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# **Asset/Liability Commission**

**Semi-Annual Report**

**For Period Ending December 31, 1999**





**Commonwealth of Kentucky**

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*Pursuant to KRS 56.863(11), the Office of Financial Management is required to report to the Capital Projects and Bond Oversight Committee and the Joint Committee on Appropriations and Revenue on a semiannual basis, by September 30 and March 31 of each year, the following: (a) a description of the Commonwealth's investment and debt structure; (b) the plan developed to mitigate the impact of fluctuating revenue receipts on the budget and fluctuating interest rates on the interest-sensitive assets and liabilities of the Commonwealth; (c) the principal amount of notes issued, redeemed and outstanding and a description of all financial agreements entered into during the reporting period; and (d) a summary of gains and losses associated with financial agreements and any other cash flow strategies undertaken by the commission to mitigate the effect of fluctuating interest rates during each reporting period.*

*This report is for the period July through December of fiscal year 2000. To request additional copies of this report, contact Tom Howard at (502) 564-2924.*

*A copy of the report can be found on OFM's web site as: <http://ofmeaweb.fi.state.ky.us/ofm/alcosemi-reports.html>*

## *Introduction*

*This is the Commission's sixth semi-annual report under KRS 56.863(11) for the period beginning July 1, 1999 through December 31, 1999. Key themes during the first half of FY2000 were:*

- *Robust strength of the domestic economy and equity markets.*
- *Y2K Issues*
- *The Federal Reserve Bank increased short-term interest rates significantly.*
- *Investments generated lower total return as a result of rising interest rates.*
- *Debt activity increased dramatically during the first half of FY2000, with the availability of debt service for capital projects authorized in the FY98-00 budget.*

## Investment Management

### Market Overview:

#### *Taxable:*

The Federal Reserve raised the Fed Funds Rate 25 basis points on June 30, August 24 and again on November 16, 1999. The Fed Funds Rate target began the period at 4.75% and closed the year at 5.50%. While the Fed Funds target may have been 5.50% at year-end, the actual trading levels were closer to 4% as the Fed made sure that ample liquidity was made available to avert any Y2K concerns. The curious part of each of the Fed's actions was that the bias toward future actions was stated to be neutral. One possible explanation is that the neutral bias was to avoid any Y2K related fears since the Fed changed how they will communicate the likelihood of future rate actions. The new policy, which became effective after the first of the year, is intended to clarify intentions and diminish speculation. Seasonal factors and the recent tightening activity caused the housing market to pause briefly, but has no impact on the stock market or holiday sales. The stock market's wealth effect, strong consumer confidence and alternative financing mechanisms appear to have had, at least temporarily, an impact on the Fed's ability to influence economic activity through short-term interest rates. Additionally, tight labor markets, global economic strength and a soaring trade deficit pummeled the fixed income markets into one of the worst years in history.

#### *Treasury Yields*

The two-year Treasury Note began the period at the low of 4.44% before rising to a high at year-end of 6.24%, increasing 180 basis points or approximately 41%. The average was 5.42% for the six-month period and 5.77% for the twelve months ended December 31, 1999. The benchmark 30-year Treasury Bond experienced a low of 5.06%, a high of 6.49% and averaged 6.145% for the six-month period and 5.87% for the year.

#### *Yield Relationships*

As discussed in the previous report, the relationship between treasury securities and other asset classes, including municipal securities, has become increasingly volatile. The yield relationships among fixed income security classes have been influenced by financial crisis abroad; federal surpluses, which have decreased borrowings and increased the likelihood of paying down the debt; alternative means of financing (asset backed securities, equity currency etc.); unprecedented economic growth and productivity; and concerns over inflation. As a result, the capital markets have been looking for new benchmarks to derive fixed income security values. Several federal housing agencies such as, Fannie Mae and Freddie Mac, are attempting to provide the liquidity and stability not found in the treasury market and several large corporate issuers are likely to become benchmarks for the non-government market. Municipal bonds are still being evaluated as a ratio to treasury securities, but issuers such as the State Property and Buildings Commission are increasingly being traded at yield spreads against industry consensus scales published by sources such as the Municipal Market Data's AAA General Obligation yield curve. Depending upon the applicable maturity, the yield spread is currently in the 15-20 basis point range.

***Tax-exempt:*** The Bond Buyer 20 General Obligation Index rose from 4.96% to 6.00% at year end, averaging 5.44% for the year and 5.72% for the semi-annual period. Yield ratios versus treasuries,

continued to trade at the higher end of the spectrum and ended the year above 90%. Retail investors continue to be the primary market for new issue municipals, as current coupon levels reached the highest levels seen in five years. Institutional demand remains tepid, due to redemptions of municipal bond funds and more attractive yields in the taxable corporate sector.

The short-term tax-exempt market as measured by the 7-day Bond Market Association Municipal ("BMA") Swap Index ranged from a low of 2.17% to 5.46% and finished the year at the high. The BMA averaged 3.29% for the year and 3.50% for the six-month period or approximately 62.7% and 63.3% of one-month U.S Dollar LIBOR ("London Interbank Offered Rate" for 30 day U.S. dollar deposits in London by major banks), respectively.

**Portfolio Management:** FY2000 YTD the Commonwealth's investment portfolio averaged \$3.0 billion. As of December 31, 1999, the portfolio was invested in U.S. Treasury securities (18%), U.S. Agency securities (32%), Municipal securities (5%), Corporate securities (11%), U.S. Agency Mortgage Backed Securities and Collateralized Mortgage Obligations (10%), Asset Backed Securities (3%), Repurchase Agreements (20%) and Money Market Securities (1%). The portfolio had a current yield of 5.79% and duration of 1.76 years.

The total portfolio is broken down into four investment pools. The balances in the pools as of December 31, 1999 were: the Short-term Pool (\$452 million), the Intermediate-term Pool (\$1,951.5 million), the Long-term Pool (\$395.9 million) and the Bond Proceeds Pool (\$200 million). See **Exhibit 1**, the December 31, 1999 Monthly Investment Income Report.

The Commonwealth's investments earned \$67.4 million and 4.38% on a total return basis through December 31, 1999. The decrease in total return is directly attributable to the rising interest rate environment during the first half of FY00. When interest rates rise, the market value of fixed income securities decreases. Total return calculations include unrealized gains and losses from changes in market value in the rate of return quoted for a given period of time and would not result in an actual gain/loss unless securities are sold prior to stated maturity or call date.

The General Fund portion of total income was \$11.1 million on a cash basis. New asset classes authorized under House Bill 5 of the 1997 First Extraordinary Session of the General Assembly contributed \$2,638,951 million of which \$595,733 has been allocated to the General Fund for FYTD00. Mortgages added the bulk of the earnings, generating \$1.7 million while corporate securities added \$.9 million. The increased duration attributable to the Long-term Investment Pool reduced income by \$(1.6 million), which is applied to the Budget Reserve Trust Fund (\$.7 million) and the Road Fund (\$.8 million) during the period.

## **Debt Management**

### ***Tax and Revenue Anticipation Notes***

#### **1999 TRAN**

The Commission authorized the FY99-00 TRAN program in an amount not to exceed \$401 million. On July 1, 1999 \$300 million was issued to mature on June 28, 2000. The expenditure test for Series A was met on August 23, 1999. The second series of TRANs was issued on November 1, 1999 to meet additional expenditure demands, up to the authorized amount of the program. The expenditure test for Series B was achieved on November 1, 1999. To date the projected net benefit to the General Fund for FY2000 remains at \$4.5 million. The 1999 TRAN program was marketed by Salomon Smith Barney, Inc.

*A summary of the TRANs and Project Notes may be found in Table 1 on page 5.*

### ***General Fund Supported Project Notes (“Notes”)***

#### ***1998 General Fund First Series***

The Notes were originally issued on February 4, 1998 to fund approximately \$144.1 million in capital construction projects authorized during the FY96-98 biennium. The Notes have a mandatory redemption date of June 30, 2001 and are offered by Bear, Stearns & Company in the Commercial Paper mode. The Notes are supported by a direct-pay letter of credit issued by the New York branches of Landesbank Hessen-Thuringen Girozentrale and HypoVereinsbank AG, two of Germany’s leading banks. As of December 31, 1999 \$134.4 million in notes were outstanding. The projects have expended approximately 90% of the Note proceeds. The Notes will be refunded through the issuance of State Property and Buildings Commission Revenue Bonds, Project 65 to be offered by Merrill Lynch on February 2, 2000. The bonds will settle February 16, 2000 and the proceeds will be used to economically defease the Notes, which will mature on April 14, 2000. The delay from the settlement date on the bonds to the maturity date of the Notes allows the Commonwealth to earn legal arbitrage that arises from the investment of the proceeds at a taxable rate of return versus the tax-exempt rate on the Notes. This enables the Commonwealth to reduce the amount of bond proceeds necessary to redeem the Notes.

#### ***1998 General Fund Second Series***

The Commission issued the Second Series of General Fund supported Project Notes on November 5, 1998 to fund \$126,898,000 of Surplus Expenditure Plan projects authorized in the FY98-00 budget. This series of Notes was issued as a one-year fixed rate note to yield 2.95% and matured on November 1, 1999. These Notes were converted to permanent financing by State Property and Buildings Commission Revenue Bonds Project 64 issued on September 1, 1999. The combined all-in cost of financing for these projects, including the ALCo interim financing and the permanent financing by SPBC was 5.19%. The Notes were marketed by Lehman Brothers and the bonds were sold by Merrill Lynch.

#### ***1999 General Fund First Series***

On March 17, 1999 the Commission delivered \$49,195,000 of fixed rate Project Notes to permanently fund the University Research and Laboratory Equipment, Commonwealth Virtual University/Library and Technology for the Kentucky Community and Technical College System Automated Administrative Systems. The transaction was structured with seven annual serial maturities to match the expected useful life of the equipment with the bonds and debt service appropriations. As mentioned in the previous report

**TABLE 1**  
**Kentucky Asset/Liability Commission**  
 Debt Summary  
*December 31, 1999*

<b>TRAN</b>	<b>Amount Issued</b>	<b>Amount Outstanding *</b>	<b>Dated Date</b>	<b>Maturity Date</b>	<b>Coupon</b>	<b>Price</b>	<b>Yield</b>
1999 Series A	\$ 300,000,000	\$300,000,000	07/01/99	06/28/00	4.25%	100.839	3.375%
1999 Series B	\$ 101,000,000	\$101,000,000	11/1/1999	06/28/00	4.50%	100.430	3.830%

<b>PROJECT NOTES</b>	<b>Authorized Amount</b>	<b>Amount Outstanding</b>	<b>Initial Date</b>	<b>Maturity Date</b>	<b>Initial Coupon</b>	<b>Price</b>	<b>Yield **</b>
<b>General Fund</b>							
1998 First Series	\$ 157,000,000	\$134,400,000	02/04/98	06/30/01	3.55%	100.000	3.325%
1998 Second Series	\$ 126,500,000	\$126,500,000	11/05/98	11/01/99	3.50%	100.528	2.950%
1999 First Series	\$ 49,195,000	\$ 49,195,000	03/01/99	03/01/06	4.00%	99.941	4.144%
1999 Second Series	\$ 135,000,000	\$ 20,280,000	08/25/99	06/30/03	3.25%	100.000	3.441%
1999 Third Series	\$ 138,000,000	\$ 20,280,000	09/23/99	06/30/03	3.70%	100.000	3.700%
1999 Fourth Series	\$ 135,000,000	\$ 20,000,000	11/07/99	06/30/03	3.90%	100.000	3.900%
<b>Road Fund</b>							
1999 First Series	\$ 78,000,000	\$ 75,200,000	10/06/99	06/30/03	3.65%	100.000	3.650%
1999 Second Series	\$ 128,000,000	\$ 25,000,000	10/27/99	06/30/03	3.70%	100.000	3.705%
<b>Agency Fund</b>							
1998 Agency Fund	\$ 110,000,000	\$ 28,305,000					3.333%
<i>UK Stadium</i>		\$ 25,260,000	09/02/98	06/30/02	3.35%	100.000	
<i>Morehead H &amp; D</i>		\$ 3,045,000	04/21/99	06/30/02	3.20%	100.000	

\* Amount Outstanding as of December 31, 1999

\*\* Weighted average yields from inception to December 31, 1999



this transaction employed an unusual optional redemption provision rarely seen in municipal transactions, that being a 4-year call option at par. Normally, a note with such a call provision would carry a significant yield premium over non-callable notes. Due to inefficiencies in the market and strong retail demand for short-term paper with yields of 4% or more the Notes were able to be sold at levels equivalent to non-callable notes. The Notes were sold by Salomon Smith Barney.

