

Semi-Annual Report Kentucky Asset/Liability Commission

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For the period ending December 31, 2005

This report may be viewed at

<http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/AlcoSemiAnnualRpt.htm>

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Introduction

This is the Kentucky Asset/Liability Commission's ("ALCo") eighteenth semi-annual report pursuant to KRS 56.863(11) for the period beginning July 1, 2005 through December 31, 2005.

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

- U. S. economy continues to exhibit solid growth.
- U. S. attempts to cope with the destruction and devastation of Hurricanes Katrina and Rita.
- War in the Middle East continues.
- The Dow Jones Industrial Average finishes the calendar year at 10,717.5 up 442.5 points from June.
- Allen Greenspan, Chair of the Federal Reserve for 19 years, will retire in January 2006.
- Fed continues to raise short-term interest rates at a measured pace.

On the state level

- Implementation of the largest bond authorization in the Commonwealth's history.
- First half of fiscal year 2006 General Fund revenues increased 11.6 percent over the same period for fiscal year 2005.

Investment Management

Market Overview. Calendar year 2005 ended with some notable changes. Alan Greenspan's 19-year term as Chairman of the Federal Reserve will end in late January 2006 with Ben Bernanke appointed as his replacement. Given two major hurricanes and a substantial increase in energy prices, the economy slowed substantially. At the same time, the Treasury yield curve has inverted as two year Treasuries yield more than 10-year Treasuries.

Following the 2001 recession and later terrorist attacks, the Federal Open Market Committee (FOMC) of the Federal Reserve lowered the Fed Funds target rate to 1.0 percent attempting to stimulate the economy. Beginning on June 30, 2004, the FOMC raised the Fed Funds target rate by 25 basis points (to 1.25 percent) and began a "measured" series of rate hikes. They continued to raise the Fed Funds target rate by 25 basis points per meeting for the next 12 meetings through December 13, 2005, for an ending rate of 4.25 percent. Most forecasters predict additional increases, bringing the final end point for the Fed Funds target rate to 5.0 percent.

The FOMC December statement that "some further measured policy firming is likely to be needed ..." was followed by further softening at the January 31, 2006 meeting in an attempt to "clear the deck" for Chairman Bernanke. The FOMC is telegraphing to the markets that the current round

of tightening is close to being finished and that future changes in policy will be dictated by future economic conditions and the new Chairman's opinions. Interestingly, these 13 consecutive 25-basis point increases has been the longest and most consistent tightening cycle in the Federal Reserve's history.

As the Fed Funds target rate has increased by 325 basis points from 1.0 percent to 4.25 percent, the two year Treasury has risen 172 basis points from 2.68 percent to 4.40 percent. However, the ten year Treasury has fallen 19 basis points from 4.58 percent to 4.39 percent. This activity has created an unusual situation, commonly known as an "inverted yield curve", in which shorter rates exceed longer rates. There are two theories of why this is happening. Greenspan has opined that the "term premium" has declined on longer term bonds. The primary difference between short and long bonds is the amount of inflation and risk of inflation increases while the investor owns the bond. Greenspan indicated that confidence in the Fed's ability to control inflation has reduced the risk of inflation increasing while owning longer term bonds.

Bernanke, on the other hand, offered last year that a global savings glut, primarily generated by the U.S trade deficit to Asia, is being invested in U.S. Treasuries. During the fourth quarter of 2005, the total U.S. trade deficit was almost \$200 billion. This enormous demand, running at nearly twice the Federal deficit and growing, leads to enormous purchases of U.S. bonds. As a result, when demand increases relative to supply, the price will increase. As the price of bonds increase, the yields fall leading to artificially low yields on longer Treasuries and an inverted curve.

Historically, an inverted yield curve has very accurately predicted recessions. Roughly one year after most past inversions, the economy has fallen into a recession. The growth rate in real Gross Domestic Product ("GDP") declined to 1.1 percent in the fourth quarter of 2005 versus an average of 3.67 percent over the previous 6 quarters. The two hurricanes in and around New Orleans along with the increase in energy costs are partially to blame for this decline. Basically, all economic activity in a major U.S. city stopped. The increase in energy prices left less money in people's wallets to spend elsewhere. Most projections are for GDP growth to pick back up to around 3.0 percent to 3.5 percent during the first half of 2006, but the yield curve may be indicating a different course.

Portfolio Management. For the six months ending December 31, 2005, the Commonwealth's investment portfolio averaged \$4.0 billion. As of December 31, 2005, the portfolio was invested in U.S. Treasury Securities (8 percent), U.S. Agency Securities (26 percent), Mortgage Pass Through Securities (2 percent), Collateralized Mortgage Obligations (7 percent), Repurchase Agreements (15 percent), Municipal Securities (5 percent), Corporate Securities (8 percent), Asset-Backed Securities (11 percent) and Money Market Securities (18 percent). The portfolio had a market yield of 4.51 percent and an effective duration of 0.77 years.

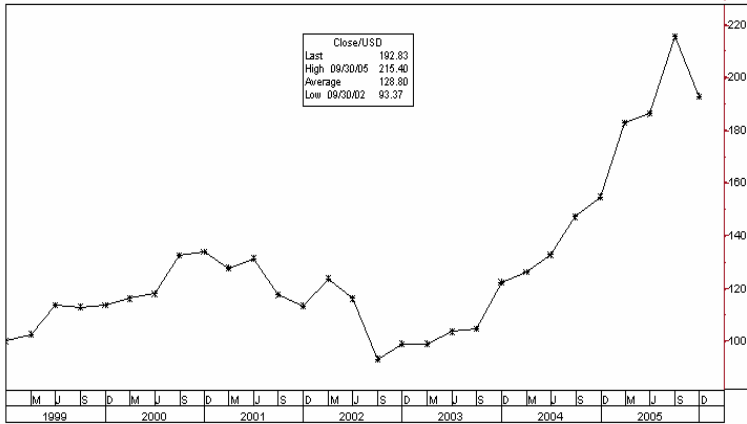
The total portfolio is broken down into five investment pools. The pool balances as of December 31, 2005, were: Short Term Pool - \$958 million, Intermediate Term Pool - \$1,930 million; Bond Proceeds Pool - \$497 million; TRAN Pool - \$625 million; and UK Hospital Pool - \$101 million. Total investment income from all investments, on a cash basis, for the six months ended December 31, 2005, was \$34.7 million versus \$33.8 million for the six months ended December 31, 2004. On a full mark-to-market basis, investment income was \$53.3 million for the six months ended December 31, 2005, versus \$34 million for the same period in 2004.

