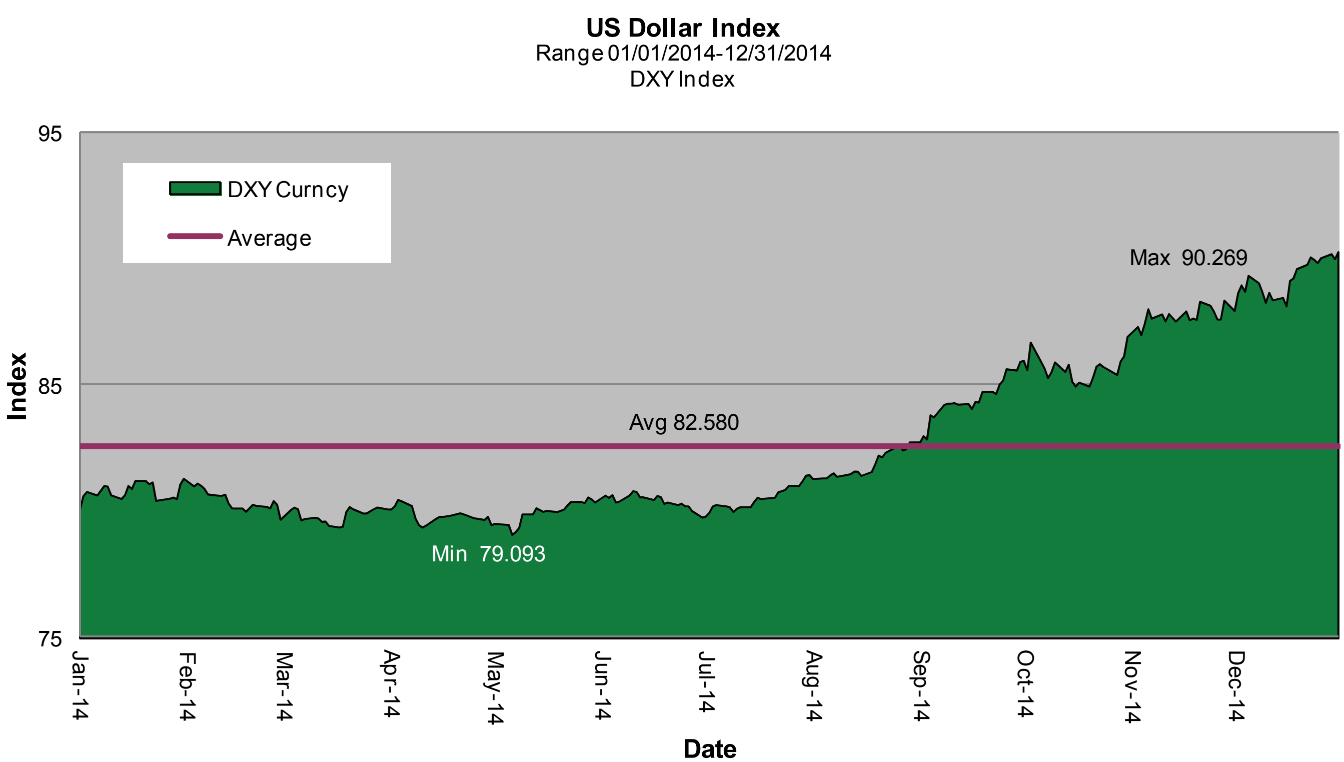


# INVESTMENT MANAGEMENT

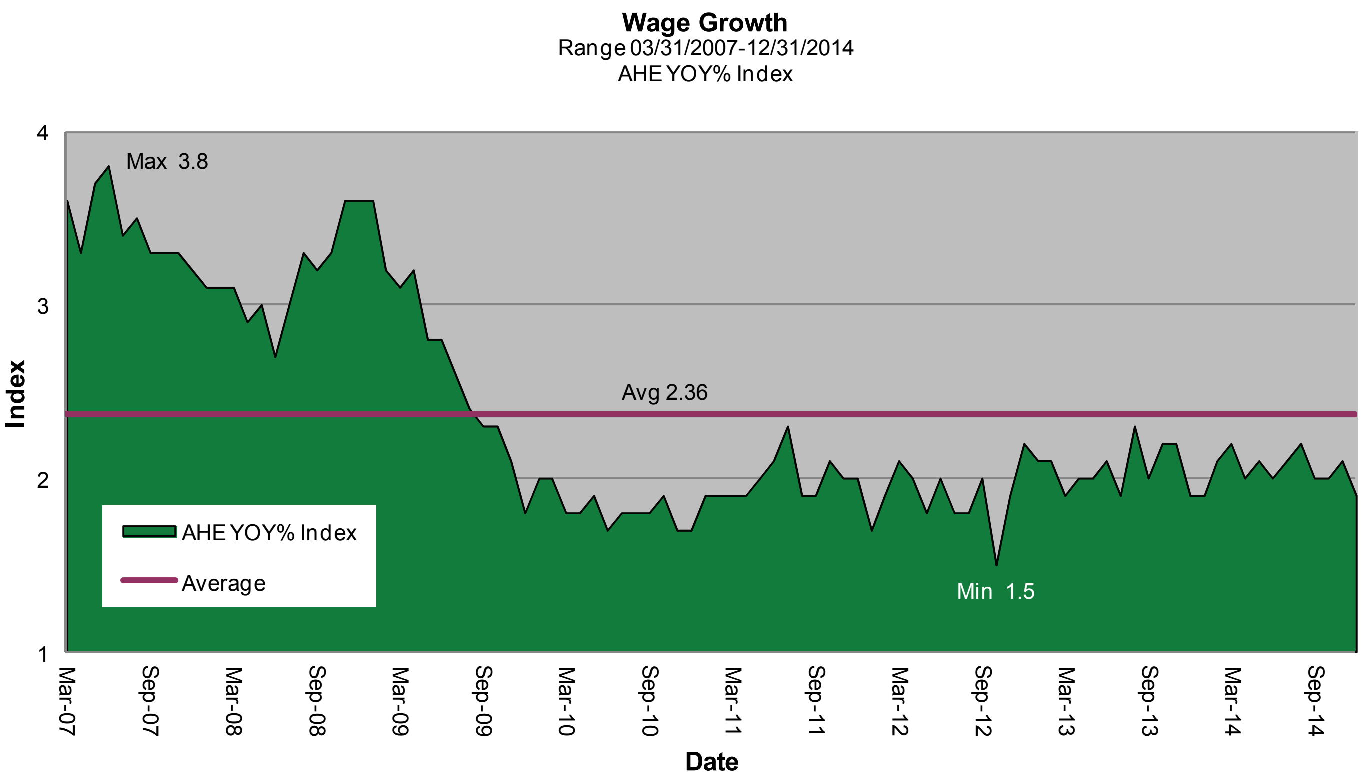
## West Texas Sour Crude & US Dollar Index