### ***1999 General Fund Second Series***

On August 25, 1999 the Commission sold \$20,280,000 of Project Notes. The Notes were issued in the Commercial Paper mode and provided interim financing for \$133,902,000 of FY98-00 General Fund authorized bond projects. One project, the State Office Building Asbestos Removal (Transportation Cabinet), was transferred from the 1998 General Fund First Series, given expenditure expectations. The Notes are supported by a direct-pay letter of credit provided by Credit Local de France, which recently changed their name to Dexia. Merrill Lynch is the remarketing agent for the Notes and for the bonds when issued.

### ***1999 General Fund Third Series***

On September 23, 1999 the Commission delivered \$20,280,000 of Project Notes. The Notes were issued in the Commercial Paper mode to provide interim financing for \$136,509,000 of FY98-00 General Fund authorized bond projects. Bayerische Landesbank Girozentrale provides a direct-pay letter of credit to support the transaction. Paine Webber is the remarketing agent for the Notes and the bonds, when issued.

### ***1999 General Fund Fourth Series***

On November 17, 1999 the Commission sold \$20,000,000 of Project Notes. The Notes were issued in the Commercial Paper mode to fund the balance of FY98-00 General Fund bond authorized projects in the amount of \$132,139,000. The Fourth Series Trust Indenture varies from the 1999 General Fund Second and Third Series Indentures in that it includes an additional interest rate mode, the Index Rate, which is based upon BMA or a percentage of LIBOR. The addition of the Index Rate provides the Commission the flexibility to issue additional Notes without credit or liquidity support. The marketability of such Notes has not been established and may prove to be cost prohibitive. Staff, however, believes that an alternative to bank support is desirable should the bank credit or liquidity facility market change from the favorable levels experienced in recent transactions. J.P. Morgan provides a stand-by letter of credit for this transaction. A stand-by letter of credit is essentially the same as a direct-pay letter of credit except that the bank only makes the payment on the Notes, if the Commonwealth fails to make timely payment. An additional benefit is the elimination of draw fees, except in the event of non-payment, and deposits in the Note Payment Fund are treated more favorably from the Commonwealth's perspective. Salomon Smith Barney is the remarketing agent for the Notes and the bonds, when issued.

## ***Road Fund Supported Project Notes***

### ***1999 Road Fund First Series***

On October 6, 1999 the Commission sold \$75.2 million of Project Notes. The Notes were sold in the Commercial Paper mode to fund the first \$75 million in expenditures for the FY98-00 \$200 million Road Bond authorization. The original \$200 million authorization was split into two pieces based upon anticipated expenditures and ability to meet the IRS spend-down requirements. Through calendar year-end, approximately \$38 million has been spent. This is the first Road Fund supported transaction since

the issuance of Turnpike Authority bonds issued in 1995. A stand-by letter of credit is being provided by J.P. Morgan and the Notes are being marketed by Salomon Smith Barney.

### ***1999 Road Fund Second Series***

On October 27, 1999 the Commission delivered \$25,000,000 of Project Notes. The Notes were issued in the Commercial Paper mode to fund the remaining balance of the original \$200 million of Road Bond authorization. This series of Notes will provide cash for obligations, which have been or will be encumbered and expended in the near future. Westdeutsche Landesbank Girozentrale (West LB) provides a stand-by letter of credit and Lehman Brothers is the remarketing agent.

## ***Agency Fund Supported Project Notes***

### ***1998 Agency Fund Series***

The projects consist of the Agency Bond Pool (\$35 million) and approximately \$63.1 million in line item agency funded bond projects, including the UK stadium expansion, UK Rural Health Center, EKV Law Enforcement Training Facility, KHEAA building and the Kentucky River Authority lock and dam improvements. It is anticipated that all of the \$63.1 million line item Agency Fund projects will receive their initial funding through this program. Ultimately these projects will be converted to permanent financing via the issuance of State Property and Buildings Commission Revenue Bonds. These bonds will be supported entirely by restricted agency receipts. Participants in the Agency Bond Pool (state universities) have the option of using this program to meet their financing needs and as a result only a small portion of the \$35 million will be funded through this program. This program offers the same benefits as the General Fund program to state universities and other agencies, which previously did not have access to such a financing mechanism. The Agency Fund Project Notes are supported by a direct-pay letter of credit issued by Commerzbank AG and are marketed by Lehman Brothers, Inc.

The initial series of Notes, in the amount of \$25,260,000, was delivered on September 2 and September 17, 1998 to fund the UK stadium expansion. These Notes capitalized interest until September 1, 1999, when the project was available for use and able to generate revenues to service the obligation. On September 1, 1999 the Notes were split into two series, tax-exempt Series A Notes and taxable Series C Notes. The \$4,810,000 Series C Notes result from private use of portions of the facility. A second series of Notes, in the amount of \$3,045,000 was issued on behalf of Morehead State University to fund housing and dining projects on April 21, 1999.

### ***Project Note Performance***

Summaries of Project Note performance can be found in Tables 2 and 3 with accompanying graphs that display the dollar weighted average yields of the various note programs for the applicable time periods. Table 2 compares the dollar weighted average yields excluding fees and expenses, while Table 3 includes ongoing expenses such as credit facility and re-marketing fees. **Exhibit II** contains a summary of all outstanding credit facility arrangements. Since most of the credit facilities are structured as a utilized/unutilized letter of credit the weighted average yields for newly established issues will naturally be higher than more mature issues with larger dollar amounts outstanding. Additionally, timing of draws, particularly large draws, can influence the yield significantly over the short term.

The original issuance, the 1998 General Fund Series Project Notes, is the most useful series of Notes to use in evaluating performance of the program as this series has been outstanding for a reasonable period of time and has a sufficient dollar amount outstanding. The result is that the Commission's paper is trading on parity with the benchmark, which is quite an accomplishment since this is the very first program issued by the Commission. Important factors in attaining this goal are strength of the credit facility provider (Helaba HypoVeriensbank) and a strong re-marketing agent (Bear Stearns). The remaining series of Project Notes were issued in relatively small amounts over a condensed period of time, it will be interesting to watch the evolution of these programs to see the trading value of certain credit facility providers and marketing prowess of the pool of dealers.

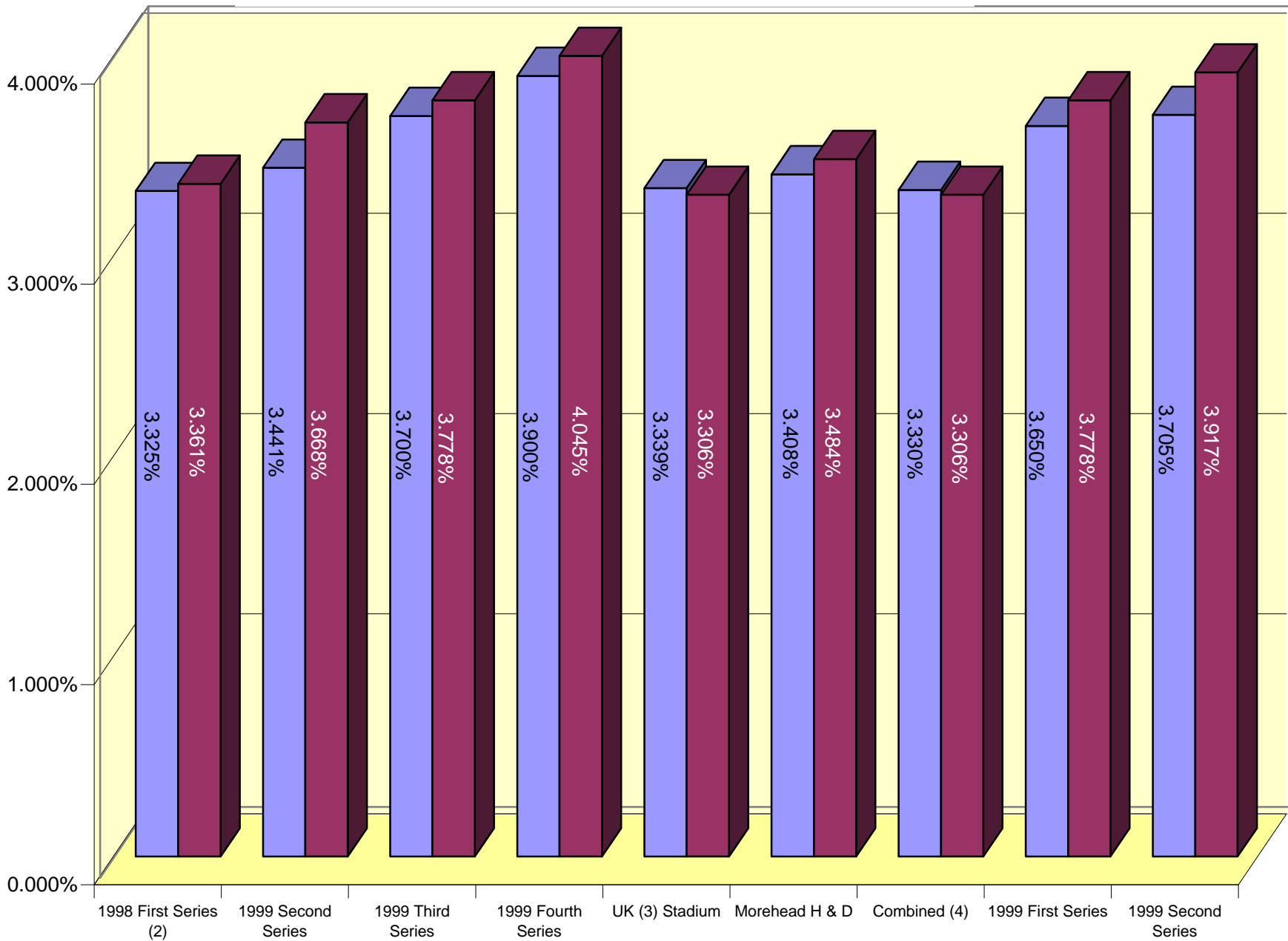
**TABLE 2**  
**Project Note Performance**  
 Weighted Average Yields VS. BMA

	General Fund				Agency Fund			Road Fund	
	1998 First Series (2)	1999 Second Series	1999 Third Series	1999 Fourth Series	UK (3) Stadium	Morehead H & D	Combined (4)	1999 First Series	1999 Second Series
Dated Date	2/4/1998	8/25/1999	9/23/1999	11/7/1999	9/2/1998	4/21/1999	9/2/1998	10/6/1999	10/27/1999
Inception Weighted Average Yields (1)									
<b>December 31, 1999</b>	<b>3.325%</b>	<b>3.441%</b>	<b>3.700%</b>	<b>3.900%</b>	<b>3.339%</b>	<b>3.408%</b>	<b>3.330%</b>	<b>3.650%</b>	<b>3.705%</b>
BMA	3.361%	3.668%	3.778%	4.045%	3.306%	3.484%	3.306%	3.778%	3.917%
Difference	-0.036%	-0.227%	-0.078%	-0.145%	0.033%	-0.076%	0.024%	-0.128%	-0.212%
<b>June 30, 1999</b>	<b>3.294%</b>	-	-	-	<b>3.165%</b>	<b>3.200%</b>	<b>3.167%</b>	-	-
BMA	3.311%	-	-	-	3.189%	3.437%	3.189%	-	-
Difference	-0.017%	-	-	-	-0.024%	-0.237%	-0.022%	-	-

- (1) Excludes credit facility and remarketing fees
- (2) Includes taxable component for 29 days
- (3) UK Stadium includes a taxable component
- (4) Agency Fund Combined includes taxable component