U.S. Oil and Gas Production

BUSOILP Index

Range 12/31/98 - 12/30/05

Period Q Quarterly



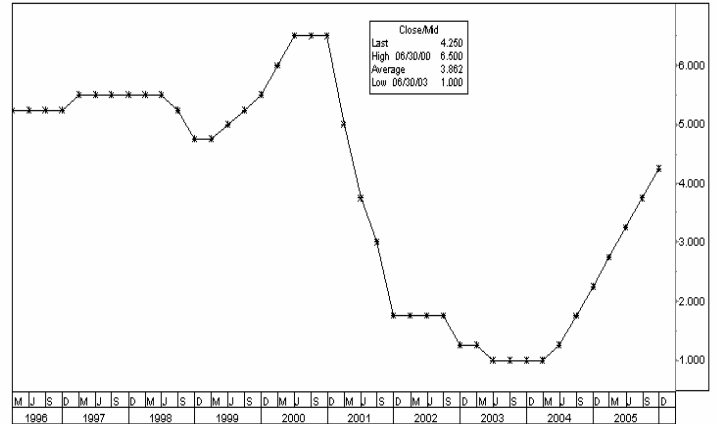
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Federal Funds Target Rate

FDTR Index

Range 12/31/95 - 12/30/05

Period Q Quarterly



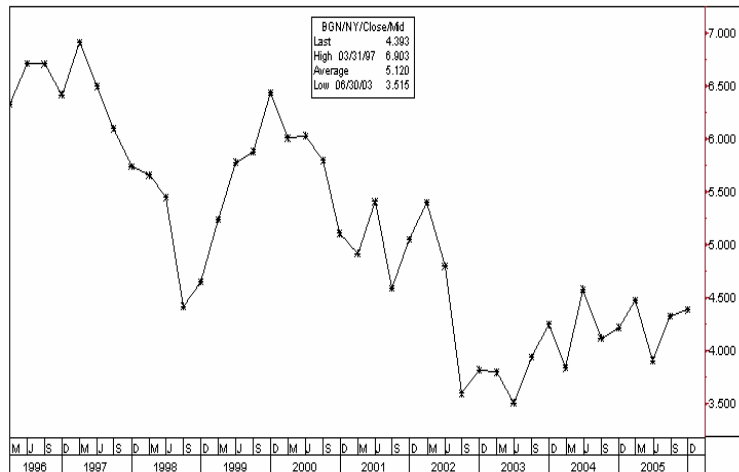
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10-Year Treasury Rate

GT10 Govt

Range 12/31/95 - 12/30/05

Period Q Quarterly



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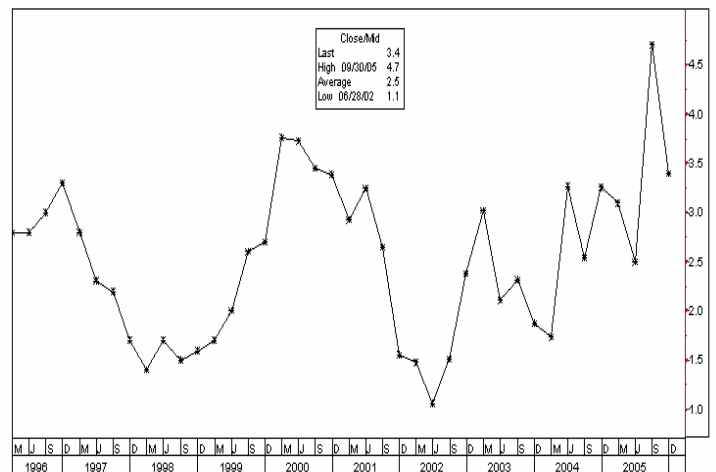
Consumer Price Index

YEAR-OVER-YEAR INDEX

CPI YOY Index

Range 12/31/95 - 12/30/05

Period Q Quarterly



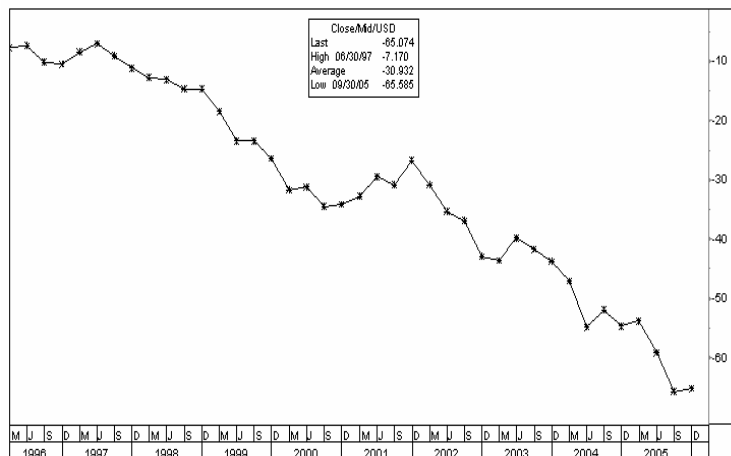
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US Trade Balance

USTBTOT Index

Range 12/31/95 - 12/30/05

Period Q Quarterly



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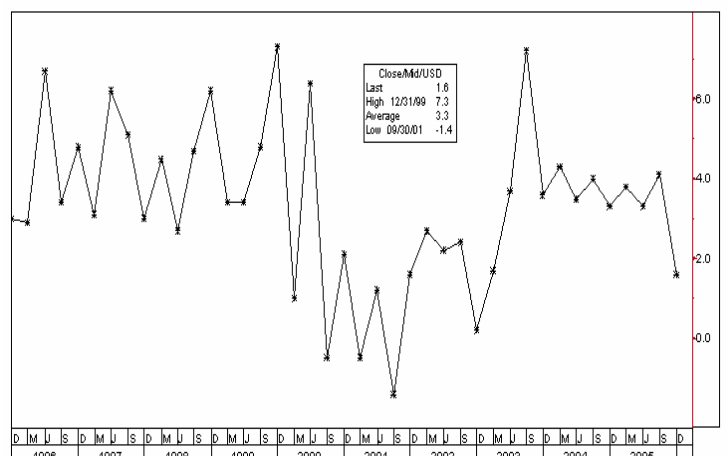
Gross Domestic Product