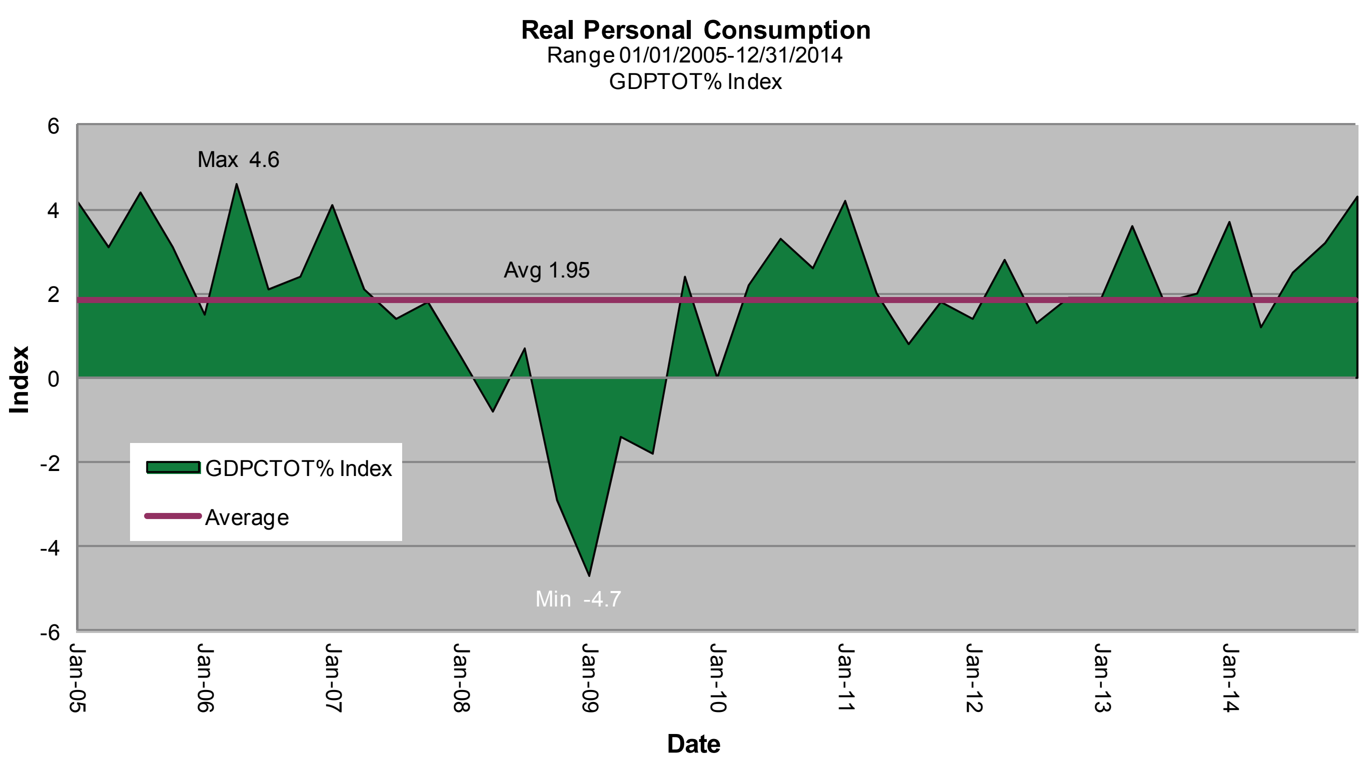


# INVESTMENT MANAGEMENT

## Wage Growth & Real Personal Consumption



# INVESTMENT MANAGEMENT

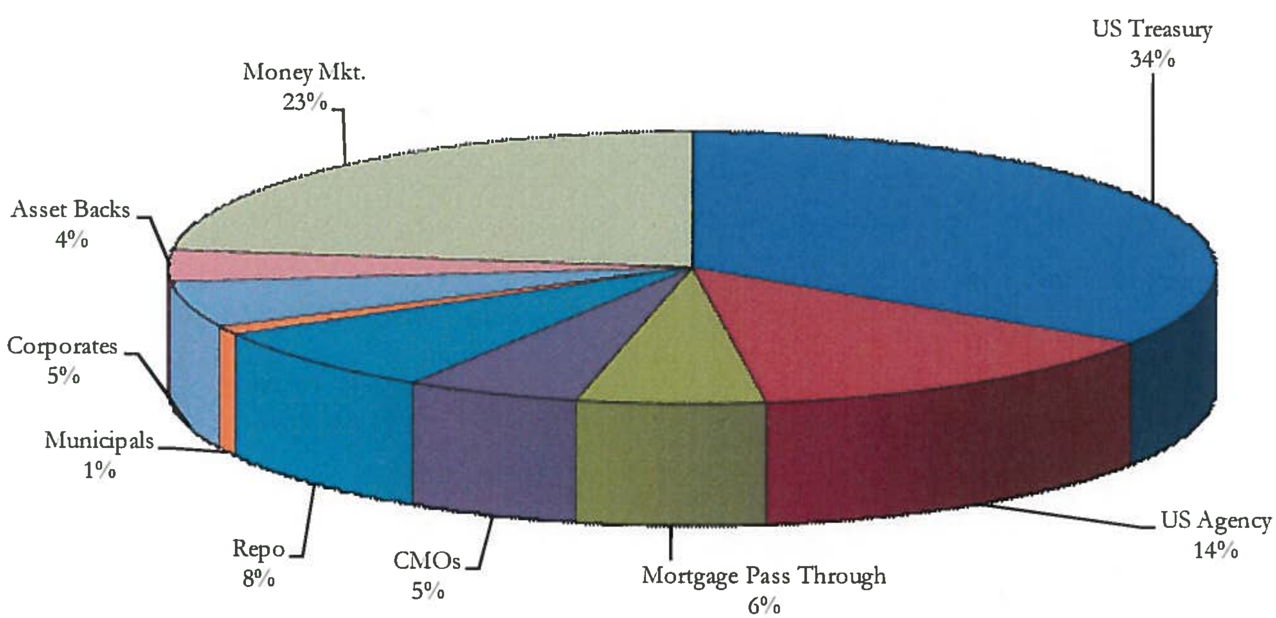
## *PORTFOLIO MANAGEMENT*

For six months ended December 31, 2014, the Commonwealth's investment portfolio averaged $3.5 billion. As of December 31, 2014, the portfolio was invested in U. S. Treasury Securities (34 percent), U. S. Agency Securities (14 percent), Mortgage Pass Through Securities (6 percent), Collateralized Mortgage Obligations (5 percent), Repurchase Agreements (8 percent), Municipal Securities (1 percent), Corporate Securities (5 percent), Asset-Backed Securities (4 percent), and Money Market Securities (23 percent). The portfolio had a market yield of 0.44 percent and an effective duration of 0.76 years.

The total portfolio is broken down into four investment pools. The pool balances as of December 31, 2013, were: Short Term Pool – ($395) million, Limited Term Pool - $1,186 million, Intermediate Term Pool - $2,324 million, and Bridges Pool - $330 million.

For the six months ended December 31, 2014, total investment income was $6.6 million compared to $3.9 for the six months ended December 31, 2013.