**TABLE 2-A**  
**Weighted Average Yields**  
 (Excluding Fees)

December 31, 1999      BMA



**TABLE 3**  
**Cost of Capital**  
 Weighted Average Yields w/ Fee Costs

	General Fund				Agency Fund			Road Fund	
	1998 First Series (1)	1999 Second Series	1999 Third Series	1999 Fourth Series	UK (2) Stadium	Morehead H & D	Combined (3)	1999 First Series	1999 Second Series
Project Amount	144,098,000	133,902,000	136,509,000	132,139,000	24,000,000	2,970,000	26,970,000	75,000,000	125,000,000
Total Credit Available	149,689,639	143,654,795	146,847,124	53,205,480	26,546,797	3,240,214	30,119,622	80,021,041	133,013,699
Dated Date	2/4/1998	8/25/1999	9/23/1999	11/17/1999	9/2/1998	4/21/1999	9/2/1998	10/6/1999	10/27/1999

Inception Weighted Average Yields - **Includes Fees**

**December 31, 1999**

Average Notes Outstanding	91,051,724	20,280,000	20,280,000	20,000,000	24,927,490	3,045,000	26,518,909	75,200,000	25,000,000
Weighted Yields	3.325%	3.441%	3.700%	3.900%	3.339%	3.408%	3.330%	3.650%	3.705%
Remarketing Fee	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%
Credit Facility Fee	0.184%	0.766%	0.832%	0.347%	0.216%	0.280%	0.217%	0.213%	0.664%
Average Cost of Funds	<b>3.569%</b>	<b>4.267%</b>	<b>4.592%</b>	<b>4.307%</b>	<b>3.615%</b>	<b>3.748%</b>	<b>3.607%</b>	<b>3.923%</b>	<b>4.429%</b>

**June 30, 1999**

Average Notes Outstanding	75,473,438	-	-	-	24,724,901	3,045,000	25,430,695	-	-
Weighted Yields	3.294%	-	-	-	3.165%	3.200%	3.167%	-	-
Remarketing Fee	0.060%	-	-	-	0.060%	0.060%	0.060%	-	-
Credit Facility Fee	0.205%	-	-	-	0.213%	0.192%	0.213%	-	-
Average Cost of Funds	<b>3.559%</b>	-	-	-	<b>3.438%</b>	<b>3.452%</b>	<b>3.440%</b>	-	-

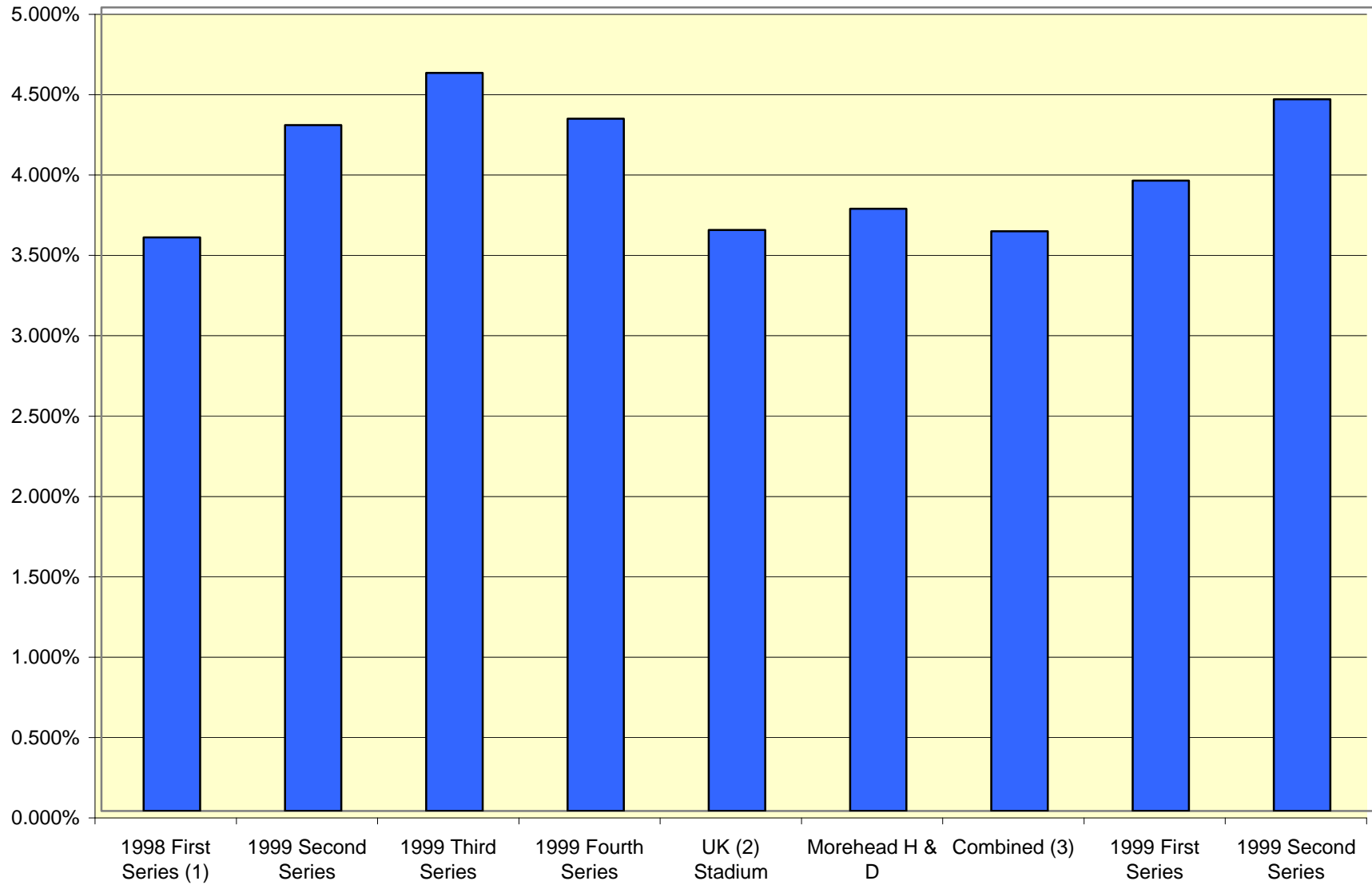
(1) Includes taxable component for 29 days

(2) UK Stadium includes a taxable component

(3) Agency Fund Combined includes taxabale component

**TABLE 3-A**  
**Weighted Average Yields**  
(Including Fees)

■ December 31, 1999



## **Financial Agreements**

The Commission had one financial agreement outstanding as of December 31, 1999, which was entered into on August 3, 1998 with Merrill Lynch & Co. to synthetically advance refund a portion of State Property and Buildings Commission Project 40 (Second Series) Revenue Bonds that were not otherwise refundable. The Commission will receive a variable rate, equal to the rate on its variable rate notes that will refund the SPBC bonds, in exchange for making a fixed rate payment beginning on November 1, 2001. This type of transaction is known as an interest rate swap. The value of this transaction varies daily with changes in market rates of interest, as do all fixed income securities. As of December 17, 1999 that contract had a market value of \$61,579 versus \$1,224 at the end of the prior period. The increased positive market value is reflective of the general increase in interest rates, as the Commission has contracted to pay a fixed rate that is now below the current market rate. There is no realized gain or loss on the swap unless it is terminated prior to maturity.

In this particular transaction the Commonwealth makes fixed rate payments. If interest rates increase our swap increases in value and if interest rates decrease our swap has less value (meaning the bonds could be refunded at more attractive levels). If the swap were to obtain a substantial positive market value, then it is highly probable that the swap would be terminated to collect the savings in today's dollars. The Commission would then look to current refund the bonds on the call date for additional savings, if market rates were favorable. In any event, the SPBC will not pay any more than the coupon on the existing series of bonds. This effectively locks in the savings level with an opportunity to create additional savings. Alternatively, if the market value of the swap is negative, it is possible that the swap might be terminated at a loss and new bonds issued at a lower rate to offset the loss and preserve the original savings target. Factors that would influence the Commission's decision to terminate a swap would be a dramatic increase in credit facility fees and expenses, the slope of the tax-exempt yield curve, forward delivery premiums and the relationship of State Property and Buildings Commission bonds to relevant benchmarks.

The Commission continues to evaluate the merits of using several different financial agreement structures to provide additional value to the investment and debt management programs of the state. Any transactions will require acceptable documentation and favorable market conditions.

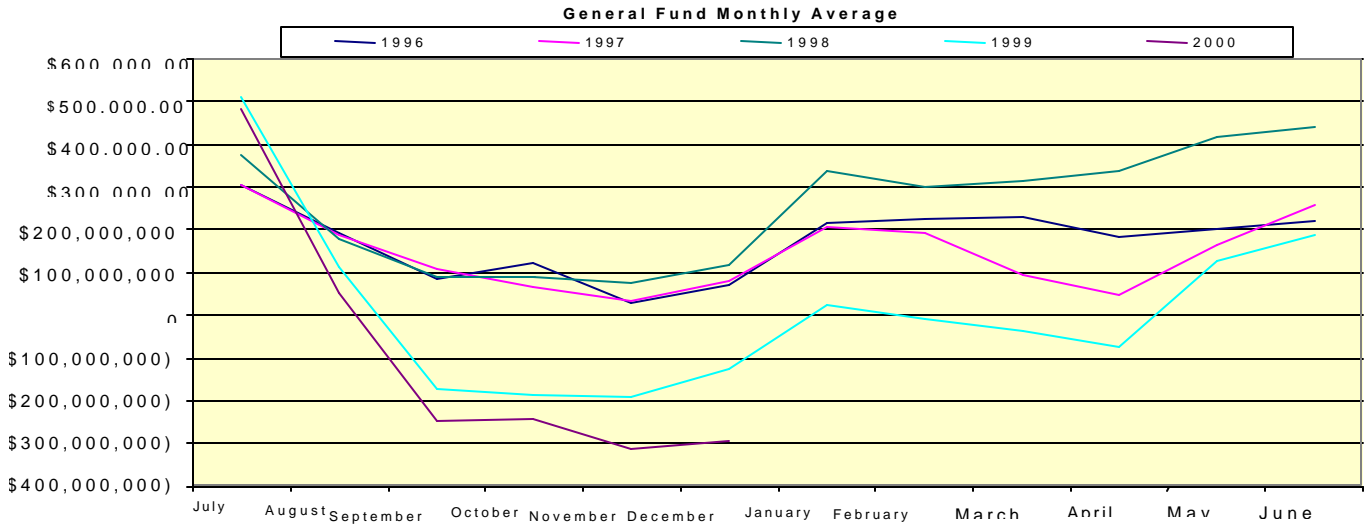
### ***Asset/Liability Model***

As previously reported, progress with the asset/liability model has been very frustrating, especially from a debt management perspective. The program that was acquired to perform these computations for the investment portfolio had a difficult time determining the proper relationships for tax-exempt securities from an issuer standpoint. Some progress was being made, but the software vendor dropped the product and all support, which forced staff to reevaluate a limited and generally expensive list of products. In addition, staff turnover has delayed certain aspects of establishing a valid model. At present, the most cost-effective option is an add-on product provided by one of our existing investment software vendors. The primary emphasis of this product is investment analytics, which will be very beneficial in managing the investment portfolio, however, its use for liability management has yet to be determined.

### ***General Fund Model***

The General Fund continues to be subject to seasonal fluctuations consistent with historical expenditure and receipt patterns.





Including the Budget Reserve Trust Fund, the high balance occurred on July 29, 1999 at \$587.4 million and the low on November 12, 1999 at minus \$367.5 million. The General Fund ended the calendar year with a balance of \$1 million. The average and median balances were a negative \$91.5 million and a negative \$240 million, respectively. For purposes of calculating the available balance for the TRAN computation, \$119.6 million of the Budget Reserve Trust Fund can be excluded. Taking into account this adjustment the balances were as follows: the high was \$467.8 million on July 29, the low was negative \$487 million on November 12, the average was negative \$211 and the median was negative \$360 million. The ending balance on an adjusted basis was negative \$118.5 million. Since \$150 million of the Budget Reserve Trust Fund is invested in the Long-term Investment Pool the adjusted balances more accurately reflect the actual cash balance in the General Fund. Adding back the difference between the excludable portion and the amount invested in the Long-term Investment Pool, the actual ending balance would be a negative \$14.9 million. Since the General Fund continued to have a negative average cash balance for most of the period 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 \$220.4 million through December 31, 1999 versus investment income of \$11.1 million, resulting in a negative net interest margin of (\$209.3 million). Debt service lapse resulting from Project Note management of capital construction projects is estimated to be \$26 million for FY2000, representing 11% of total General Fund debt service appropriations.