QUARTER-OVER-QUARTER INDEX

GDP CQOQ Index

Range 12/31/95 - 12/31/05

Period Q Quarterly



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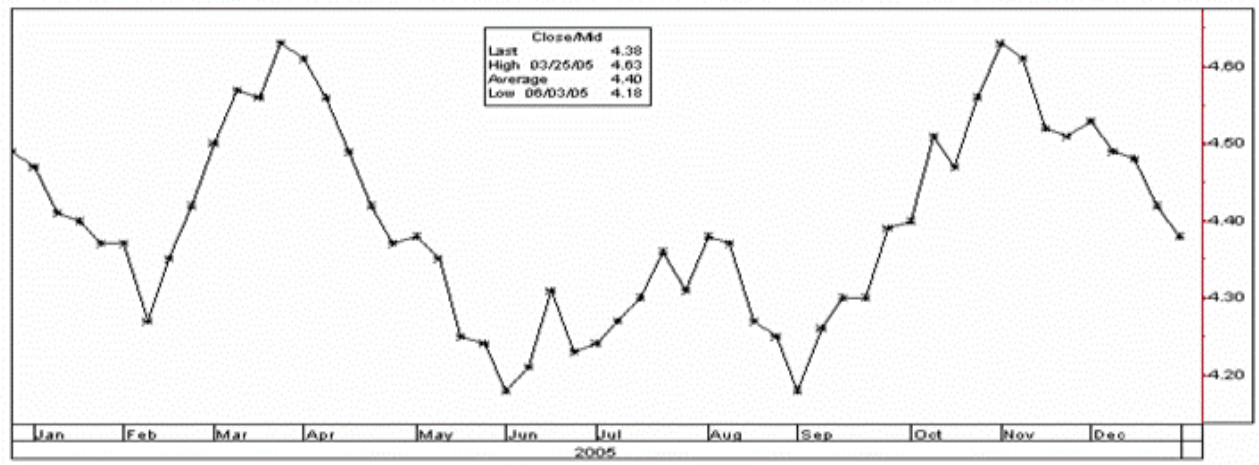
Tax-exempt Interest Rates and Relationships. The Bond Buyer 20-year General Obligation Index averaged 4.40 percent for the calendar year 2005. The high was 4.63 percent in March 2005, the low was 4.18 percent in June 2005, and the year ended with 4.38 percent.

The Bond Market Association (“BMA”) Municipal Swap Index averaged 2.46 percent for the calendar year and ended the year with a high of 3.51 percent. The low was 1.48 percent in January 2005. The 30-day USD London Interbank Offered Rate (“LIBOR”) averaged 3.39 percent for the year. The low was 2.40 percent in January 2005 and the high was 4.39 percent in December 2005. BMA traded as high as 98 percent of 30-day LIBOR in April 2005 and as low as 59 percent in August 2005.

Bond Buyer 20-year General Obligation Index

Range 12/31/04 - 12/30/05

Period **BBWK20G0 Index**
Weekly

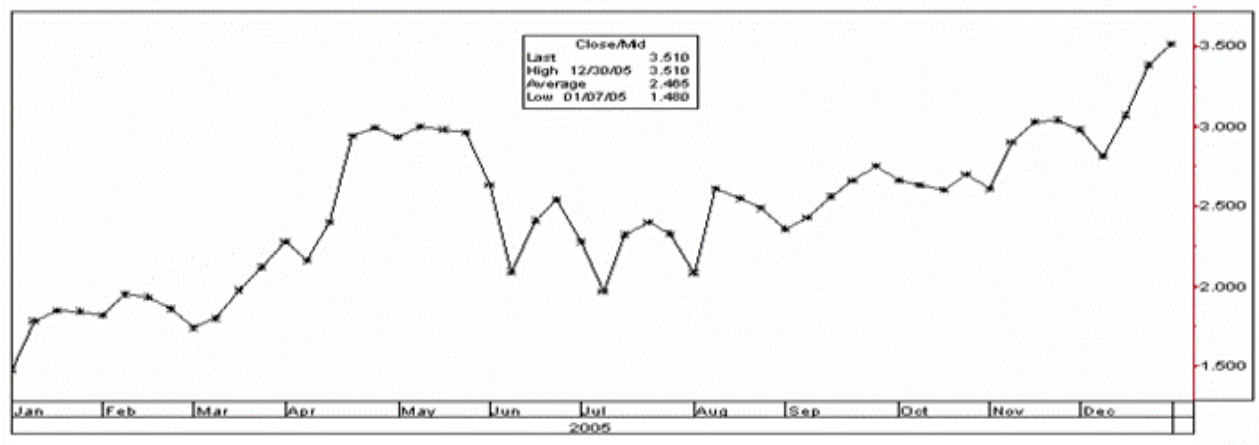


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Bond Market Association "BMA" Municipal Swap Index

Range 1/ 1/05 - 12/30/05

Period **MUNIPSA Index**
Weekly



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Bond Market Association "BMA" Municipal Swap Index as a percent of one month LIBOR

RANGE 1/ 5/05 TO 12/28/05



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Debt Management

The 2005 Kentucky General Assembly authorized debt financing for projects totaling \$2,056,315,300 to support various capital initiatives of the Commonwealth. Of the total authorization, \$1,204,589,300 is General Fund supported, \$251,726,000 is Agency Fund supported, \$450,000,000 is Road Fund supported, and \$150,000,000 is Federal Highway Trust Fund supported (GARVEEs). At December 31, 2005, only \$225 million of the Road Fund authorization remains without a plan of finance. The Turnpike Authority of Kentucky ("TAK") expects to deliver bonds for these road projects by June 30, 2006.

Ratings Update

Although each state is unique and operates differently, several factors can affect the state's ratings positively or negatively from the perspective of the rating community. Enhancements include an additional bonds test, strong coverage ratios of debt service obligations from revenues, dedicated revenues provided for bond payments, high level financial control including close revenue monitoring, continuous strengthening of state revenues and rebuilding of reserves, strong per capita income and debt ratios, the ability to pass a timely and structurally balanced budget, establishing the essential nature of projects and strong state support, and continuous revenue growth over fiscal years. The absence or lack of accomplishment in the above areas could, however, hinder the state's ratings. In addition, the state's future capital needs, continued reliance on manufacturing sector, the debt burden on the operating budget, and pension funding ratios are also factors which could negatively affect state ratings.

An upgrade resulted when Standard & Poor's ("S & P") considered these and other factors in their review of the TAK Economic Development Road Revenue Bonds (Revitalization Projects) program in early 2006. TAK's rating was raised from A+ to AA reflecting the strong coverage of debt service obligations from constitutionally dedicated Road Fund revenue.

Tax and Revenue Anticipation Notes.

2005 TRAN. Originally, TRANs were issued at tremendous rate advantages to taxable reinvestment rates, often producing 2 percent excess returns when the General Fund had excess cash and significantly lowering the borrowing cost when the balances were negative. ALCo authorized the 2005 (FY2006) TRAN program in an amount not to exceed \$800 million. On July 1, 2005, \$600 million was delivered to mature on June 28, 2006. The 2005 Series A TRANs were sold by Citigroup Global Markets Inc. on June 23, 2005. The fixed rate notes carry a coupon of 4.00 percent to yield 2.67 percent. The net benefit is expected to be approximately \$6.2 million to the General Fund.