**Distribution of Investments as of December 31, 2014**

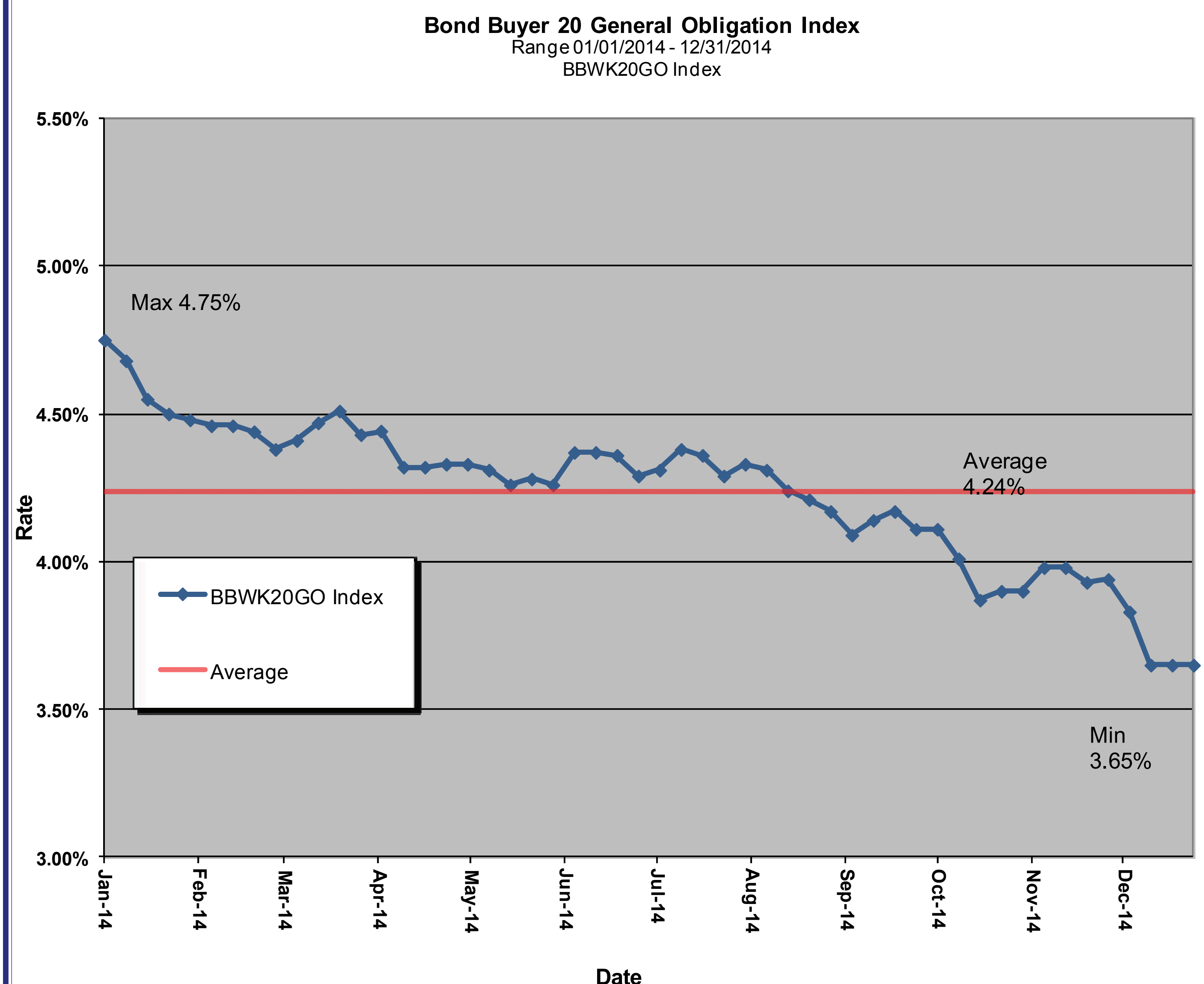


# INVESTMENT MANAGEMENT

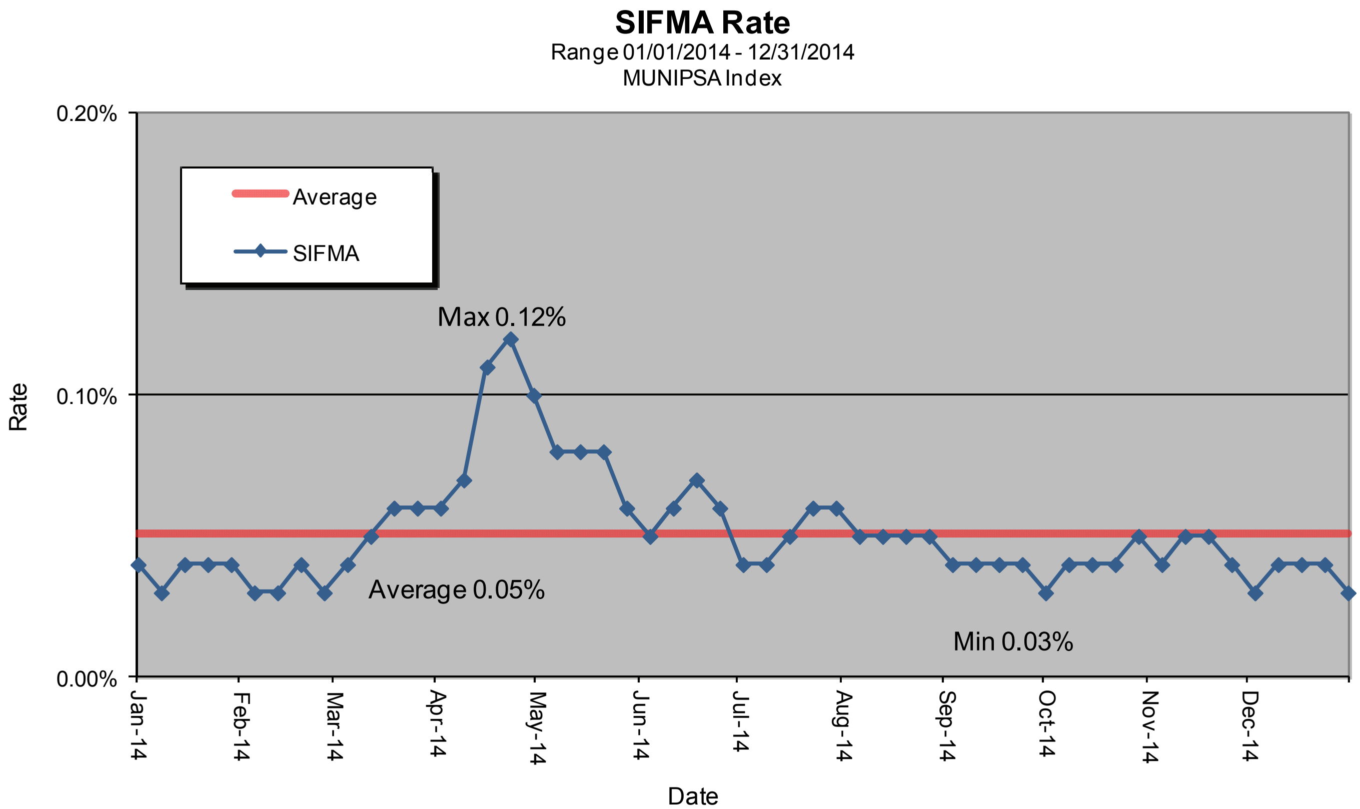
## *Tax-Exempt Interest Rates and Relationships*

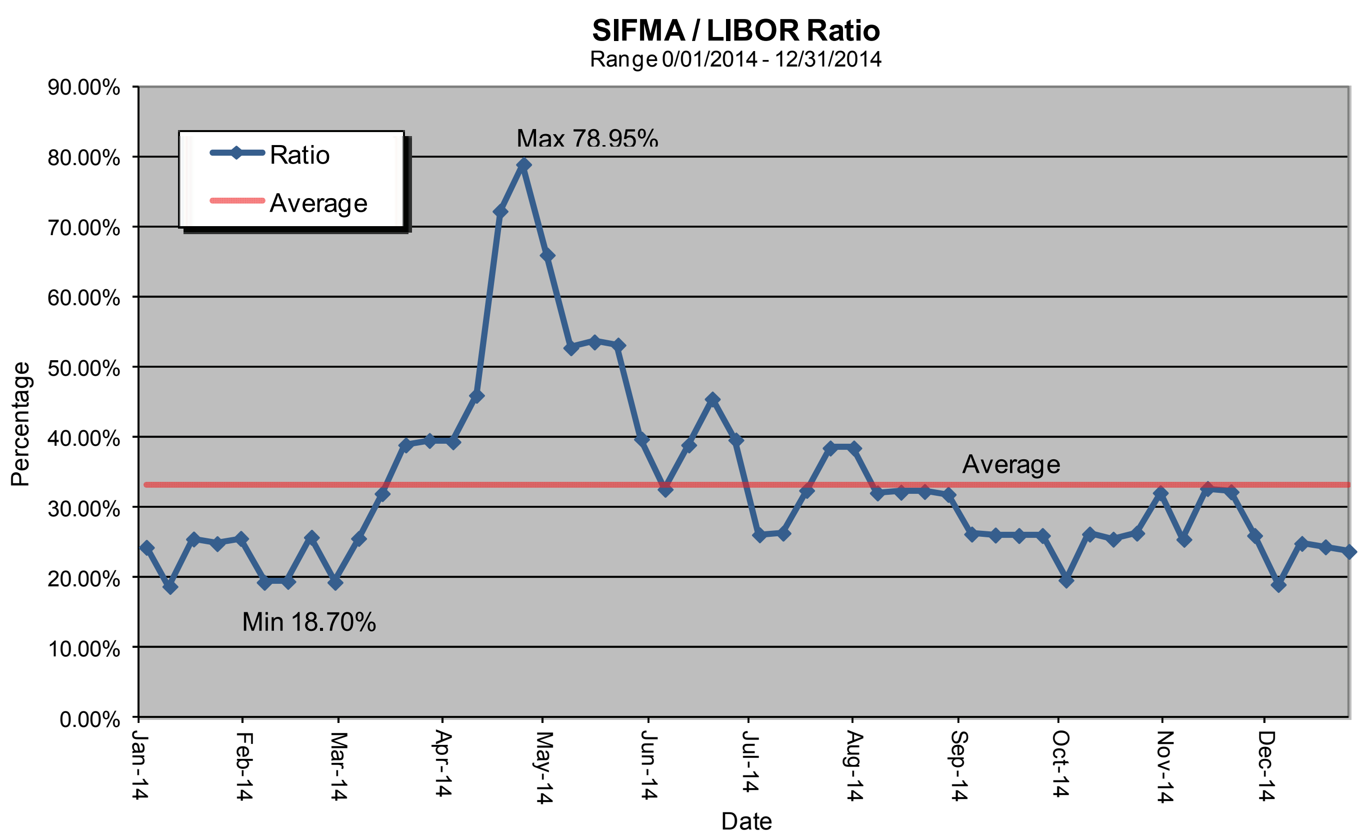
The Bond Buyer 20-year General Obligation Index averaged 4.24% for Calendar Year 2014. The high was 4.75% in January 2014 and the low was 3.65% at December 2014.

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index averaged 0.051% for Calendar Year 2014. The high was 0.12% at the end of April 2014; the low was 0.03% in January and December 2014. The 30-day USD London Interbank Offered Rate (LIBOR) averaged 0.155% for Calendar Year 2014. The Calendar Year high was 0.171% in December of 2014, the low was 0.148% in May of 2014. During the year, SIFMA traded at a high of 78.95% of the 30-day LIBOR in April 2014, at a low of 18.70% in January 2014, and at an average of 33.25% for the year. The year ended with SIFMA at 23.70% of the 30-day LIBOR.



# SIFMA & SIFMA/LIBOR Ratio



# DEBT MANAGEMENT

The 2010 Extraordinary Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) to the Governor on May 28, 2010 and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorized bond financing for projects totaling $1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, $507.4 million was General Fund supported, $522.5 million was supported by Road Fund appropriations, $515.3 million was Agency Restricted Fund supported, and $435 million was Federal Highway Trust Fund supported and designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. A portion of the General Fund, Road Fund, Agency Restricted Fund, and Federal Fund authorizations listed above have been permanently financed.