Given the magnitude of the lapse, it is prudent to ask the question...should the Commonwealth appropriate fewer debt service dollars for a given level of projects? The answer is no. The reason is that the appropriation of debt service at the state's template rate is what allows the Commonwealth to access the short-term debt markets, which ultimately provides the savings. There is uncertainty associated with any appropriation for future debt service (long or short-term) given the volatility of interest rates. As a result, credit facility providers, rating agencies and investors require that any capital program, that is not a pure general obligation pledge of revenues, have the ability to accommodate such fluctuations. These entities derive tremendous comfort that since 1990 through December 31, 1999 the average debt service template rate has been 7.50% versus the Bond Buyer 20 General Obligation Bond Index average of

6.01%. Since the state is being required by the market to provide the cushion regardless of how the projects are financed then it makes good financial sense to utilize the lowest cost of capital during the construction phase where the benefits are maximized.

### *Road Fund Model*

The Road Fund average daily balance for FYTD00 was \$681 million. Of that average amount, \$481 million was invested in the Intermediate-term Investment Pool and \$200 million in the Long-term Investment Pool. The duration of the respective pools was 1.99 years and 2.71 years as of December 31, 1999. The Road Fund earned \$16.7 million on a cash basis. The Road Fund continues to have substantial liquid assets, which are immune from the seasonal fluctuations experienced by the General Fund due to structural revenue receipt differences.

Given the increase in interest rates, there are no opportunities to refund any of the Turnpike Authority's existing debt, however, a financing team is in place should the opportunity arise. From a pure asset/liability perspective, the Road Fund's use of short-term variable rate debt for the capital construction process offers a hedge against some of the variability and unpredictability of short-term investment returns.

Previously, we had expected to issue a Road Fund Third Series to finance the \$68 million Road Fund portion of the Transportation office building, but given the desire to expand the project, reauthorization is being requested in the Governor's FY2000-2002 Executive Budget.

## Summary

The Commission's approach to managing the Commonwealth's interest-sensitive assets and interest-sensitive liabilities continues to produce the expected results:

- **Investments:** incremental returns derived from new investment asset classes are \$2.6 million for FYTD00 (12/31/99) and \$7.7 million since inception.
- **Cash Management:** has improved dramatically with the implementation of the General Fund Tax and Revenue Anticipation Note program producing \$3.4 million in FY98, \$4.7 million in FY99 and \$4.5 million is anticipated for FY00 for a total of \$12.6 million.
- **Debt Management** activities have contributed an estimated \$6.5 million in value-added.
  1. Funded initial construction at a lower cost of capital than utilizing internal resources that would have earned a taxable rate of return or long-term fixed rate financing. Estimated value to date of \$4 million (\$108 million average outstanding x rate differential (5.3% short-term pool yield -3.4%) project note yield) x 23/12).
  2. Maximized the amount of allowable arbitrage earnings by borrowing amounts reasonably expected to be expended, which provided an estimated value to date of \$1.5 million (\$52 million average advance borrowing x (4.9 % bond proceeds pool yield - 3.4%) x 23/12).
  3. Synthetic advanced refunding of SPBC 40 (Second Series) using a delayed start interest rate swap produced \$0.8 million as of the execution date.
  4. 1999 General Fund First Series provided an estimated savings of \$.2 million attributable to the unique call feature.

Lapsed debt service for FY99 was \$ 10 million and is expected to be \$26 million in FY00.

- **Total value added since inception, \$26.8 million.**

**MONTHLY  
INVESTMENT  
INCOME  
REPORT**

**DECEMBER 1999**

Date: 12/31/99

**PORTFOLIO SUMMARY  
POOLS**

	<b>TYPE</b>	<b>MARKET VALUE</b>	<b>MARKET YIELD (%)</b>	<b>DURATION (Years)</b>	<b>PERCENT of TOTAL</b>	<b>STATUTORY LIMIT</b>
<b>Treasuries</b>						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	517,964,550.00	6.09	2.09	17.82	
	Sub-total	517,964,550.00	6.09	2.09	17.82	
<b>Agencies</b>						
	Notes	956,610,000.00	6.65	2.64	31.93	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	956,610,000.00	6.65	2.64	31.93	
<b>Municipals</b>						
		155,599,000.00	5.77	2.12	5.17	
<b>Corporates</b>						
		335,606,000.00	6.24	1.74	10.88	25%
<b>Mortgages</b>						
	Pools	71,679,613.00	6.85	2.20	2.65	
	CMO's	231,832,640.00	6.85	1.93	7.57	
	Sub-total	303,512,253.00	6.85	1.99	10.22	25%
<b>Asset Backs</b>						
		119,967,132.00	6.77	1.30	3.46	20%
<b>Repurchase Agreements</b>						
	Overnight	518,000,000.00	2.88		16.96	
	< 30 days	60,139,338.00	5.31		1.97	
	< 60 days	186,411.00	3.86		0.01	
	< 90 days	1,670,674.00	4.70		0.05	
	< 1 year	3,364,251.00	4.14		0.11	
	< 2 years	5,582,767.00	5.69		0.18	
	> 2 years	0.00	0.00		0.00	
	Flex Repos					
	Sub-total	588,943,441.00	3.16		19.29	
<b>Money Market Securities</b>						
	Commercial Paper	20,150,000.00	5.97	0.19	0.66	A1-P1
	Bankers Acceptances	0.00	0.00	0.00	0.00	
	Certificates of Deposit	1,100,656.00	4.37	0.49	0.04	
	Sub-total	21,250,656.00	5.97	0.19	0.66	20%
<b>TOTALS</b>		2,999,453,032.00	5.79	1.76	100.00	

Date: 12/31/99

**PORTFOLIO SUMMARY  
SHORT TERM POOL**

	TYPE	MARKET VALUE	MARKET YIELD (%)	DURATION (Days)	PERCENT of TOTAL	STATUTOI LIMIT
Treasuries						
	Bills	0.00	0.00	0	0.00	
	Treasury Notes	0.00	0.00	0	0.00	
	Sub-total	0.00	0.00	0	0.00	
Agencies						
	Notes	10,000,000.00	5.14	73	2.21	
	Discounts	0.00	0.00	0	0.00	
	Sub-total	10,000,000.00	5.14	73	2.21	
Corporates						
		16,640,000.00	5.25	77	3.68	
Municipals						
		0.00	0.00	0	0.00	
Repurchase Agreements						
	Overnight	405,215,000.00	2.88		89.65	
	< 30 days	0.00	0.00		0.00	
	< 60 days	0.00	0.00		0.00	
	< 90 days	0.00	0.00		0.00	
	< 1 year	0.00	0.00		0.00	
	< 2 years	0.00	0.00		0.00	
	> 2 years	0.00	0.00		0.00	
	Flex Repos					
	Sub-total	405,215,000.00	2.88	1	89.65	
Money Market Securities						
	Commercial Paper	20,150,000.00	5.97	69	4.66	A1-P1
	Bankers Acceptances	0.00	0.00	0	0.00	
	Certificates of Deposit	0.00	0.00	0	0.00	
	Sub-total	20,150,000.00	5.97	69	4.66	
<b>TOTALS</b>		<b>452,005,000.00</b>	<b>3.15</b>	<b>9</b>	<b>100.00</b>	

Date: 12/31/99

**PORTFOLIO SUMMARY  
INTERMEDIATE TERM POOL**

	<b>TYPE</b>	<b>MARKET VALUE</b>	<b>MARKET YIELD (%)</b>	<b>DURATION (Years)</b>	<b>PERCENT of TOTAL</b>	<b>STATUTOI LIMIT</b>
<b>Treasuries</b>						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	348,764,550.00	6.02	1.91	18.64	
	Sub-total	348,764,550.00	6.02	1.91	18.64	
<b>Agencies</b>						
	Notes	725,150,000.00	6.65	2.64	37.12	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	725,150,000.00	6.65	2.64	37.12	
<b>Municipals</b>						
		129,764,000.00	5.64	2.01	6.59	
<b>Corporates</b>						
		293,341,000.00	6.29	1.75	14.50	25%
<b>Mortgages</b>						
	Pools	49,155,591.00	6.69	1.62	2.80	
	CMO's	175,163,346.00	6.79	1.72	9.06	
	Sub-total	224,318,937.00	6.77	1.70	11.86	25%
<b>Asset Backs</b>						
		99,910,132.00	6.81	1.32	4.37	20%
<b>Repurchase Agreements</b>						
	Overnight	58,236,000.00	2.88		2.92	
	< 30 days	60,139,338.00	5.31		3.01	
	< 60 days	186,411.00	3.86		0.01	
	< 90 days	1,670,674.00	4.70		0.08	
	< 1 year	3,364,251.00	4.14		0.17	
	< 2 years	5,582,767.00	5.69		0.28	
	> 2 years	0.00	0.00		0.00	
	Flex Repos					
	Sub-total	129,179,441.00	4.19		6.47	
<b>Money Market Securities</b>						
	Commercial Paper	0.00	0.00	0.00	0.00	A1-P1
	Bankers Acceptances	0.00	0.00	0.00	0.00	
	Certificates of Deposit	1,100,656.00	4.37	0.49	0.05	
	Sub-total	1,100,656.00	4.37	0.49	0.00	20%
<b>TOTALS</b>		1,951,528,716.00	6.27	1.99	100.00	

Date: 12/31/99

**PORTFOLIO SUMMARY  
LONG TERM POOL**

	<b>TYPE</b>	<b>MARKET VALUE</b>	<b>MARKET YIELD (%)</b>	<b>DURATION (Years)</b>	<b>PERCENT of TOTAL</b>	<b>STATUTORY LIMIT</b>
<b>Treasuries</b>						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	135,400,000.00	6.26	2.64	34.00	
	Sub-total	<u>135,400,000.00</u>	6.26	2.64	34.00	
<b>Agencies</b>						
	Notes	109,760,000.00	6.70	3.02	27.68	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	<u>109,760,000.00</u>	6.70	3.02	27.68	
<b>Municipals</b>						
		25,835,000.00	6.43	2.67	6.51	
<b>Corporates</b>						
		25,625,000.00	6.37	2.67	6.45	25%
<b>Mortgages</b>						
	Pools	22,524,023.00	7.17	3.42	7.13	
	CMO's	56,669,294.00	7.04	2.58	13.27	
	Sub-total	<u>79,193,317.00</u>	7.08	2.82	20.40	25%
<b>Asset Backs</b>						
		20,057,000.00	6.58	1.19	4.96	20%
<b>Repurchase Agreements</b>						
	Overnight	0.00	0.00		0.00	
	< 30 days	0.00	0.00		0.00	
	< 60 days	0.00	0.00		0.00	
	< 90 days	0.00	0.00		0.00	
	< 1 year	0.00	0.00		0.00	
	< 2 years	0.00	0.00		0.00	
	> 2 years	0.00	0.00		0.00	
	Flex Repos					
	Sub-total	<u>0.00</u>	0.00		<u>0.00</u>	
<b>Money Market Securities</b>						
	Commercial Paper	0.00	0.00	0.00	0.00	A1-P1
	Bankers Acceptances	0.00	0.00	0.00	0.00	
	Certificates of Deposit	0.00	0.00	0.00	0.00	
	Sub-total	<u>0.00</u>	0.00	0.00	0.00	20%
<b>TOTALS</b>		395,870,317.00	6.58	2.71	100.00	