ALCo entered into an Interest Rate Swap with UBS Financial Services Inc. to partially hedge the TRANs. In this transaction, the Commonwealth will receive a 3.81 percent fixed rate on \$538 million notional amount. This rate will provide a spread of over 1.00 percent. The Commonwealth will pay 1-month LIBOR on the notional amount. The start date for the swap was July 1, 2005 with a maturity of June 28, 2006.

Table of Outstanding ALCo Notes as of December 31, 2005
(Excluding TRAns)

2001 General Fund First Series	\$ 17,475,000	Final Maturity 02/01/08
2003 General Fund Series	84,485,000	Final Maturity 07/15/13
2005 General Fund First Series	81,850,000	Final Maturity 05/01/25
2005 General Fund Second Series	100,000,000	Final Maturity 11/01/25
2005 Agency Fund First Series	11,275,000	Final Maturity 06/01/25
2005 Agency Fund Second Series	15,615,000	Final Maturity 06/04/09
2005 FHTF First Series	136,425,000	Final Maturity 09/01/17
2005 UK General Receipts Series A	107,540,000	Final Maturity 10/01/25
Total	\$ 554,665,000	

Financial Agreements

As of December 31, 2005, ALCo had four financial agreements outstanding, with a net notional amount exposure of zero. These transactions are detailed in Appendix A. There were no Financial Agreements executed during the period.

Of the continuing outstanding financial agreement transactions, the first item is a total return swap related to the \$56,485,000 July 1, 2009 maturity of the TAK Resource Recovery 1985 Series A Bonds, which bears interest at 6 percent. Staff worked for approximately 18 months to develop this transaction with Morgan Stanley (“MS”) and finally executed the trade in April 2001. The 1985A Bonds could not be economically refunded, despite a very low interest rate environment, due to the enormous transferred proceeds penalty associated with the Debt Service Reserve Fund (“DSRF”) which is earning approximately 10 percent. MS, bond counsel and the Commonwealth developed a structure whereby the bonds would be called, but not redeemed. Once called, the bonds were sold to MS. ALCo then entered into a total rate of return swap, whereby MS pays ALCo 6 percent (the coupon on the bonds) and ALCo pays to MS, BMA (short-term tax-exempt municipal index) plus a spread (currently 58 basis points) to cover expenses. This transaction provided the synthetic variable rate exposure to offset the asset sensitivity in the balance sheet, i.e. sensitivity to declining interest rates. Rates continued to steadily decline, putting the trade in a very favorable position. Shortly after the events of September 11, 2001, interest rates tumbled dramatically and on September 27, 2001, staff entered into an offsetting trade, locking in a guaranteed spread of 213 basis points. The reversal rate (rate ALCo agrees to pay MS) was 3.87 percent versus the original fixed receiver rate of 6 percent from MS. ALCo has received \$4.2 million under the terms of the agreements since inception. The expected total benefit from this transaction to maturity is \$7.46 million.

Since the two transactions offset each other for a net notional amount of zero, ALCo collects the difference between the two payments and deposits the proceeds into a swap account held for the benefit of the Road Fund. This account also secures future payments to MS under the agreement,

if necessary. ALCo is obligated under the agreement to accumulate a minimum balance of \$3 million in the swap account. Once cumulative deposits have achieved that level, funds may be available to offset future debt service payments. Since the bonds are still outstanding and the TAK retains the right to call the bonds at face value (par), the termination value of the swap is essentially the present value of the fixed expenses (13 basis points). In the event that rates rise above the coupon on the bonds, the transaction would be terminated and the bonds would be resold to the marketplace. If the value of the bonds in the market are below par, then ALCo would make a payment from the swap account to MS equal to the difference between the then market value and par. Alternatively, the Road Fund could purchase the bonds as an investment at par. The Road Fund and the TAK get the best of both worlds with this transaction in that they retain the highly valuable DSRF earning 10 percent and lower the cost of borrowing as long as interest rates stay low. In the event that interest rates rise dramatically, then the investment portfolio of the Road Fund will earn significantly more than projected so long as the Road Fund maintains an investable balance equal to or greater than the notional amount of the transaction. For tax purposes, the Total Return Swap must terminate prior to the final maturity of the bonds. Market conditions permitting, a similar type trade would be reestablished for a short period or terminated.

ALCo also entered into an identical transaction with MS for the 5.50 percent bonds due July 1, 2007 of the TAK Toll Road 1986 Series A Bonds with a par amount of \$50,920,000. The Toll Road DSRF earns a bit less than the Resource Recovery 1985A bonds and the coupon on the outstanding bonds is also less, but the mechanics are the same.

On July 24, 2001, MS agreed to enter into a total return swap whereby MS would pay ALCo beginning on January 3, 2002, 5.50 percent in exchange for BMA plus 45 basis points (to cover expenses). The trade could not be executed until December 7, 2001, after the call notice for the bonds had been issued. ALCo agreed to pay MS 4.15 percent in exchange for BMA plus 45 basis points, locking in a guaranteed spread of 135 basis points as long as BMA plus 45 basis points remain below the coupon of the bonds of 5.50 percent.