The 2012 Regular Session of the General Assembly delivered House Bill 265 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 30, 2012 and House Bill 2 (Kentucky Transportation Cabinet Budget) to the Governor on April 20, 2012, establishing an Executive Branch Budget for the biennium ending June 30, 2014. Governor Beshear took final action on House Bill 265 on April 13, 2012 and took final action on House Bill 2 on May 2, 2012. Together, the bills authorized bond financing for projects totaling $238.86 million to support various capital initiatives of the Commonwealth. Of the total authorization, $182.86 million is General Fund supported, $12.5 million is supported by Road Fund appropriations, $43.5 million is Agency Restricted Fund supported. In addition, the 2012 Regular Session authorized $152.4 million of Funding Notes to finance the state-supported share of healthcare benefit contributions for Fiscal Years 2013 and 2014 to the Kentucky Teachers' Retirement System. A portion of the General Fund and the Agency Restricted Fund authorizations listed above have been permanently financed.

The 2013 Regular Session of the General Assembly delivered House Bill 7 to the Governor on February 20, 2013 authorizing a list of capital projects for the Kentucky state universities. Governor Beshear took final action on House Bill 7 on February 21, 2013. The bill authorized bond financing for various university capital projects totaling $363.3 million to support various capital initiatives of the state universities, which are Agency Fund supported, of which $9.6 million is still authorized to be issued.

In addition, House Bill 238 was signed by the Governor on March 22, 2013 authorizing an Agency Fund bond supported capital project for the Judicial Branch in conjunction with the Administrative Office of the Courts for financing of Phase I E-Case and Docket Management system capital project totaling $28.1 million to be issued through Kentucky State Property and Buildings Commission or the Kentucky Asset/Liability Commission. An interim loan through the State's Master Lease program has been put in place for a portion of this authorization until the project is ready for permanent financing.

The 2014 Regular Session of the General Assembly delivered House Bill 235 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 31, 2014 and House Bill 236 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2014, establishing an Executive Branch Budget for the biennium ending June 30, 2016. Governor Beshear took final action on House Bill 235 on April 11, 2014 and took final action on

# DEBT MANAGEMENT

House Bill 236 on April 25, 2014. Together, the bills authorize bond financing for projects totaling a net amount of $1,364.05 million to support various capital initiatives of the Commonwealth due to $105 million in previously authorized debt that was de-authorized in House Bill 235. Of the total authorization, $742.77 million is General Fund supported, $721.28 million is supported by Agency Restricted Fund appropriations, and $5.0 million is Road Fund supported.

The balance of bond authorizations of the General Assembly prior to and including the 2014 Regular Session totals $2,025.92 million. Of these prior authorizations, $851.94 million is General Fund supported, $776.48 million is Agency Restricted Fund supported, $217.50 million is supported by road Fund appropriations and $180 million is Federal Highway Trust Fund supported. The table below summarizes, in aggregate, the information in connection with authorized but unissued debt of the Commonwealth as of December 31, 2014.

Interim note financing through ALCo has not been available over the past few years due primarily to increased funding costs related to credit facilities for this type of program. However, ALCo continues to analyze potential interim borrowing structures and may look to reestablish this type of program in the future, if economically beneficial, to provide interim construction financing for the balance of the authorizations discussed above as well as future authorizations, as necessary.

| Legislative Session (Year) | General Fund (millions) | Road Fund (millions) | Agency Fund (millions) | Federal Fund (millions) | TOTAL (millions) |
|---|---|---|---|---|---|
| 2010 and prior | $78.65 | $200.00 | $17.50 | $180.00 | $476.15 |
| 2012 | 30.52 | 12.50 | | | 43.02 |
| 2013 | | | 37.70 | | 37.70 |
| 2014 | 742.77 | 5.00 | 721.28 | | 1469.05 |
| TOTAL | $851.94 | $217.50 | $776.48 | $180.00 | $2,025.92 |

# DEBT MANAGEMENT

## *Ratings Update*

The rating agencies continually monitor the Commonwealth's budgetary policies and actual performance in areas such as revenue, the economy, pensions, and debt management. Unemployment and the softening in the national and state economies over the past few years in addition to pension obligation questions have continued to put pressure on the Commonwealth's credit ratings. During the reporting period there were no ratings changes or affirmations.

The current ratings picture is:

| | Moody's | S & P | Fitch |
|---|---|---|---|
| General Obligation Issuer Rating | Aa2 | AA- | AA- |
| General Fund Appropriation Rating | Aa3 | A+ | A+ |
| Road Fund Appropriation Rating | Aa2 | A+ | A+ |
| Federal Highway Trust Fund Appropriation Rating | Aa3 | AA | A+ |
| State Property and Buildings Commission (GF) | Aa3 | A+ | A+ |
| Turnpike Authority of Kentucky | Aa2 | AA+ | A+ |
| ALCo Federal Highway Trust Fund Project Notes | Aa3 | AA | A+ |

# DEBT MANAGEMENT

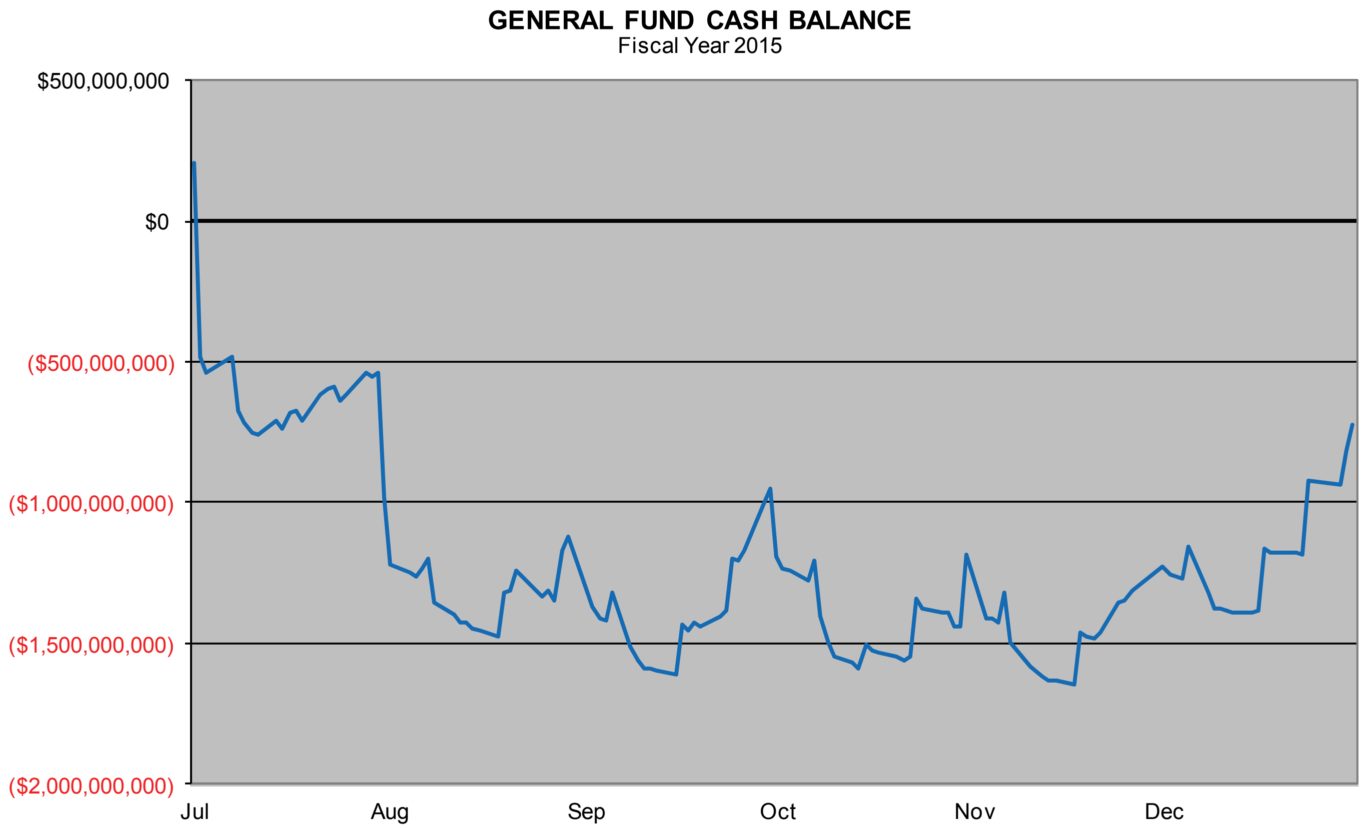
## *Tax and Revenue Anticipation Notes (TRAN)*