Date: 12/31/99

**PORTFOLIO SUMMARY  
BOND PROCEEDS POOL**

	<b>TYPE</b>	<b>MARKET VALUE</b>	<b>MARKET YIELD (%)</b>	<b>DURATION (Years)</b>	<b>PERCENT of TOTAL</b>	<b>STATUTORY LIMIT</b>
Treasuries						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	33,800,000.00	6.08	1.70	17.34	
	Sub-total	33,800,000.00	6.08	1.70	17.34	
Agencies						
	Notes	111,700,000.00	6.76	2.45	55.64	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	111,700,000.00	6.76	2.45	55.64	
Municipals		0.00	0.00	0.00	0.00	
Mortgages						
	Pools	0.00	0.00	0.00	0.00	
	CMO's	0.00	0.00	0.00	0.00	
	Sub-total	0.00	0.00	0.00	0.00	
Asset Backs		0.00	0.00		0.00	
Repurchase Agreements						
	Overnight	54,549,000.00	2.88		27.02	
	< 30 days	0.00	0.00		0.00	
	< 60 days	0.00	0.00		0.00	
	< 90 days	0.00	0.00		0.00	
	< 1 year	0.00	0.00		0.00	
	< 2 years	0.00	0.00		0.00	
	> 2 years	0.00	0.00		0.00	
	Flex Repos					
	Sub-total	54,549,000.00	2.88		27.02	
Money Market Securities						
	Commercial Paper	0.00	0.00	0.00	0.00	NONE ALLOWED
	Bankers Acceptances	0.00	0.00	0.00	0.00	
	Certificates of Deposit	0.00	0.00	0.00	0.00	
	Sub-total	0.00	0.00	0.00	0.00	
<b>TOTALS</b>		200,049,000.00	5.59	1.66	100.00	

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## **Investable Balances**

As of 12/31/99

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	<b>Average Daily Balances</b>	
	<b>AvgBal</b>	<b>Fiscal Year to Date</b>
Bond Proceeds	212,154,753.32	222,528,828.16
Long Term	381,949,726.29	357,188,666.99
Short Term	210,479,024.58	350,159,721.82
Intermediate	2,118,145,060.77	2,080,475,908.39
	<b>2,922,728,564.96</b>	<b>3,010,353,125.36</b>

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## Investment Income

As of 12/31/1999

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Pool	Month		Fiscal Year to Date	
	Amount	Yield *	Amount	Yield**
Bond Proceeds	305,461.51	1.70%	4,878,643.42	4.36%
Long Term	(208,643.96)	-0.64%	6,455,571.30	36.00%
Short Term	854,840.98	4.80%	9,103,962.19	5.17%
Intermediate	3,872,921.60	2.16%	47,244,085.93	4.52%
<b>Grand Total</b>	<b>\$ 4,824,580.13</b>		<b>67,682,262.84</b>	

\*Yield is calculated on a total return basis. Total return consists of the accrual of interest and the gain or loss incurred from valuing the securities in market value. Total return, divided by average daily balance, divided by actual days, multiplied by actual days in the fiscal year.

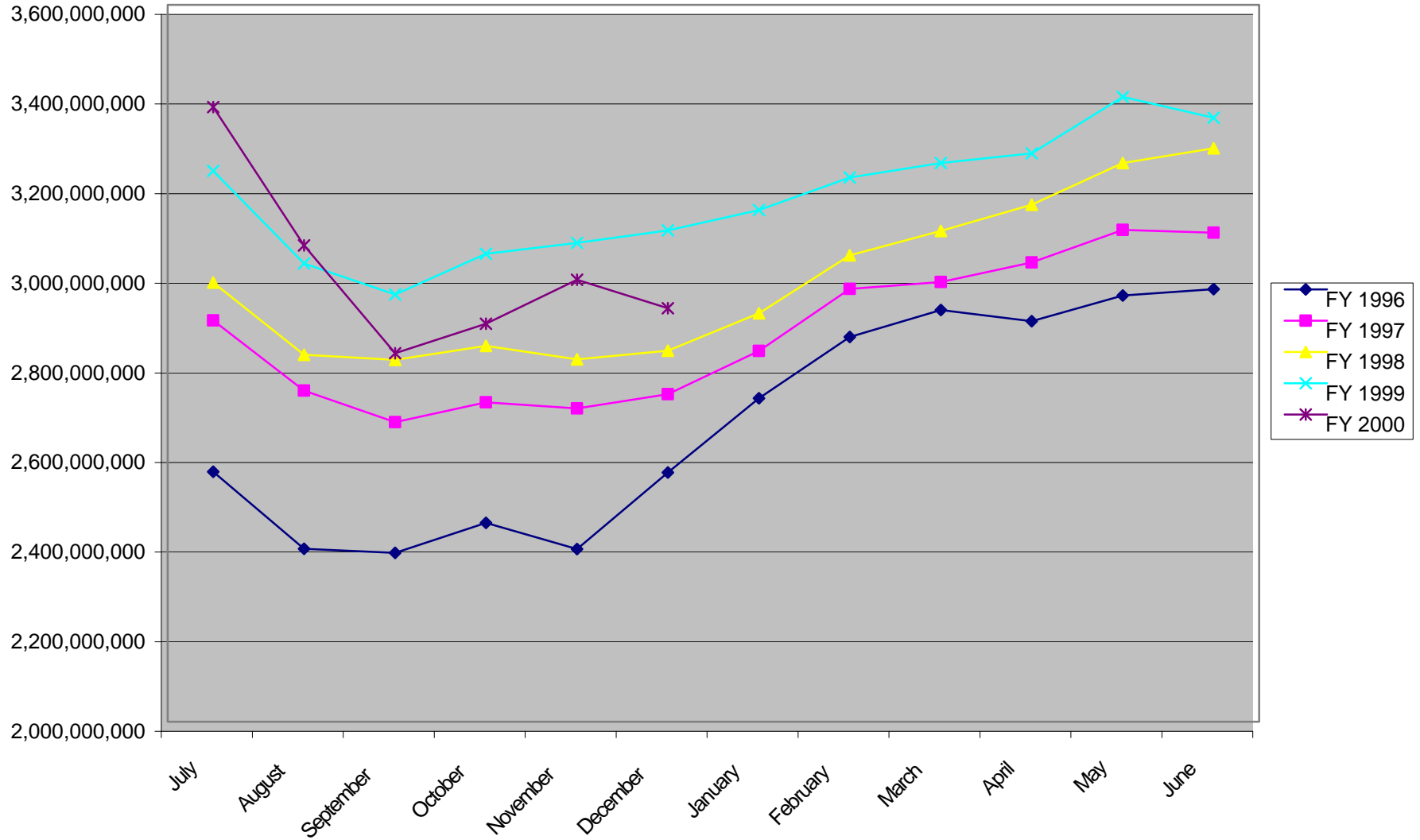
\*\*Yield is calculated on a total return basis. Total return consists of the accrual of interest and the gain or loss incurred from valuing the securities in market value. Total return, (fiscal YTD) divided by the weighted average of the monthly average daily balances, divided by the actual days (fiscal YTD) multiplied by the actual number of days in the fiscal year.

## CASH DISTRIBUTION

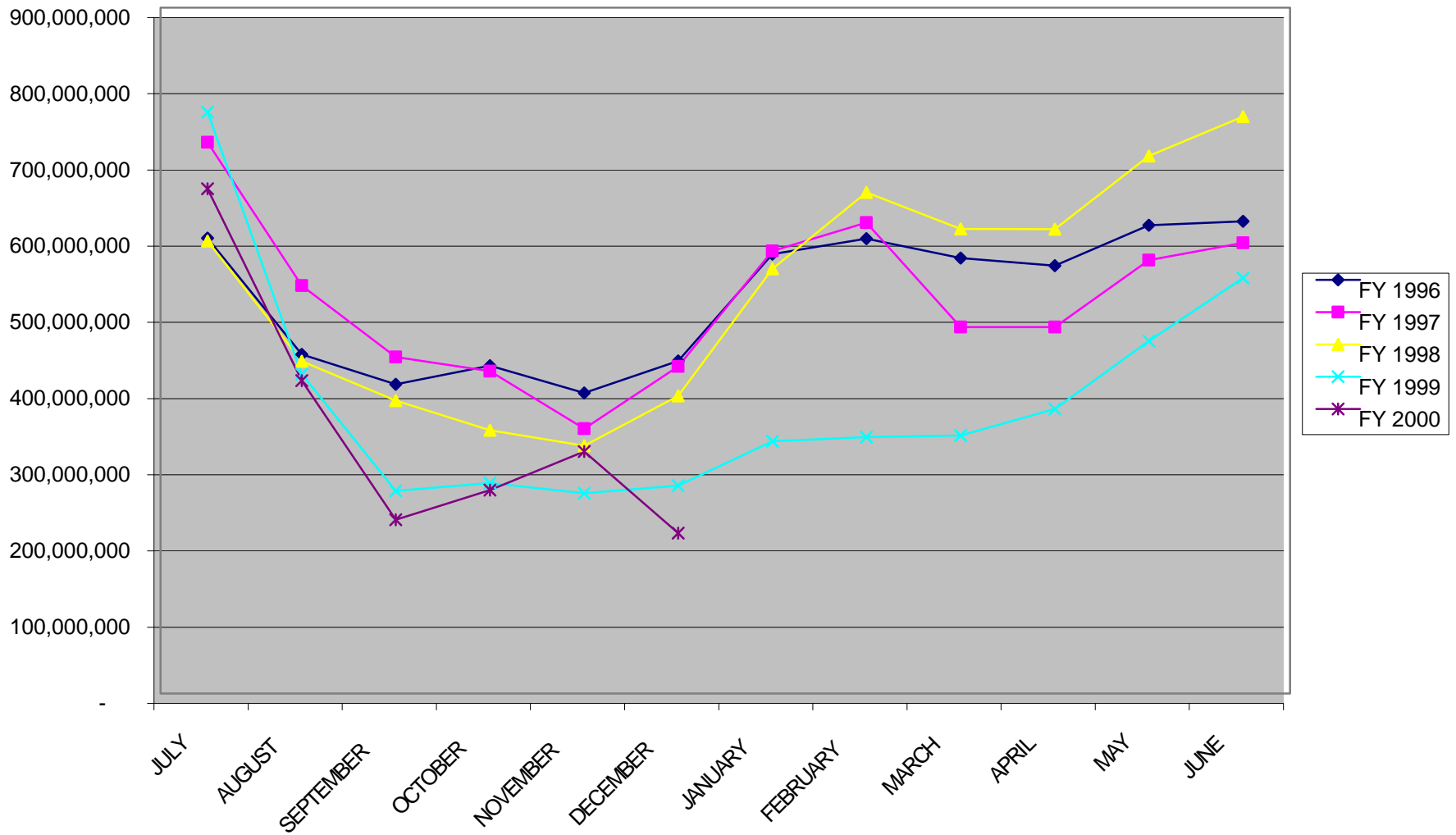
December 1999

		<u>Month</u>		<u>YTD</u>	
	Actual	Budget	Actual	Budget	
General Fund	913,656	1,463,385	11,103,084	8,780,310	
Capital Con.	1,685,910	687,500	11,860,900	4,271,875	
Agency	584,187	333,333	4,514,991	2,049,999	
T&R	339,044	62,500	2,536,769	384,375	