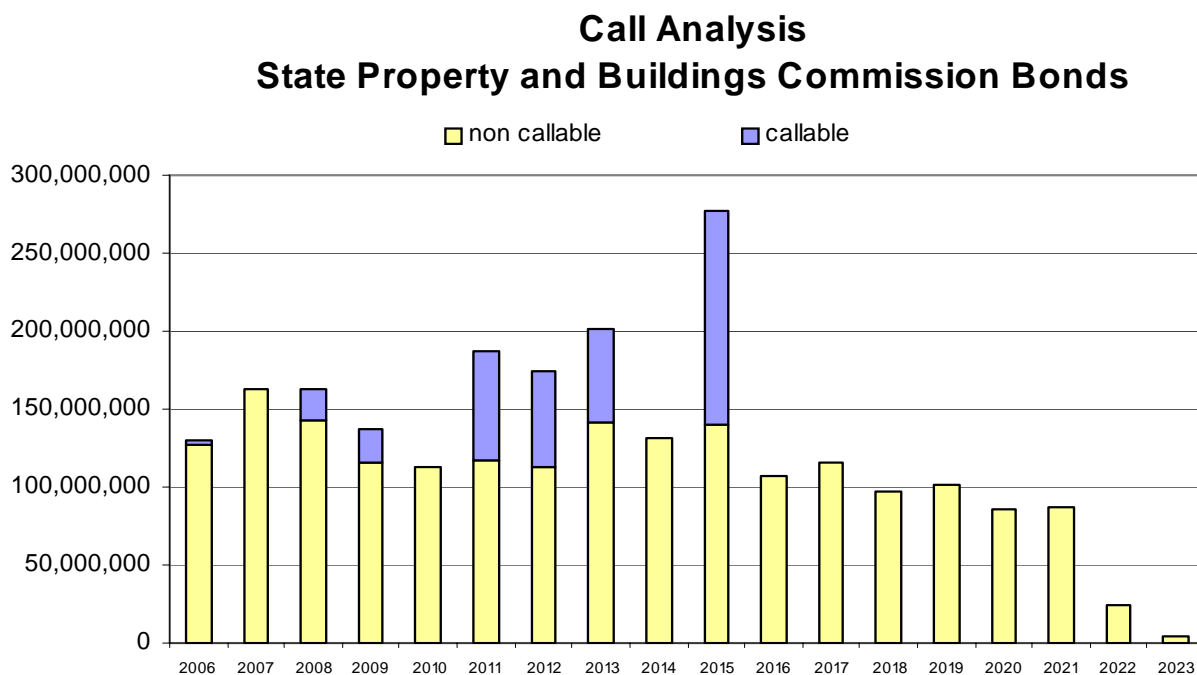
In 2003, the Federal Highway Administration awarded the state Transportation Cabinet approximately \$13 million, the estimated remaining principal amount of the Toll Road Bonds related to the Toll Roads known as the Hal Rogers Daniel Boone Parkway and the Louie B. Nunn Cumberland Parkway. The award was granted with the understanding that the tolls would no longer be collected and the toll booths removed on these two roads. On July 1, 2003, the Total Return and Fixed Swap transactions were adjusted due to the \$12,195,000 partial redemption of the 2007 term maturity of the Toll Road 1986 Series A Bonds. The \$50,920,000 original notional amount was reduced with no obligation due from either party with respect to the unwound notional amount as the partial termination occurred on an interest payment date. A swap termination payment on the fixed portion in the amount of \$705,000 was paid to MS. The revised present value savings level, factoring in all expenses, is approximately \$1.6 million. The net notional amount exposure remains at zero and the market value is par as in the previously described transaction. ALCo has received over \$1.5 million to date. The first leg of the original total return transaction matured on July 1, 2005, and as a result, the trade was extended to January 1, 2007 at which time the transaction is expected to be terminated.

In January 2006, to protect against a continued rise in interest rates, ALCo competitively bid and subsequently entered into two (2) \$80 million interest rate swap transactions that hedge the future issuance of \$300 million of permanent tax-exempt bonds for General Fund authorized but unissued projects. The hedge allowed the fiscal year 2007 and fiscal year 2008 debt service to be appropriated at 4.40 percent rather than the budgeted template rate of 6.50 percent. This resulted in annual savings (reduction in appropriation) to the General Fund of \$4,445,000.

Asset/Liability Model

GENERAL FUND

The State Property and Buildings Commission (“SPBC”) debt portfolio as of December 31, 2005 had \$2,287 million of bonds outstanding with a weighted average coupon of 4.99 percent, modified duration of 2.85 years, and a yield at market of 3.71 percent. The market yield increased by 36 basis points from the prior reporting period while modified duration decreased by 1.53 years reflecting maturing debt. The callable portion was \$374 million and had an average coupon of 5.04 percent. The average coupon reflects investor preference for premium bonds in the current market at a yield lower than corresponding par or discount coupon bonds.

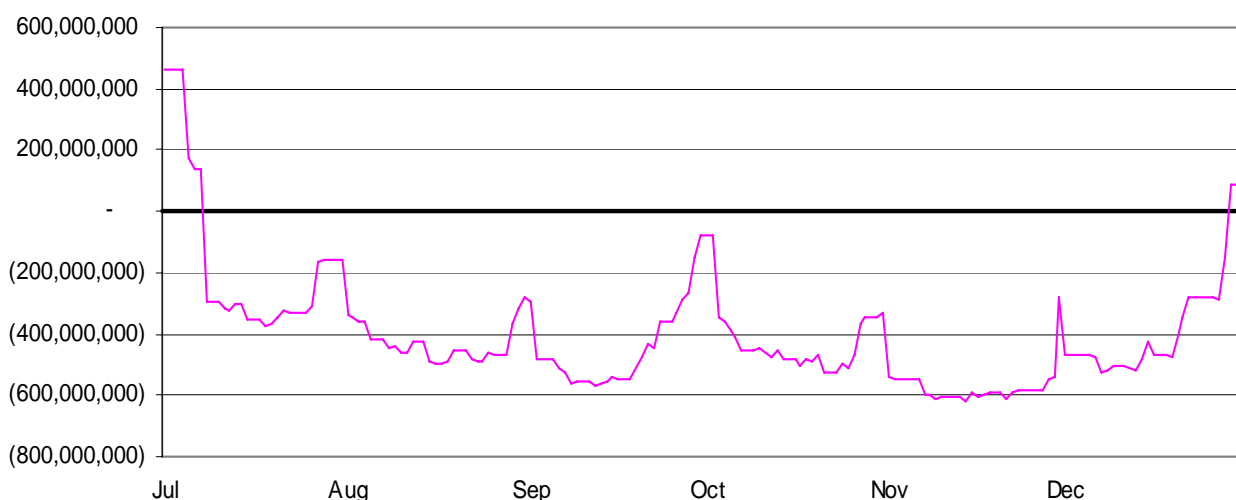


The SPBC General Fund debt structure has 29 percent of principal maturing in 5 years and 58 percent of principal maturing within 10 years. This is within the rating agencies’ proposed targets of 27-30 percent due in 5 years and 55-60 percent maturing within 10 years.