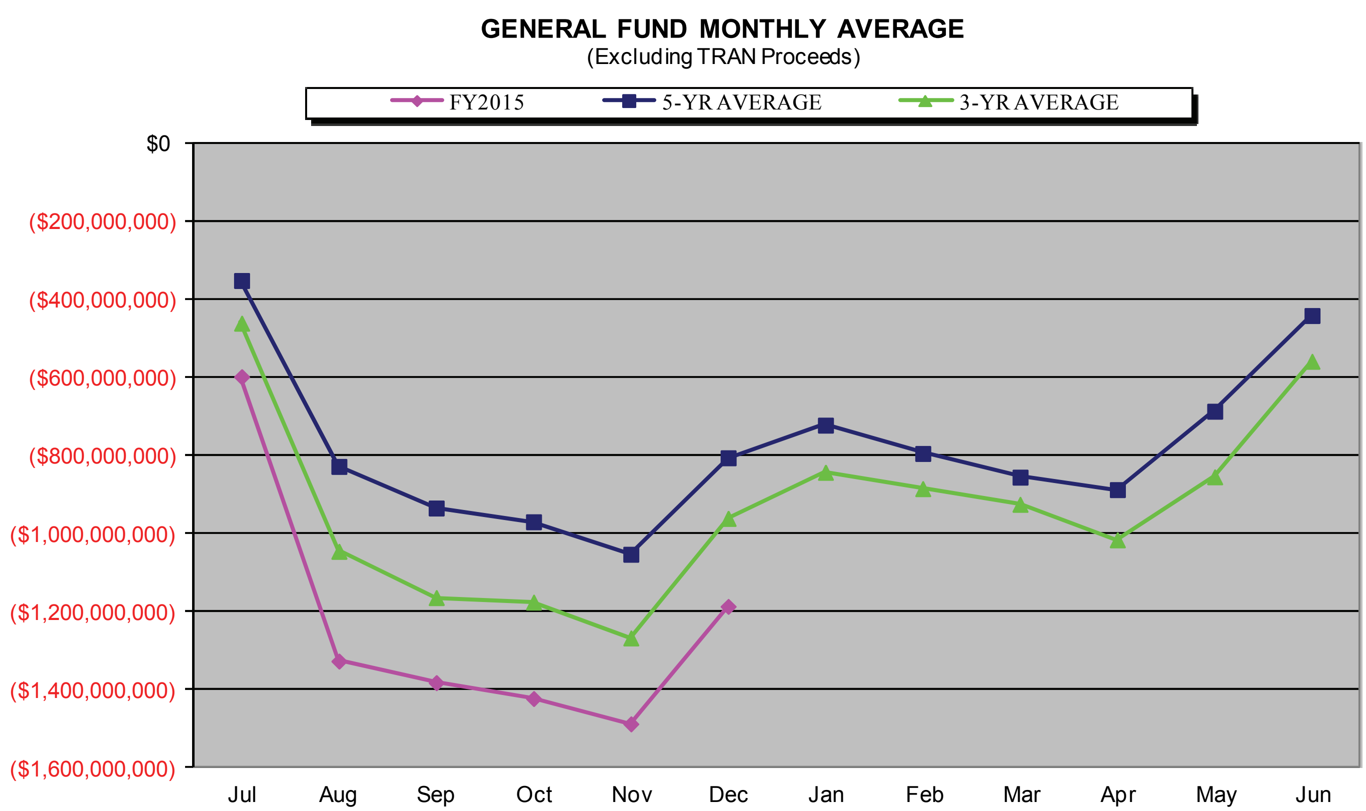
No General Fund TRAN was issued for Fiscal Year 2015. As in the previous five fiscal years, current reinvestment yields on TRAN proceeds would not be significantly higher than the cost of funds for a TRAN. At this time, borrowing internally from the state investment pools continues to be the most efficient and cost-effective way to provide short-term liquidity to the General Fund.

| Fiscal Year | TRAN size | Economic Benefit |
|---|---|---|
| 1998 | 200 | 3.2 |
| 1999 | 300 | 4.7 |
| 2000 | 400 | 7.3 |
| 2001 | 550 | 6.5 |
| 2002 | 650 | 4.3 |
| 2003 | 500 | 0.3 |
| 2004 | NA | NA |
| 2005 | 500 | 2.8 |
| 2006 | 600 | 6.0 |
| 2007 | 150 | 2.8 |
| 2008 | 350 | 5.9 |
| 2009 | 400 | 7.1 |
| 2010 | NA | NA |
| 2011 | NA | NA |
| 2012 | NA | NA |
| 2013 | NA | NA |
| 2014 | NA | NA |
| 2015 | NA | NA |

**($ in millions)**

# DEBT MANAGEMENT



# DEBT MANAGEMENT

## *FINANCIAL AGREEMENTS*

As of December 31, 2014, ALCo had four financial agreements outstanding, with a net notional exposure amount of $197.875 million. These financial agreements are described in the section below and the terms of these transactions are detailed in Appendix A. No additional financial agreements were executed during the reporting period.

### General Fund – Floating Rate Note Hedges

In May, 2007, ALCo issued $243.08 million of Floating Rate Notes (FRNs) to permanently finance $100 million of General Fund bond supported projects and to advance refund certain outstanding SPBC bonds for present value savings. The transaction entailed ALCo issuing four FRNs, each paying a rate of interest indexed to 3-Month LIBOR plus a fixed spread. Integrated into the transaction were four separate interest rate swaps which perfectly hedge the floating rates on the FRNs and lock in a fixed rate payable by ALCo on the transaction. The terms of the four interest rate swaps exactly match the notional amount, interest rate, and amortization schedule of the four FRNs and allowed ALCo to elect "super-integrated" tax status on the transaction, whereby it receives similar tax treatment as a fixed rate bond issue under IRS rules.

Under the FRN transaction, the Notes and interest rate swaps were each insured under separate policies by FGIC, which maintained an Aaa/AAA credit rating at the time from Moody's and S&P. Under the terms of the original interest rate swaps, the counterparty (Citibank) could optionally terminate the agreements if the insurer's claims paying rating fell below an A3/A- level. Subsequent to the transaction, FGIC was downgraded multiple times by the credit rating agencies and currently are no longer rated. In December 2008, MBIA (rated A2 by Moody's at the time) reinsured FGIC's municipal insurance portfolio providing additional coverage on the transaction. However, MBIA Insurance Corporation's credit rating was also subsequently downgraded on multiple occasions and is currently rated B3/B by Moody's and S&P. In February of 2009, MBIA established a new U.S. public finance financial guaranty insurance company known as National Guaranty Public Finance Corporation (National). National, at no additional charge, provided reinsurance on the FRNs and related swaps. However, on December 22, 2010, S&P downgraded National from A to BBB leaving both of National's claims paying ratings below the required A3/A- level (National is currently rated Baa1 by Moody's).

In early 2011, ALCo spent considerable time working with Citibank and other parties analyzing a variety of remedies that would prevent the potential early termination of the interest rate swaps. After much consideration, ALCo determined the preferred remedy was one offered by Citibank whereby the remaining notional amount of each interest rate swap would be assigned to a new counterparty under the existing financial terms and at no cost to ALCo or the Commonwealth. On February 14, 2011, ALCo, Citibank and the new counterparty, Deutsche Bank AG, executed the assignment of the remaining notional balances of each swap to Deutsche Bank. The terms of the new interest rate swaps with Deutsche Bank were identical to the original swaps, with two exceptions; 1) the new swaps were not insured and there were no insurer provisions contained in the new agreements, and 2) the credit rating triggers under the automatic termination provisions were now symmetrical for both counterparties (ALCo and Deutsche Bank) at A3/A-. Under the original swaps, ALCo's credit rating triggers were Baa2/BBB, but rating recalibrations by the rating agencies, whereby municipal issuers are now rated on the same scale as corporations and other debt issuing entities, have facilitated the need for equal credit rating triggers for both parties. Subsequent to the current reporting period, the credit rating triggers were lowered to Baa3/BBB- for both counterparties. Also, subsequent to the reporting period, Moody's downgraded Deutsche Bank senior long-term debt and deposit ratings from A2 to A3 in late July.

Details related to the interest rate swaps as of December 31, 2014 are presented in Appendix A.

# DEBT MANAGEMENT

## *ASSET/LIABILITY MODEL*

### *General Fund*

The total SPBC debt portfolio as of December 30, 2014 had $3.629 billion of bonds outstanding with a weighted average coupon of 5.12 percent and a weighted average life of 7.47 years. The average coupon reflects an amount of taxable bonds issued under the Build America Bond Program during 2009 and 2010 as well as continued invested preference for tax-exempt callable premium bonds in the current market at a yield lower than par or discount coupon bonds. The $1.297 billion callable portion had a weighted average coupon of 5.08 percent.