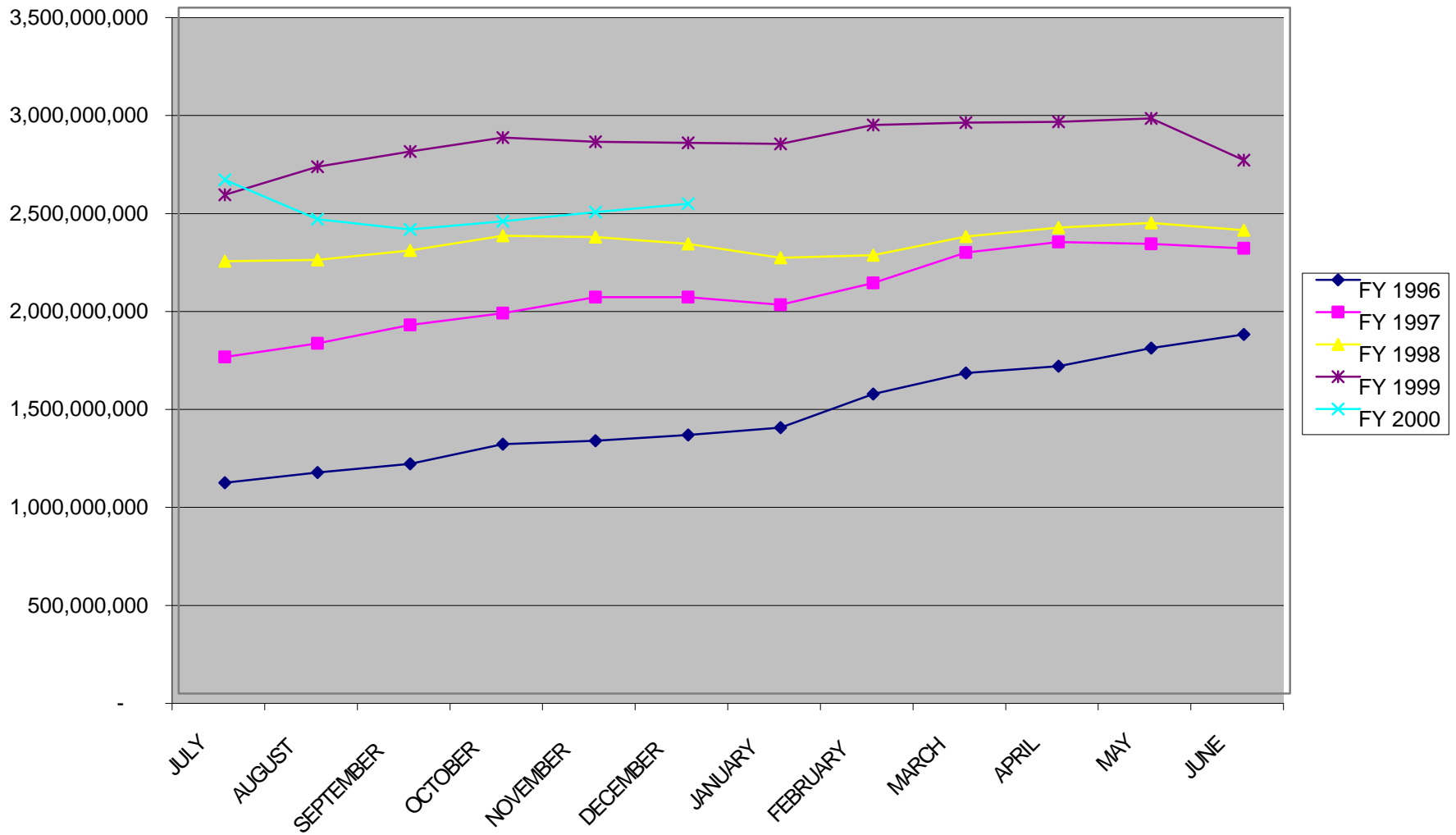
# INVESTABLE BALANCES



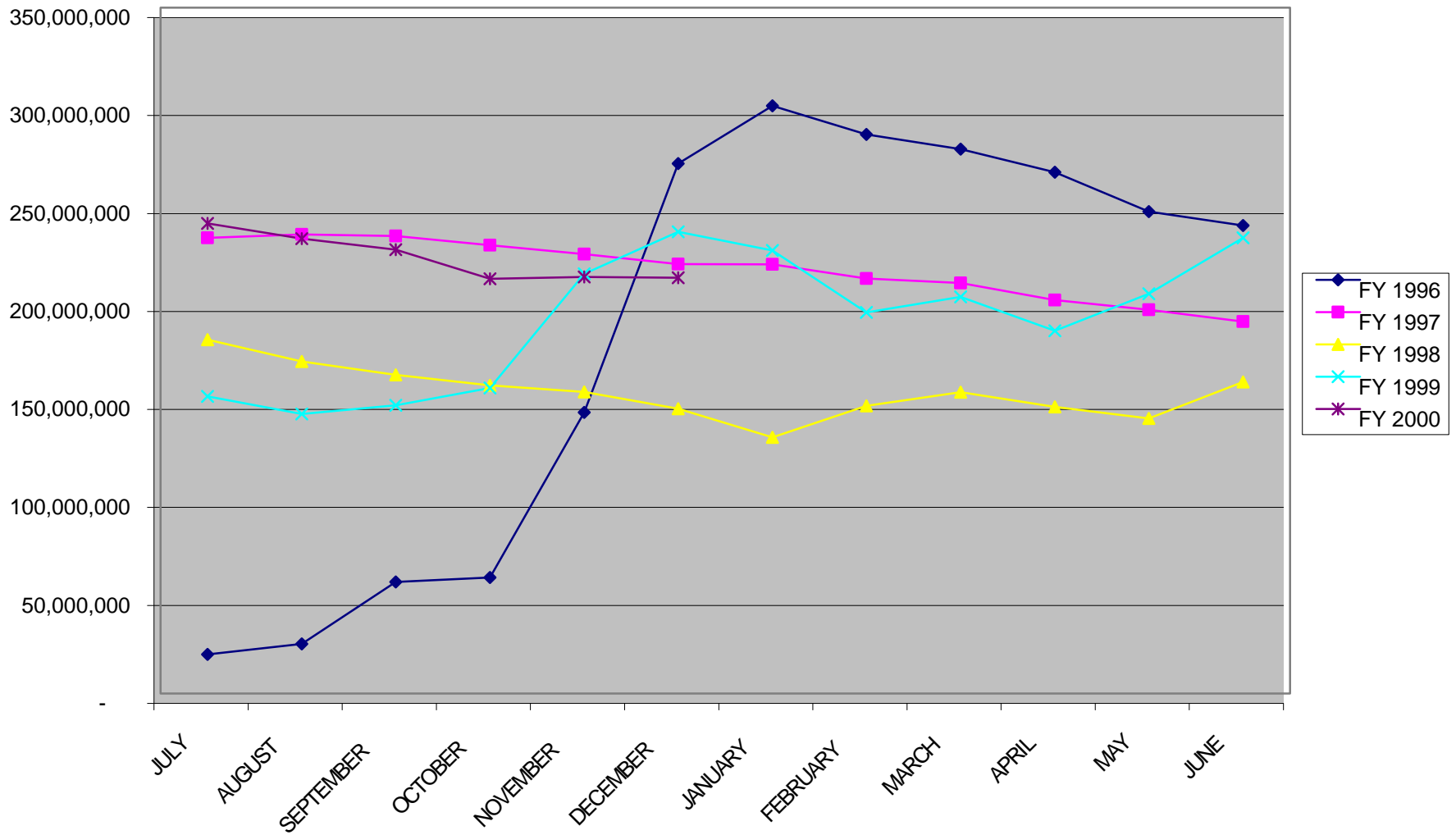
## SHORT TERM POOL INVESTABLE BALANCES



## INTERMEDIATE - LONG TERM POOL INVESTABLE BALANCES

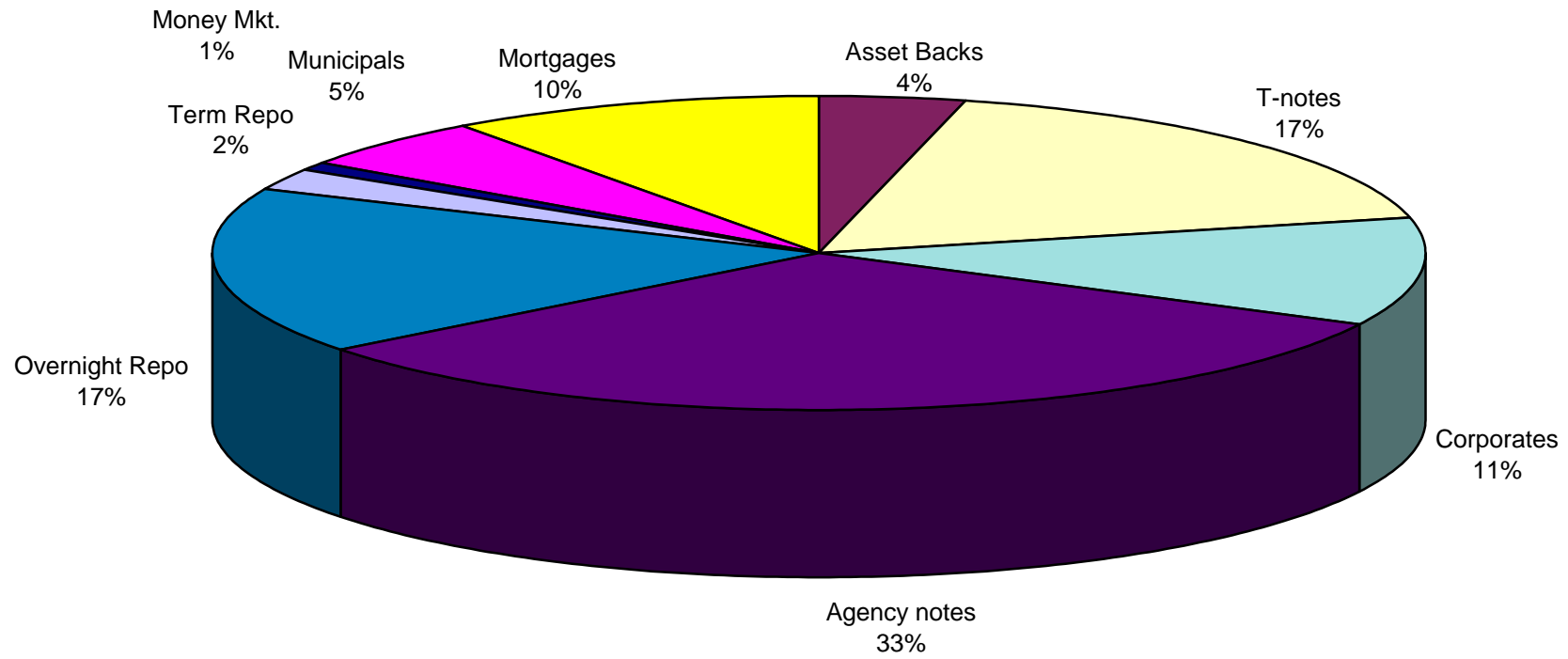


## US TREASURY-AGENCY INVESTABLE BALANCES

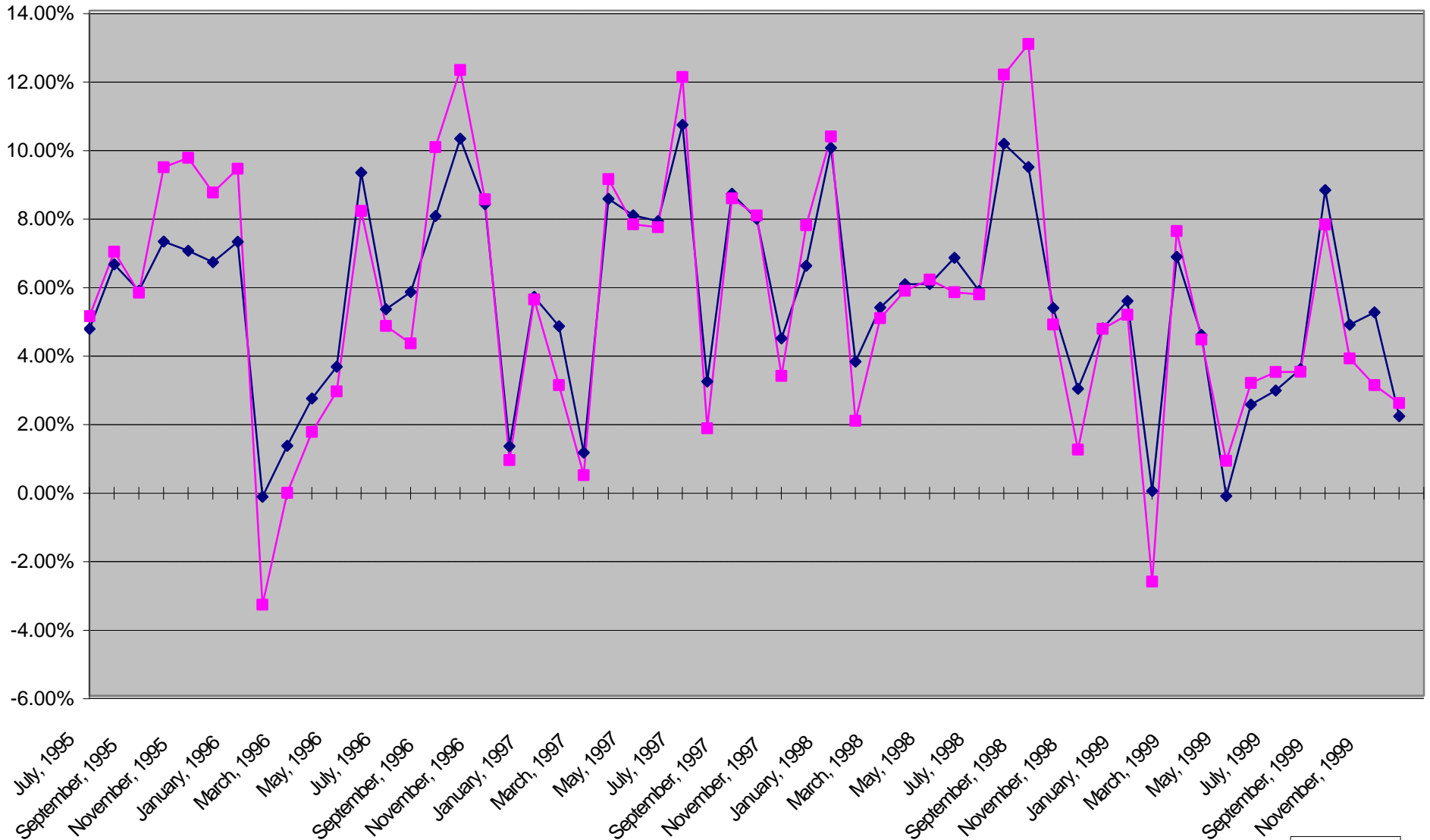