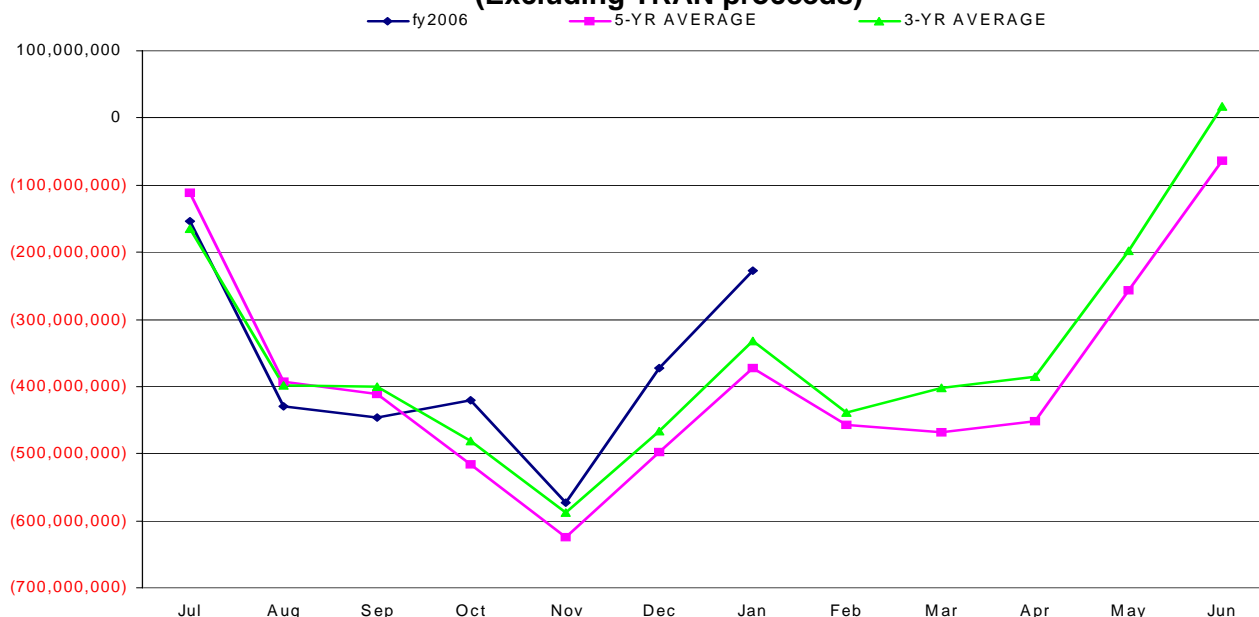
The General Fund for the first six months of fiscal year 2006 had a high balance of \$460 million on July 2, 2005, and a low of negative \$618 million on November 14, 2005. The average and median balances were a negative \$398 million and a negative \$460 million, respectively. Since the General Fund continued to have a negative available cash balance for most of the fiscal year, there is little, if anything that can be done from an asset management viewpoint beyond current actions.

From a liability management perspective, total General Fund debt service, net of reserve fund credits, was \$228.3 million for fiscal year-to-date 2006. Net interest margin will continue to be negative due to low cash balances versus outstanding fixed rate debt and due to a low level of interest rates as well as the callability of the debt portfolio.

GENERAL FUND AVAILABLE BALANCE FISCAL YEAR 2006 (Excludes Tran)



GENERAL FUND MONTHLY AVERAGE (Excluding TRAN proceeds)



SPBC 85

The \$218,275,000 SPBC 85 funded a variety of General Fund supported capital projects authorized in HB 267 which were ready to expend proceeds. The Bonds were delivered on September 14, 2005. The transaction is fully insured by Financial Security Assurance Inc. ("FSA"), is callable after ten years, and has a final maturity of August 1, 2025. The 20 year level debt has an all-in total interest cost ("TIC") of 4.21 percent.

ALCo Project Notes, 2005 General Fund Second Series

The remaining \$726 million authorized but unissued General Fund supported bond projects were placed under an ALCo plan of finance. The 2005 General Fund Second Series Note program, not to exceed \$750 million, allows state agencies and universities to move forward with their capital projects. The projects were placed under the program because they are not expected to meet the IRS spend-down requirements of a traditional bond issue. OFM will monitor the expenditures and direct the issuance of notes as needed. An initial tax-exempt tranche of \$100,000,000, in two Series, was delivered on November 2, 2005. As of December 31, 2005, \$13.3 million had been expended on the projects. The Note Series are supported by standby note purchase agreements provided by Dexia Credit Local, a leading European bank based in France. JP Morgan and UBS will each provide remarketing services for the two separate \$50 million Note Series, both initially issued in the commercial paper rate mode. JP Morgan issued \$7 million at 2.82 percent to February 15, 2006 and \$43 million at 3.15 percent to October 12, 2006. UBS sold \$50 million at 3.15 percent to October 11, 2006.

ALCo Project Notes, 2005 General Fund First Series

Project proceeds of \$81,850,000 ALCo 2005 General Fund First Series delivered on June 8, 2005 to provide for the financing of the Phase II Tobacco Settlement Payments were returned to the state in late 2005. The proceeds must be yield restricted and applied to General Fund supported bond projects, specifically the infrastructure for economic development fund for tobacco counties.

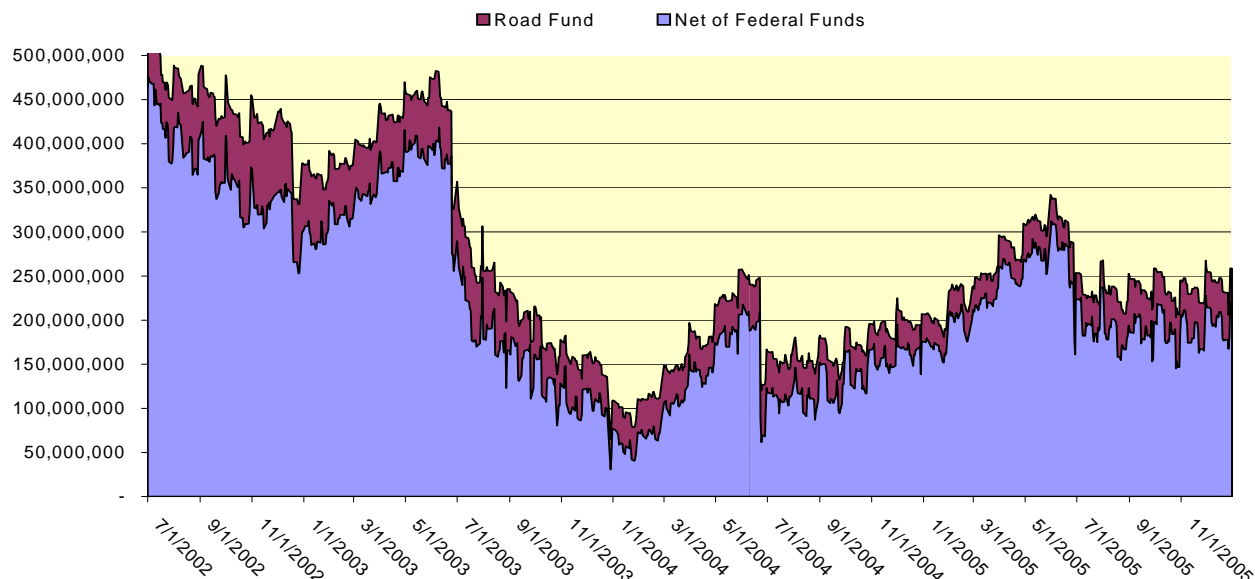
ROAD FUND

The Road Fund average daily cash balance for the first half of fiscal year 2006 was \$235 million compared to \$172 million for the first half of fiscal year 2005. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 1.24 years as of December 31, 2005. The Road Fund earned \$1.3 million on a cash basis for fiscal year-to-date 2006 versus \$1.7 million for the same period in fiscal year 2005. The low level of investable balances and relatively large debt authorization limited the opportunity to implement new asset liability management strategies at this time. The GARVEE authorization of \$150 million and one-half of the \$450 million traditional Road Fund authorization were sold by June 30, 2005. The balance of the Road Fund authorization will be issued by fiscal year end 2006.