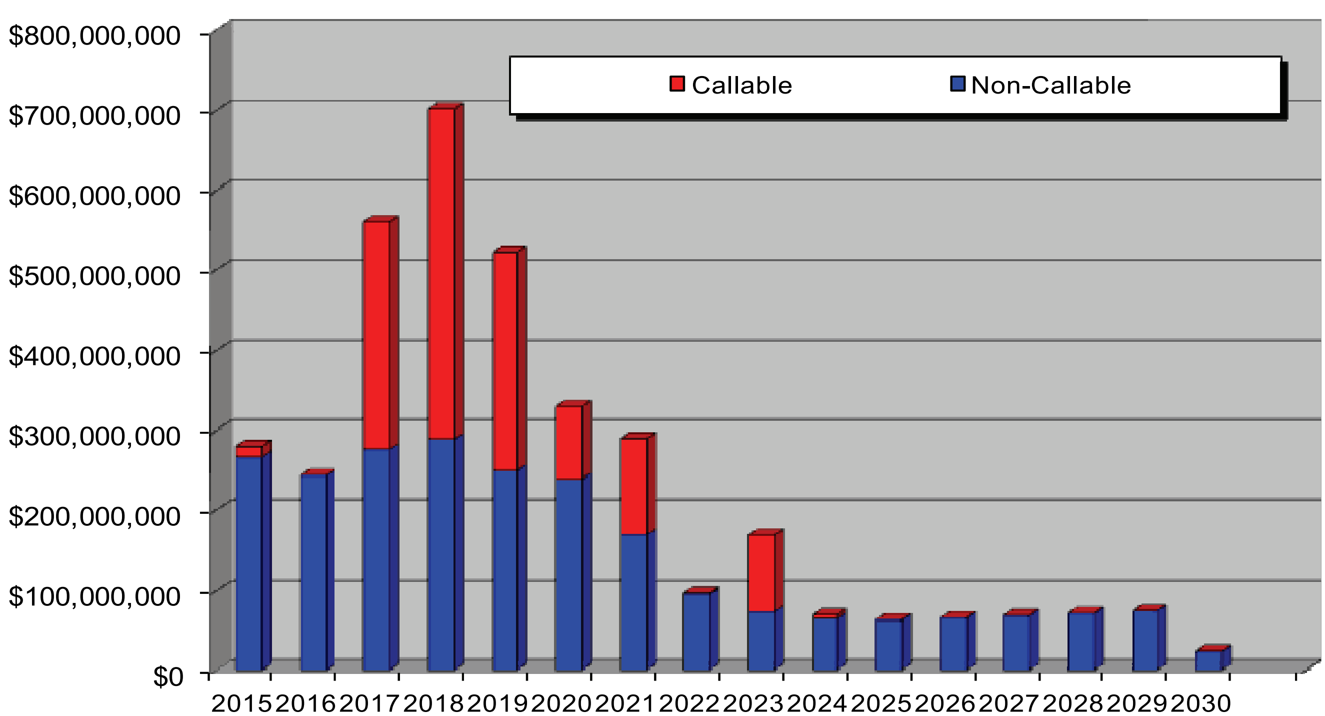
The SPBC debt structure has 40 percent of maturing principal maturing in 5 years and 74 percent of principal maturing in 10 years. The ratios are outside of the rating agencies' proposed target of 27-30 percent due in 5 years and 55-60 percent maturing within 10 years, primarily influenced by prior debt restructuring and the minimal amount of long-term new money permanent financings within the last few years.

The General Fund had a high balance of $207.3 million at the beginning of Fiscal Year 2015 and a low of negative $1.651 billion on November 17, 2014.

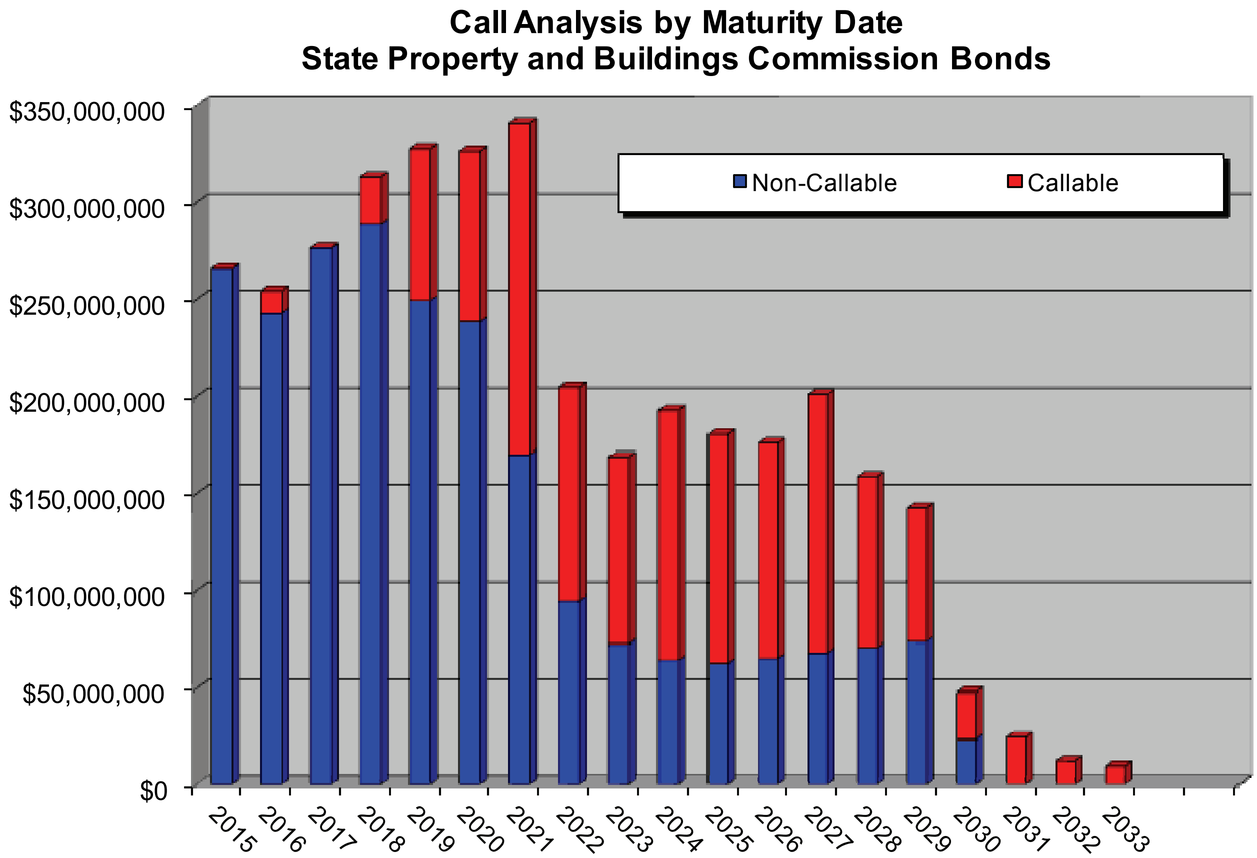
The average and median balances were a negative $1.223 billion and a negative $1.322 billion, respectively. Since the General Fund continued to have a negative available cash balance for the fiscal year to date, there is little, if anything, that can be done from an asset management point of view beyond current actions.

From a liability management perspective, total General Fund debt service, net of credits is expected to be $653.9 million for Fiscal Year 2015. In addition, General Fund debt service of $11.3 million is expected to be provided for the Eastern State Hospital financing that was issued through the Lexington-Fayette Urban County Government in 2011. Net interest margin will continue to be negative due to low cash balances versus outstanding fixed rate debt, low level of interest rates, and the callability of the debt portfolio.