**DISTRIBUTION OF INVESTMENTS  
DECEMBER 1999**



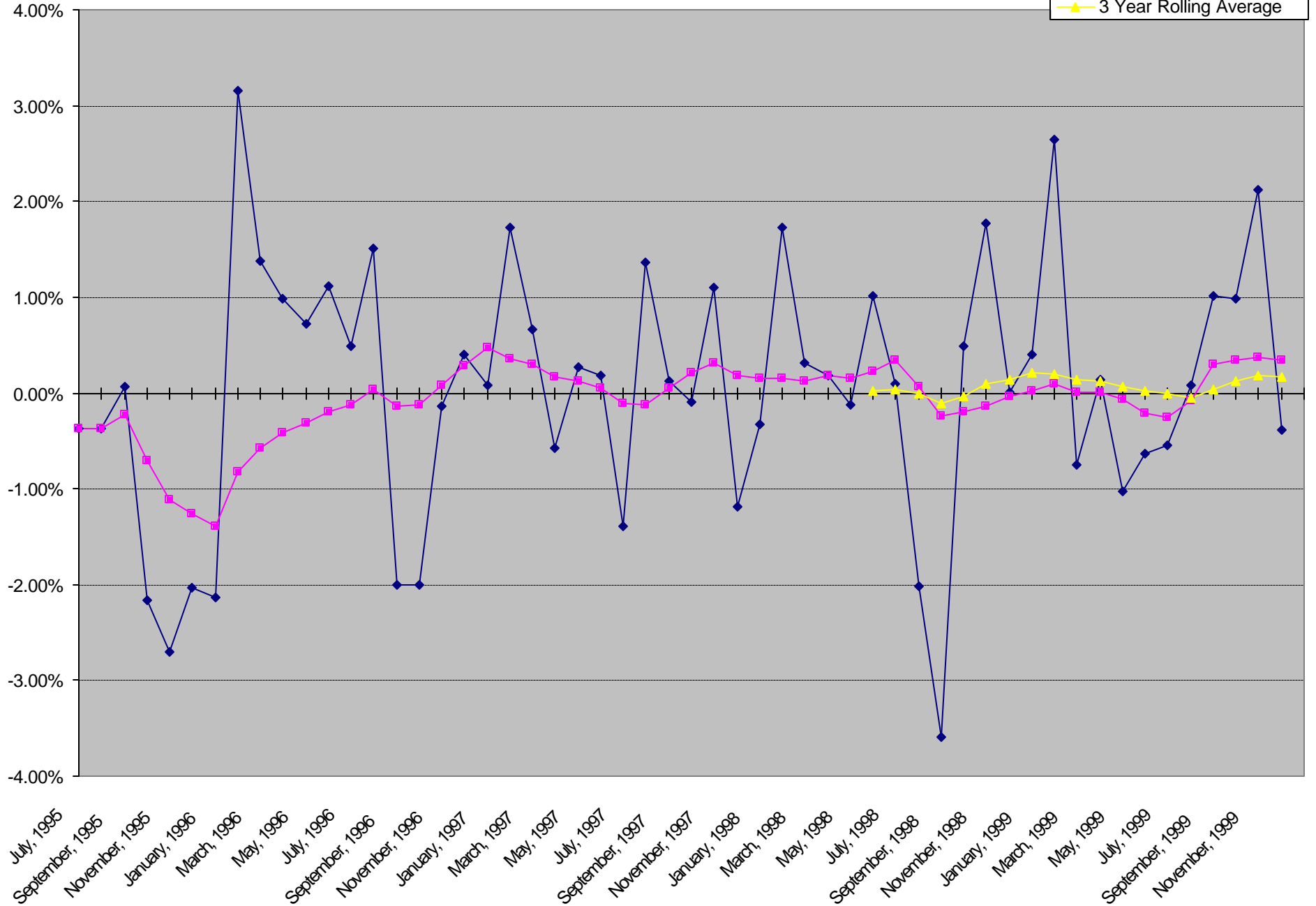
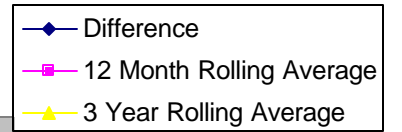
## INTERMEDIATE POOL ANNUALIZED YIELD



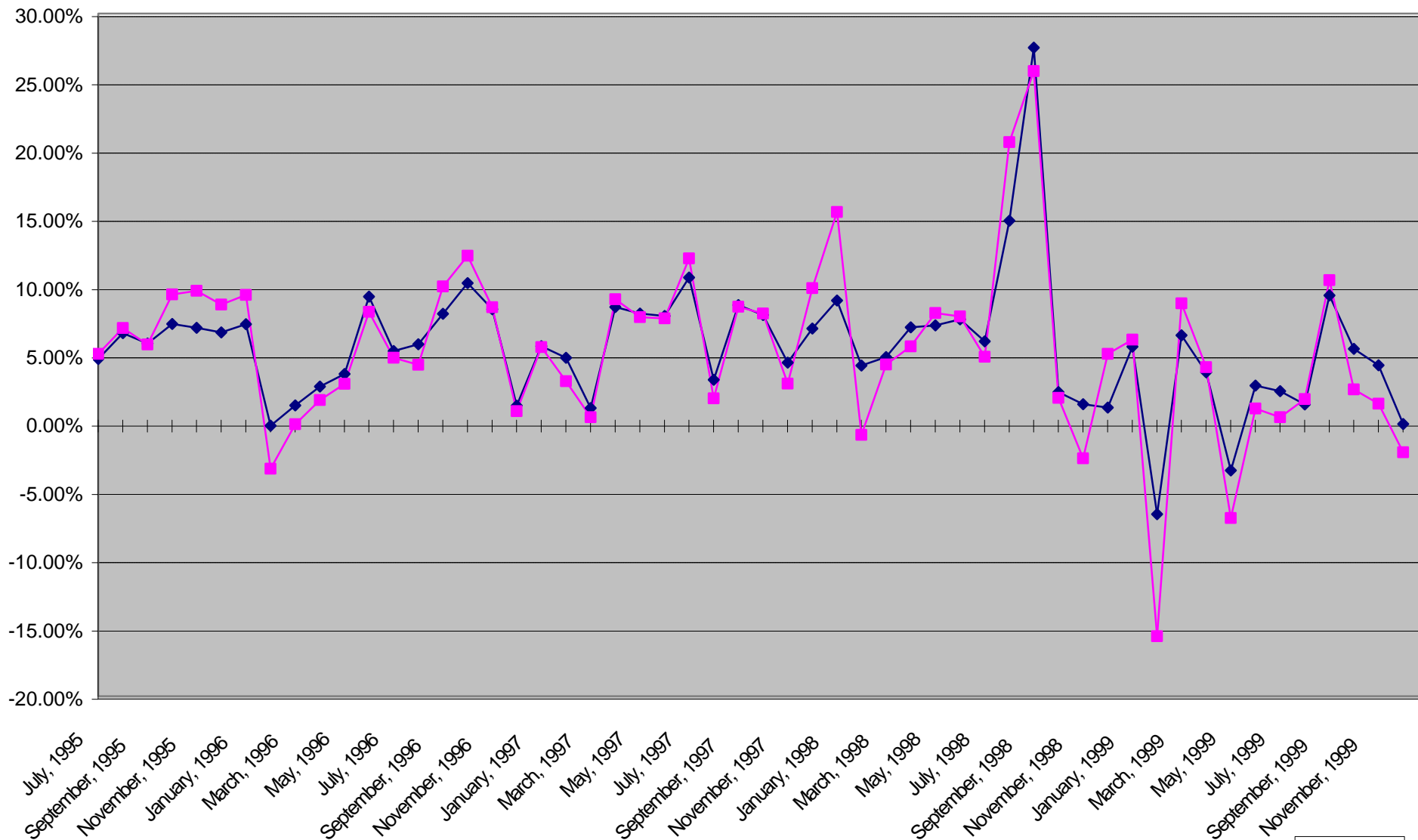
Index consists of 70% Government 1-3 year, 15% Mortgage 0-3 and 15% money market