As of December 31, 2005, TAK had \$831 million of bonds outstanding with a weighted average coupon of 4.81 percent, modified duration of 3.65 years, and yield at market of 3.67 percent. Selected maturities of the Resource Recovery 1985A and Toll Road 1986A bonds with the most economical value are associated with the financial agreements identified previously. The currently callable 1995 Economic Development Road Revenue Bonds were synthetically and subsequently traditionally refunded.

Road Fund debt service paid, net of reserve fund credits for fiscal year-to-date 2006, was \$30.2 million resulting in a net interest margin (investment income earned less debt service paid) of negative \$28.8 million. The negative amount stems from the level of investable balances and a general low level of interest rates on the investment side and limited callability of fixed rate obligations on the liability side. While cash balances have improved, they are not sufficient to offset interest expenses.

Road Fund Available Balance



TAK 2006 A & B

TAK will issue Economic Development Road Revenue Bonds (Revitalization Projects) 2006 Series for the remaining \$225,000,000 of Road Fund bond authorization. These Revitalization Projects include street and highway improvements that are a part of a local roads bond program. This transaction was sold in February 2006 with a Series A current delivery in March 2006 and a Series B forward delivery in June 2006.

AGENCY FUND

SPBC 86

SPBC issued \$5,840,000 of Agency Fund revenue bonds for the Kentucky State Fair Board. The SPBC 86 bonds were delivered on September 14, 2005 to provide for the initial funding of the \$55 million East Wing renovation of the Kentucky Fair & Exposition Center in Louisville. The project also has General Fund bond authorization. The transaction is insured by Ambac Assurance Corporation (“AMBAC”), has a debt service reserve, capitalized interest, a ten year call, and a final maturity of May 1, 2023. The 20 year level debt has an all-in TIC of 4.37 percent.

ALCo University of Kentucky General Receipts Project Notes, 2005 Series A

The \$107,540,000 ALCo UK General Receipts Notes provide financing for a portion of the University Hospital Expansion. The University has pledged its General Receipts as security for the Notes which were delivered November 8, 2005. The transaction is insured by Financial Guaranty Insurance Company (FGIC), has a ten year call option and a final maturity of October 1, 2025. The new General Receipts program, supported by the state intercept, was rated Aa3 by Moody's and AA- by S & P. The 20 year level debt has an all-in TIC of 4.36 percent.

ALCo Project Notes, 2005 Agency Fund Second Series

Agency Fund supported bond projects not already financed by the university, ALCo and SPBC have been placed under a plan of finance. The ALCo Agency Fund Second Series interim financing note program allows the state universities and state agencies to receive funding for their projects as needed. The Program's first two draws were for projects for the Cabinet for Economic Development (2005 Series A-1) and for the University of Louisville (2005 Series A-2), both delivered on December 15, 2005. The Notes will bear a variable interest rate, reset weekly, based on a fixed spread to BMA to be determined by the rating assigned to the Note Series. The private placement of the Notes is with Citigroup Global Markets, Inc. At December 31, 2005, \$15,615,000 was outstanding under the \$225,000,000 Note Program. The initial series both received ratings of A1 by Moodys and will be priced at BMA plus 45 basis points.

Summary

ALCo's approach to managing the Commonwealth's interest-sensitive assets and interest-sensitive liabilities continues to produce excellent results.

Investments. At fiscal year end 2003, incremental returns derived from new investment asset classes reached \$27 million since inception. The program continues but is no longer monitored for incremental value.

Cash Management. Cash management improved dramatically with the implementation of the General Fund TRAN program producing \$3.2 million in fiscal year 1998, \$4.7 million in fiscal year 1999 and \$7.3 million in fiscal year 2000. Economic benefit for fiscal year 2001 was \$6.5 million, fiscal year 2002 was \$4.3 million and fiscal year 2003 was \$0.3 million. No TRAN was issued for fiscal year 2004. In fiscal year 2005, the TRAN provided \$2.8 million net benefit. The fiscal year 2006 TRAN to date has achieved \$3.3 million in net income and is expected to produce approximately \$6.2 million in total net income for a cumulative benefit of \$35 million.

Debt Management. Debt service savings have contributed an estimated \$363 million in value added since inception.

Total value added since inception is in excess of \$425 million.

APPENDIX



APPENDIX A SWAP SUMMARY

	TAK RR 85A Total Return	TAK RR 85A Fixed	TAK TR 86A Total Return	TAK TR 86A Fixed
Fund Source	Road Fund	Road Fund	Road Fund	Road Fund
Hedge	Net Interest Margin	Total Return	Net Interest Margin	Total Return
Counter-Party	Morgan Stanley	Morgan Stanley	Morgan Stanley	Morgan Stanley
Counter-Party Ratings*	Aa3/A+/AA-	Aa3/A+/AA-	Aa3/A+/AA-	Aa3/A+/AA-
Termination Trigger	BBB-/Baa3	BBB-/Baa3	BBB-/Baa3	BBB-/Baa3
Swap Type	Variable Pay	Fixed Pay	Variable Pay	Fixed Pay
Benchmark	BMA	BMA	BMA	BMA
Reset	Weekly	Weekly	Weekly	Weekly
Notional Amount	56,485,000	56,485,000	29,615,000	29,615,000
Amortize (yes/no)	no	no	yes	yes
Execution Date	4/23/2001	9/20/2001	7/24/2001	7/24/2001
Start Date	5/24/2001	9/27/2001	1/3/2002	1/3/2002
End Date	7/1/2007	7/1/2009	1/1/2007	7/1/2007
Fixed Rate pay-(rec)	(6.000%)	3.870%	(5.50%)	4.150%
Day Count	30/360	30/360	30/360	30/360
Payment Dates	Jan. 1 & July 1	Jan. 1 & July 1	Jan. 1 & July 1	Jan. 1 & July 1
Security Provisions	Road Fund Inv.	Road Fund Inv.	Road Fund Inv.	Road Fund Inv.
Current Market Valuation December 31, 2005	0.00	0.00	0.00	0.00
Interest Earnings				
Cumulative Prior Periods	147,727	3,679,646	0.00	1,380,003
Current Period - 12/31/2005	0.00	430,853	0.00	136,521
Total	147,727	4,110,499	0.00	1,516,524

* Moody's, S&P, Fitch

As of December 31, 2005:

Total Notional Amount Executed

Fund Source Total		Counter Party
General Fund	Road Fund	Morgan Stanley
0	172,200,000	172,200,000