**Call Analysis by Call Date**
**State Property and Buildings Commission Bonds**



# DEBT MANAGEMENT



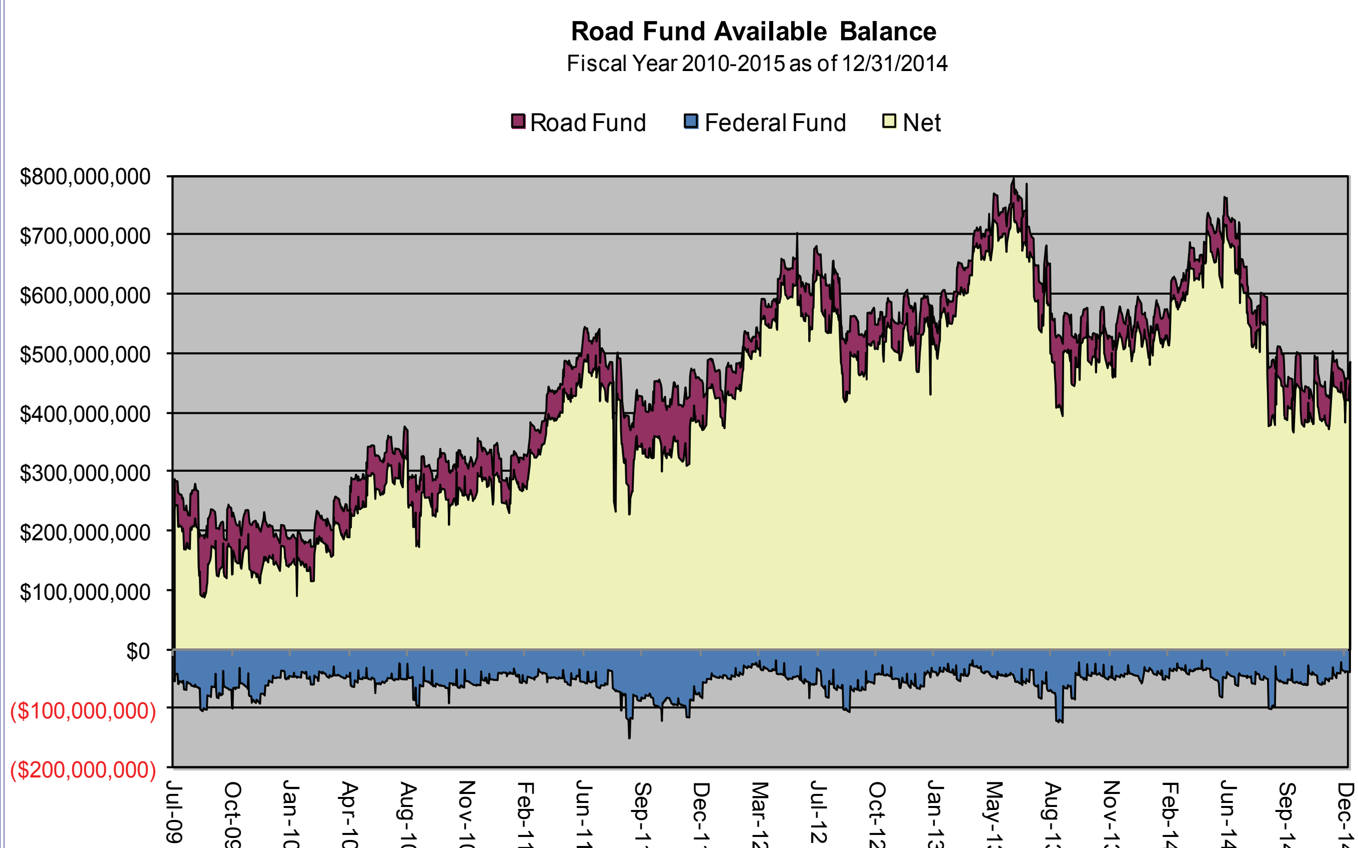
# DEBT MANAGEMENT

## *Road Fund*

The Road Fund average daily cash balance for the first half of Fiscal Year 2015 was $445 million compared to $567 million for the first half of Fiscal Year 2014. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 1.02 years as of December 31, 2014. The Road Fund earned $1.3 million on a cash basis for the first half of Fiscal Year 2015 versus $0.9 million for the first half of Fiscal Year 2014. The continued relatively low level of investable balances at certain times during the fiscal year limits the investment opportunities.

As of December 31, 2014 the Turnpike Authority of Kentucky (TAK) had $1.454 billion of bonds outstanding with a weighted average coupon of 4.81 percent and an average life of 8.22 years.

Road Fund debt service paid in Fiscal Year 2015 is expected to be $160.8 million, resulting in a net interest margin (investment income earned year-to-date less debt service paid) of negative $159.5 million. The negative amount stems from the level of investable balances and a general low level of interest rates on the investment side in addition to the limited callability of fixed rate obligations on the liability side.



# DEBT MANAGEMENT

## SUMMARY

ALCo's approach to managing the Commonwealth's interest-sensitive assets and interest-sensitive liabilities has provided tremendous flexibility and savings in financing the Commonwealth's capital construction program.

Since its inception, ALCo has been instrumental in adding incremental returns on investment income to the Commonwealth's investment portfolio. ALCo has continued to manage General Fund intra-year cashflow deficits through its TRAN program when cost effective. Until Fiscal Year 2010, ALCo had issued a General Fund TRAN each fiscal year since 1998 (with the exception of FY 2004), providing millions of dollars of incremental gains for the General Fund over this time (see Debt Management TRAN section for details). In addition, ALCo's management approach to project funding has allowed the Commonwealth to take advantage of short-term yields and achieve millions of dollars in budgetary savings through debt service lapses.

Over the past five years, the high cost of acquiring credit/liquidity support for short-term borrowing programs when compared to the low cost of long-term financing favored long-term financing structures. However, ALCo does and will continue to analyze the cost effectiveness of potential interim financing options during near term.

As always, ALCo continues to analyze potential opportunities for savings and to evaluate new financing structures which offer the Commonwealth the ability to diversify risk within its portfolio while taking advantage of market demand for various new or unique products.

# APPENDIX

# APPENDIX A

| ALCo Financial Agreements | ALCo FRN Series A Hedge | ALCo FRN Series A Hedge | ALCo FRN Series B Hedge | ALCo FRN Series B Hedge |
|---|---|---|---|---|
| Fund Source | General Fund | General Fund | General Fund | General Fund |
| Hedge | 2017 FRN | 2027 FRN | 2021 FRN | 2025 FRN |
| Counter Party | Deutsche Bank AG | Deutsche Bank AG | Deutsche Bank AG | Deutsche Bank AG |
| Counter-Party Ratings *(Moody's / S&P / Fitch)* | A3/A/A+ | A3/A/A+ | A3/A/A+ | A3/A/A+ |
| Termination Trigger | Baa3/BBB- | Baa3/BBB- | Baa3/BBB- | Baa3/BBB- |
| Swap Type | Fixed Pay | Fixed Pay | Fixed Pay | Fixed Pay |
| Benchmark | 67% 3M LIBOR + 40 | 67% 3M LIBOR + 53 | 67% 3M LIBOR + 52 | 67% 3M LIBOR + 55 |
| Reset | Quarterly | Quarterly | Quarterly | Quarterly |
| Notional Amount | 7,490,000 | 53,900,000 | 65,550,000 | 70,935,000 |
| Amortize (yes/no) | yes | yes | yes | yes |
| Original Execution Date | 5/16/2007 | 5/16/2007 | 5/16/2007 | 5/16/2007 |
| Start Date | 5/31/2007 | 5/31/2007 | 5/31/2007 | 5/31/2007 |
| Assignment Date | 2/14/2011 | 2/14/2011 | 2/14/2011 | 2/14/2011 |
| Mandatory Early Termination | | | | |
| End Date | 11/1/2017 | 11/1/2027 | 11/1/2021 | 11/1/2025 |
| Fixed Rate pay-(rec) | 3.839% | 4.066% | 4.042% | 4.125% |
| Day Count | 30/360 | 30/360 | 30/360 | 30/360 |
| Payment Dates | February 1, May 1, August 1, November 1 | | | |
| Security Provisions | General Fund Debt Service Appropriations | | | |
| Current Market Valuation December 31, 2014 (negative indicates payment owed by ALCo if terminated) | (452,555) | (8,033,178) | (7,525,192) | (12,973,529) |
| Interest Earnings (not applicable) | | | | |
| Total | not applicable | not applicable | not applicable | not applicable |

## Swap Summary

## <u>As of December 31, 2014</u>

**Total Notional Amount Executed**

| General Fund | Road Fund |
|---|---|
| 243,080,000 | 0 |

**Net Exposure Notional Amount**

| General Fund | Road Fund |
|---|---|
| 197,875,000 | 0 |

**Total Notional Amount Executed by Counter Party**

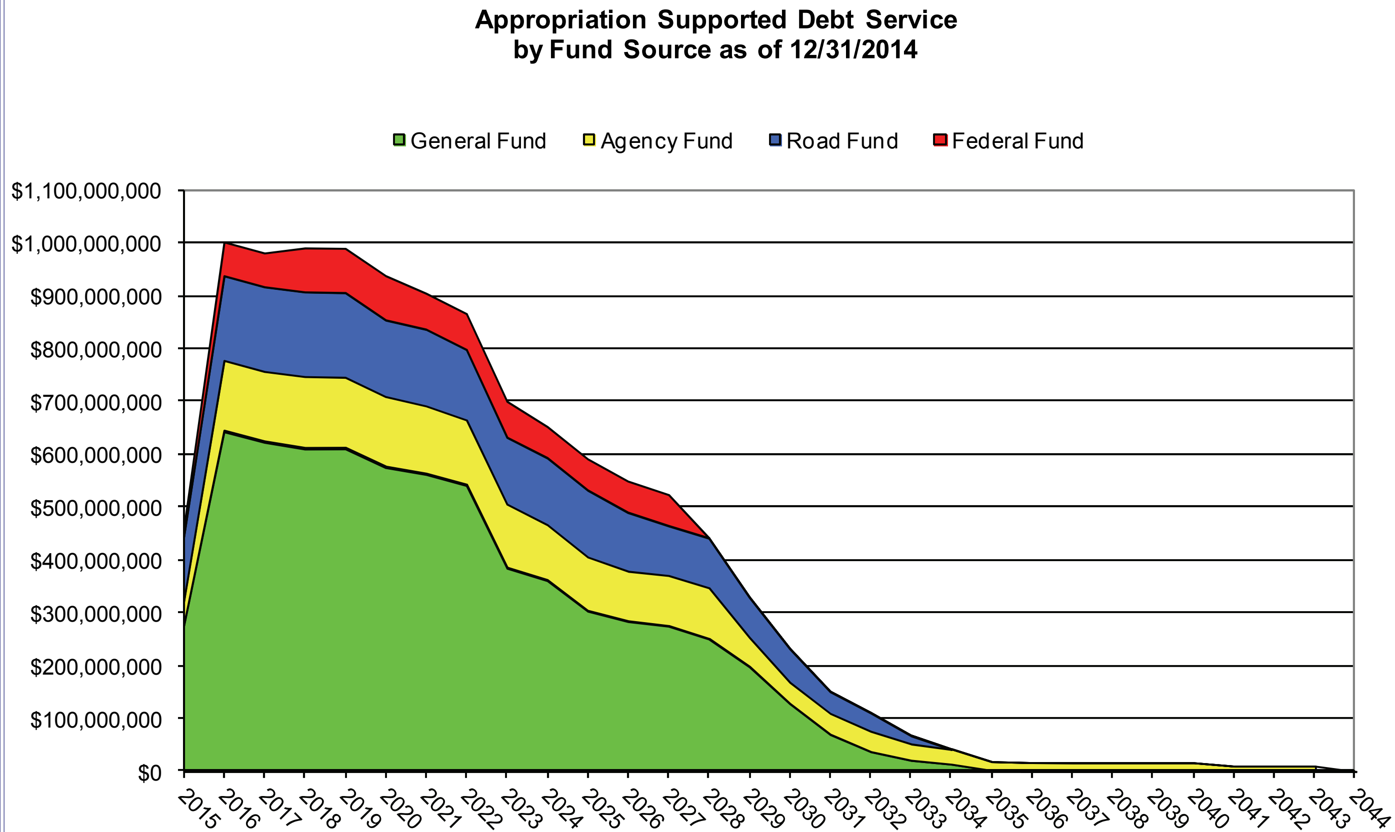
Deutsche Bank (assigned from Citibank on 2/14/2011)

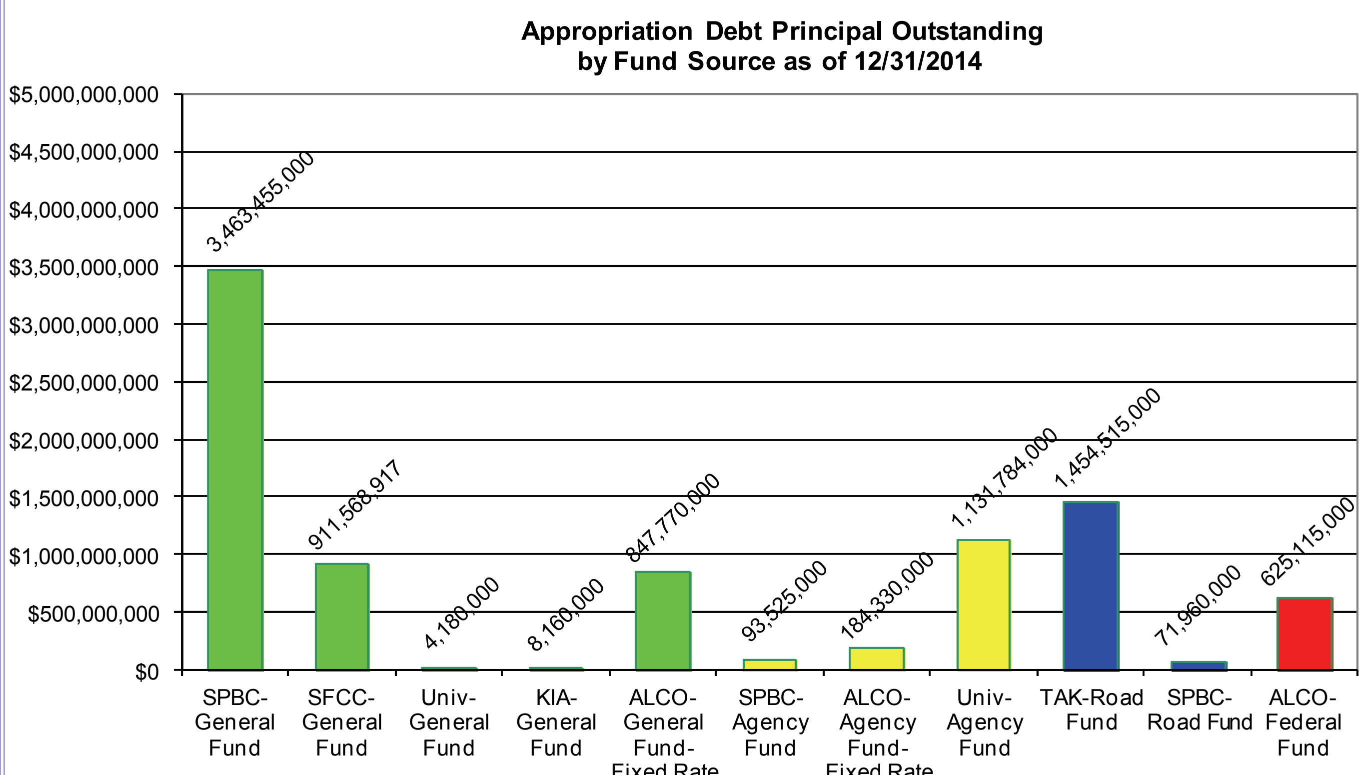
243,080,000

| | Debt: General Fund | Debt: Road Fund | 10 Percent Net Exposures: General Fund | 10 Percent Net Exposures: Road Fund |
|---|---|---|---|---|
| **Bonds Outstanding** | 4,311,225,000 | 1,526,475,000 | 431,122,500 | 152,647,500 |
| **Authorized but Unissued** | 851,942,200 | 217,500,000 | 85,194,220 | 21,750,000 |
| **Total** | 5,163,167,200 | 1,743,975,000 | 516,316,720 | 174,397,500 |

| Investment Pool Balances: Other Funds | Investment Pool Balances: Net Road Fund | 10 Percent Investment Portfolio: Other Funds | 10 Percent Investment Portfolio: Net Road Fund |
|---|---|---|---|
| 2,680,037,051 | 435,466,013 | 268,003,705 | 43,546,601 |

# APPENDIX B




*This data does not include debt issued for judicial center projects and paid for by the Administrative Office of the Courts in the Court of Justice or debt issued by the Lexington -Fayette Urban County Government for the Eastern State Hospital.

# APPENDIX C

## COMMONWEALTH OF KENTUCKY
## ASSET/LIABILITY COMMISSION
## SCHEDULE OF NOTES OUTSTANDING
## AS OF 12/31/2014

| FUND TYPE<br>SERIES TITLE | | AMOUNT<br>ISSUED | DATE OF<br>ISSUE | MATURITY<br>DATE | PRINCIPAL<br>OUTSTANDING |
|---|---|---|---|---|---|
| **General Fund Project & Funding Notes** | | | | | |
| 2005 1st Series | | $81,850,000 | 6/2005 | 5/2025 | $53,860,000 |
| 2007 A, B Series | | $243,080,000 | 5/2007 | 11/2027 | $198,325,000 |
| 2010 1st Series-KTRS Funding Notes | | $467,555,000 | 8/2010 | 4/2020 | $247,760,000 |
| 2011 1st Series-KTRS Funding Notes | | $269,815,000 | 3/2011 | 4/2022 | $208,665,000 |
| 2013 1st Series-KTRS Funding Notes | | $153,290,000 | 2/2013 | 4/2023 | $139,160,000 |
| | **FUND TOTAL** | **$1,215,590,000** | | | **$847,770,000** |
| **Agency Fund Project Notes** | | | | | |
| 2005 1st Series | | $11,275,000 | 6/2005 | 6/2025 | $7,700,000 |
| 2005 Series A-UK Gen Recpts | | $107,540,000 | 11/2005 | 10/2015 | $5,635,000 |
| 2006 Series A-UK Gen Recpts | | $66,305,000 | 10/2006 | 10/2022 | $40,480,000 |
| 2007 Series A-UK Gen Recpts | | $77,905,000 | 11/2007 | 10/2027 | $62,750,000 |
| 2007 Series B-UK Gen Recpts | | $80,245,000 | 11/2007 | 10/2027 | $67,765,000 |
| | **FUND TOTAL** | **$343,270,000** | | | **$184,330,000** |
| **Federal Hwy Trust Fund Project Notes** | | | | | |
| 2007 1st Series | | $277,910,000 | 9/2007 | 9/2019 | $150,920,000 |
| 2010 1st Series | | $89,710,000 | 3/2010 | 9/2022 | $89,710,000 |
| 2013 1st Series | | $212,545,000 | 8/2013 | 9/2025 | $212,545,000 |
| 2014 1st Series | | $171,940,000 | 3/2014 | 9/2026 | $171,940,000 |
| | **FUND TOTAL** | **$752,105,000** | | | **$625,115,000** |
| **ALCo NOTES TOTAL** | | **$2,310,965,000** | | | **$1,657,215,000** |

"This Page Intentionally Left Blank"

## REPORT PREPARED BY:

OFFICE OF FINANCIAL MANAGEMENT

Commonwealth of Kentucky
702 Capitol Ave Ste 76
Frankfort, KY 40601
Phone: 502-564-2924
Fax: 502-564-7416

*Creating Financial Value for the Commonwealth*

---

Kentucky
UNBRIDLED SPIRIT™