Net Exposure Notional Amount

Fund Source		Counter Party
General Fund	Road Fund	Morgan Stanley
0	0	0

10 Percent Net Exposure

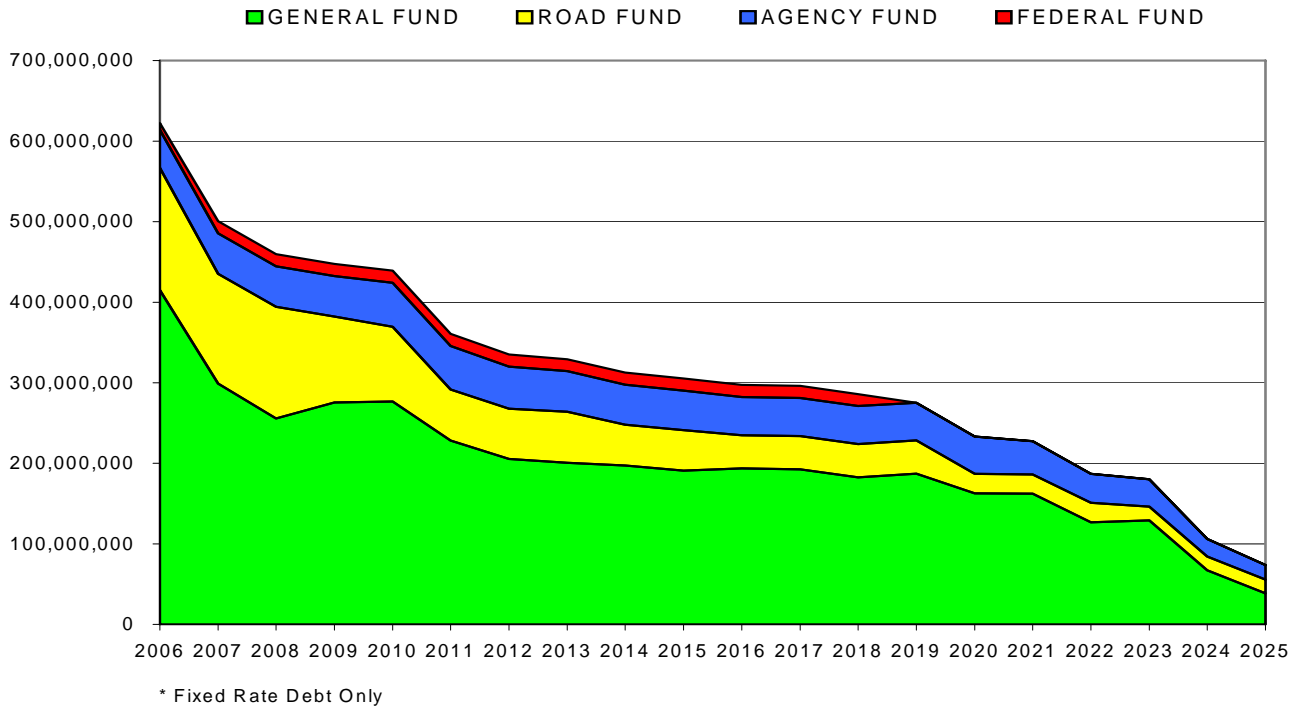
Debt Outstanding		10 Percent	
General Fund	Road Fund	General Fund	Road Fund
2,367,920,052	909,422,118	236,792,005	90,942,212

10 Percent Investment Portfolio

Investment Pool Balance		10 Percent	
Other Funds	Net Road Fund	Other Funds	Net Road Fund
3,890,426,726	219,708,391	389,042,673	21,970,839

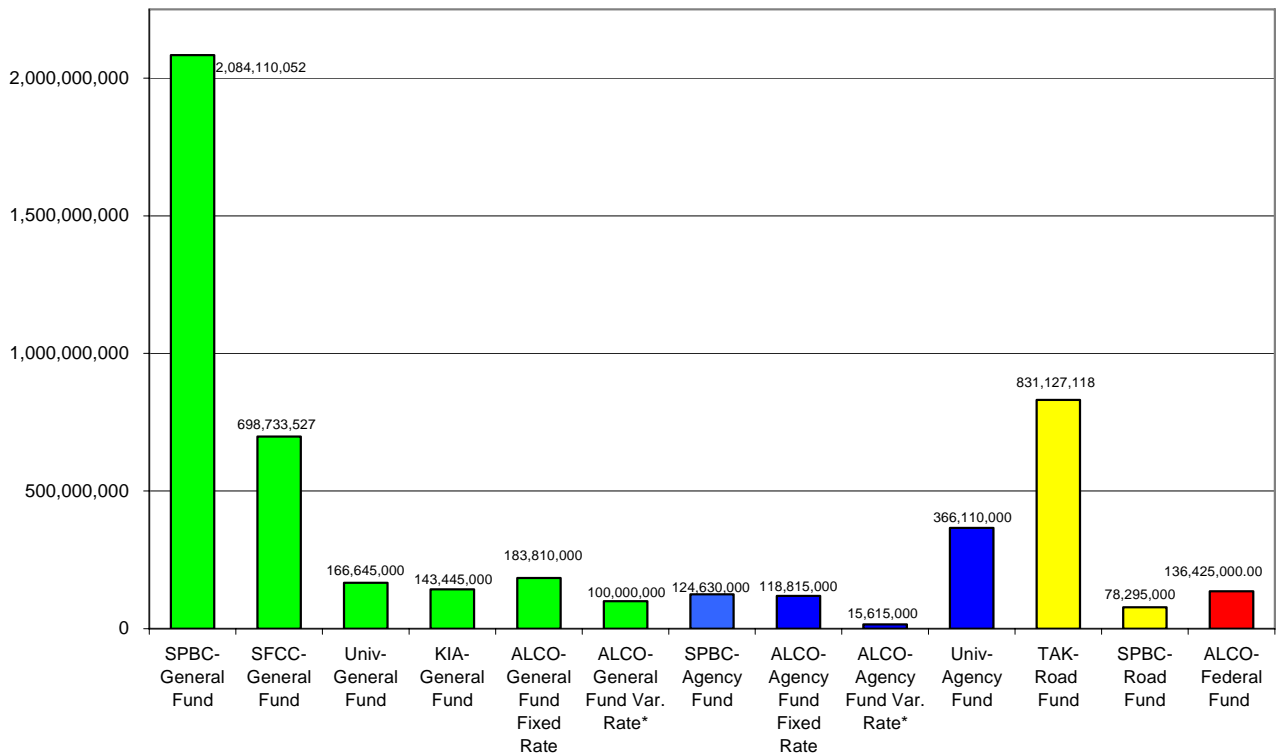
APPENDIX B

Appropriation Support Debt Service by Fund Source As of 12/31/05



APPENDIX C

Appropriation Debt Principal Outstanding by Fund Source As of 12/31/05



* Variable Rate Debt=Bond Anticipation Notes