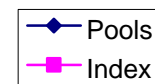
# INTERMEDIATE POOL ANNUALIZED YIELD DIFFERENCE



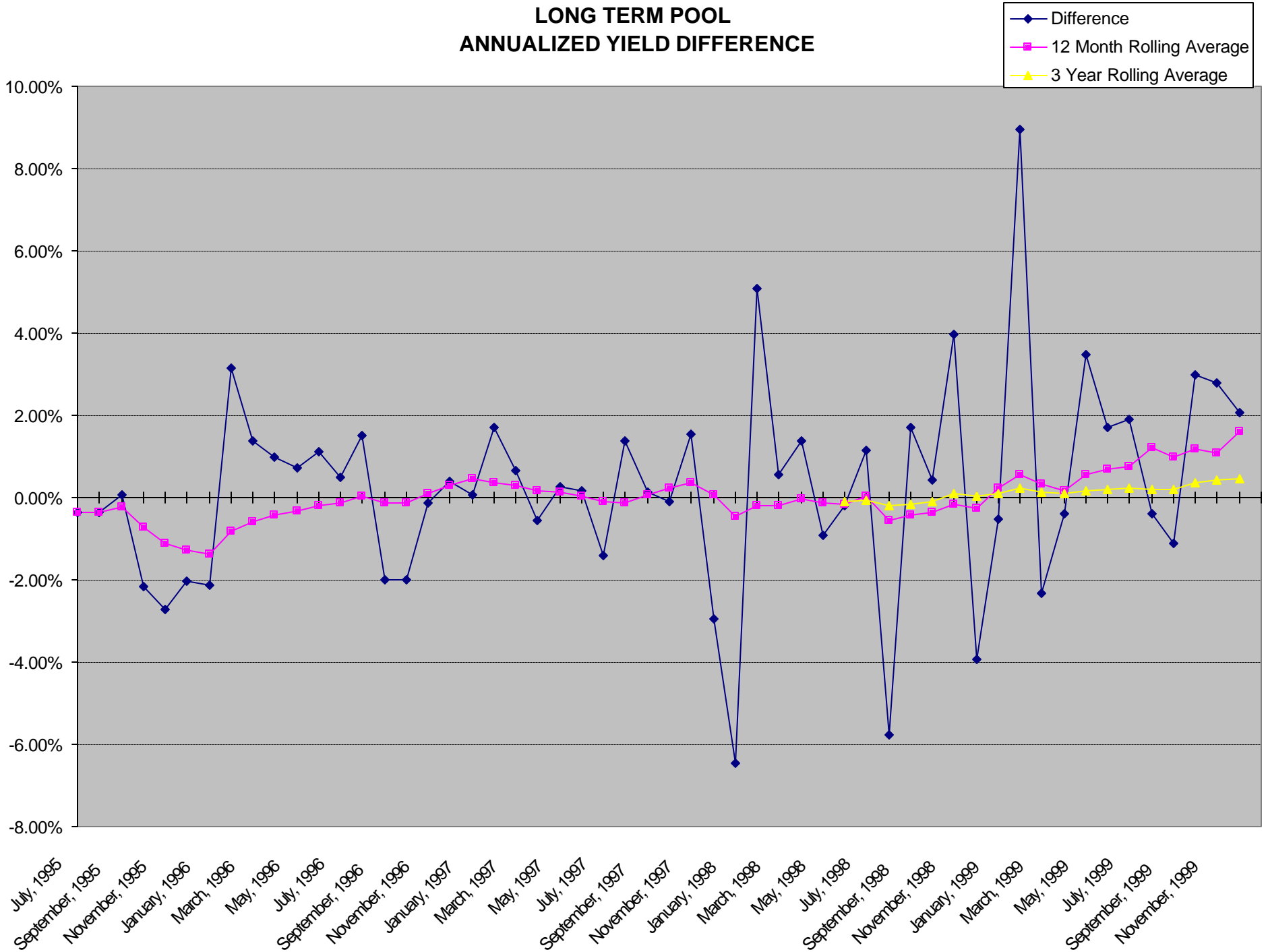
## LONG TERM POOL ANNUALIZED YIELD



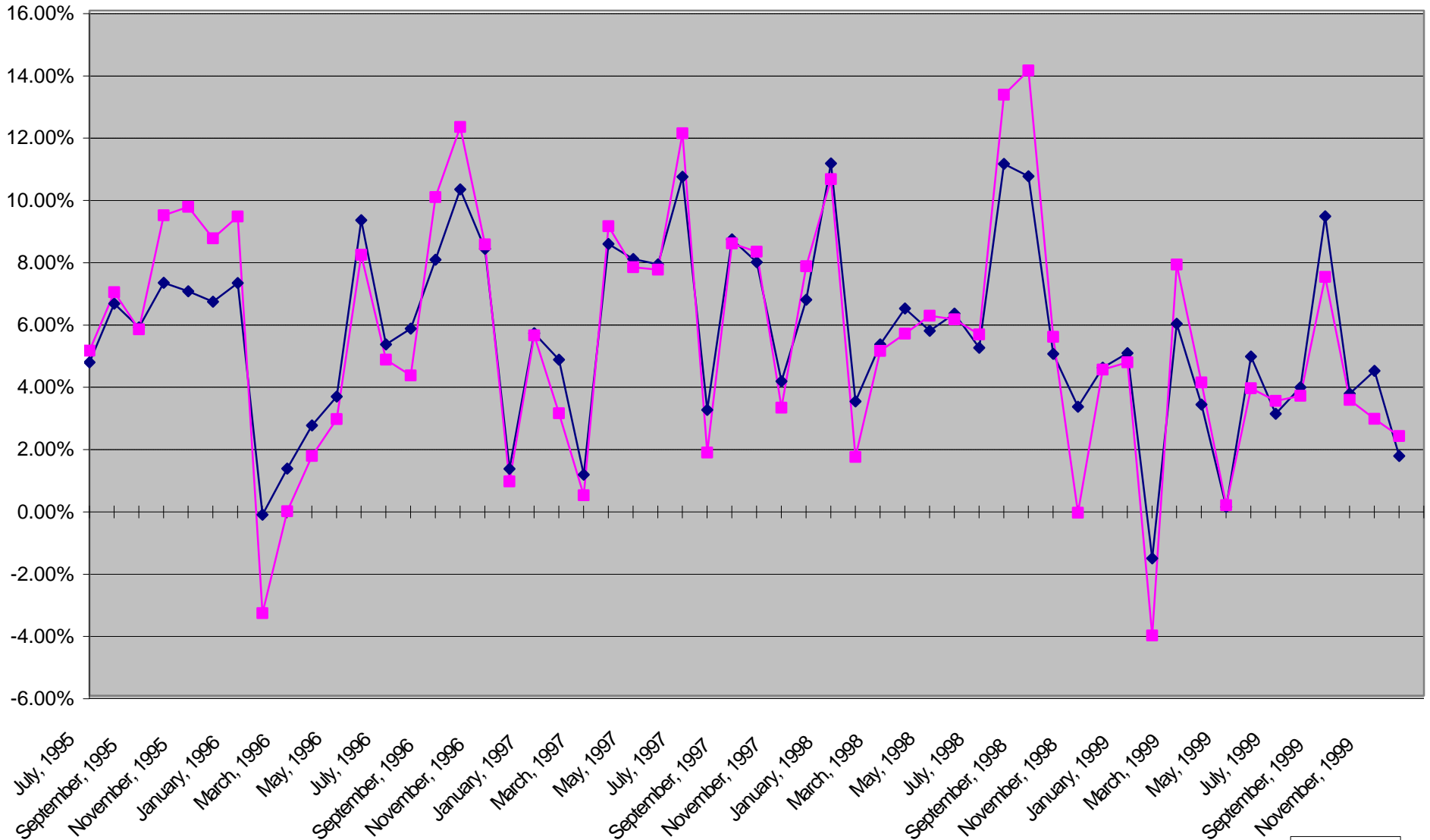
**Index consists of 85% Government 1-10 year, 10% Mortgage 0-3 and 5% US Corporate 1-10**



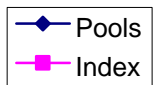
# LONG TERM POOL ANNUALIZED YIELD DIFFERENCE



## BOND PROCEEDS POOL ANNUALIZED YIELD

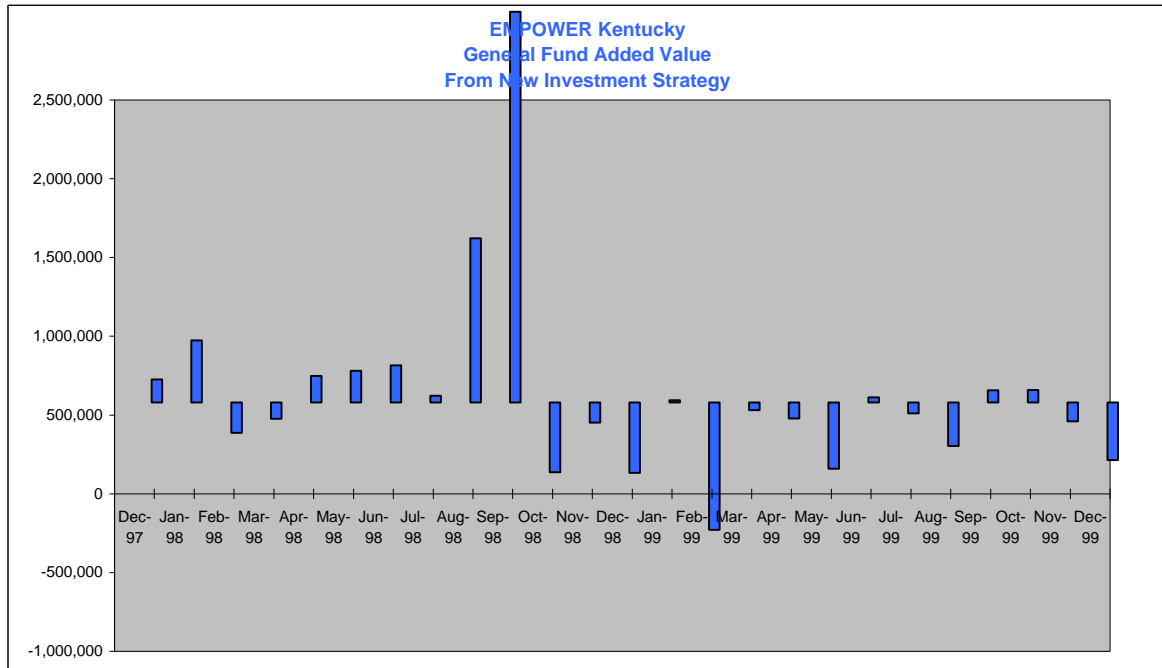


**Index consists of 85% Government 1-3 year and 15% money market**



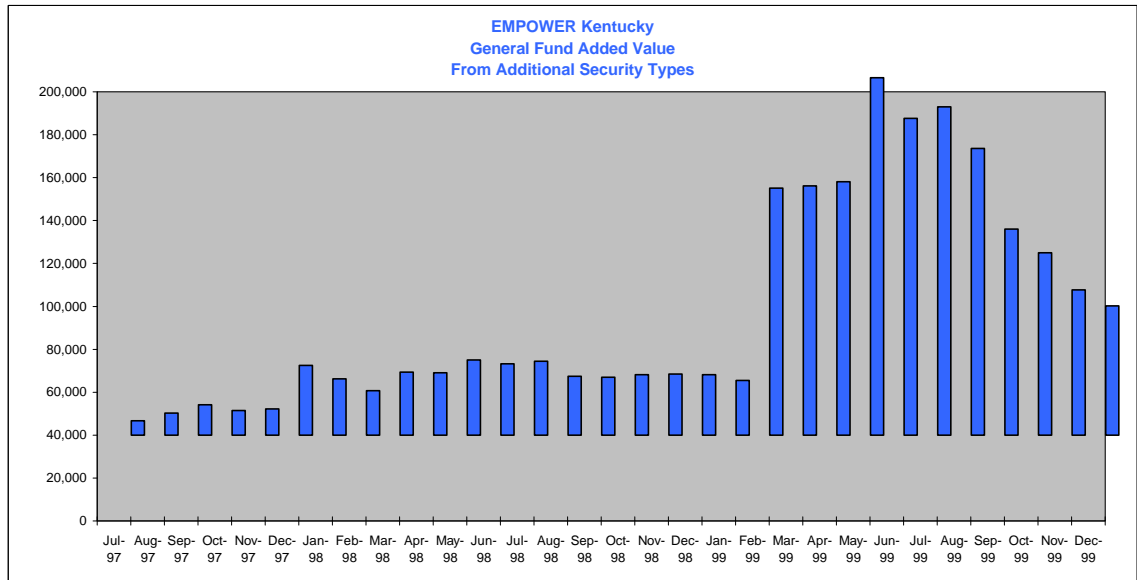
**EMPOWER Kentucky**  
**Added Value from New Investment Strategy**  
**Total Return Basis**

	BRTF Long-term Pool	General Fund Share of Added-Value
<b>FYE 6/30/98:</b>	<b>844,071</b>	<b>664,615</b>
<b>Jul-98</b>	42,050	25,913
<b>Aug-98</b>	1,040,624	640,596
<b>Sep-98</b>	3,986,448	2,480,615
<b>Oct-98</b>	-696,294	-442,960
<b>Nov-98</b>	-194,794	-128,580
<b>Dec-98</b>	-697,724	-446,891
<b>Jan-99</b>	24,856	14,432
<b>Feb-99</b>	-1,786,031	-809,580
<b>Mar-99</b>	-112,994	-48,446
<b>Apr-99</b>	-236,251	-101,251
<b>May-99</b>	-971,228	-421,228
<b>Jun-99</b>	76,002	32,669
<b>FYE 6/30/99:</b>	<b>474,664</b>	<b>795,289</b>
<b>Jul-99</b>	-163,541	-70,208
<b>Aug-99</b>	-636,410	-276,410
<b>Sep-99</b>	175,733	75,733
<b>Oct-99</b>	182,772	79,439
<b>Nov-99</b>	-281,273	-121,273
<b>Dec-99</b>	-833,440	-366,774
<b>FYE 6/30/00 YTD:</b>	<b>-1,556,159</b>	<b>-679,493</b>



**EMPOWER Kentucky**  
**Added Value from Additional Security Types**  
**Cash Basis**

	<b>MBS/CMO/ABS</b>	<b>Corporates</b>	<b>Total Added-Value</b>	<b>General Fund Share of Added-Value</b>
<b>FYE 6/30/98:</b>	<b>1,014,606</b>	<b>318,534</b>	<b>1,333,140</b>	<b>261,195</b>
Jul-98	127,020	26,430	153,450	34,469
Aug-98	129,029	77,567	206,596	27,436
Sep-98	124,924	78,099	203,023	27,022
Oct-98	128,644	86,754	215,398	28,246
Nov-98	163,960	95,811	259,771	28,449
Dec-98	158,649	101,977	260,626	28,133
Jan-99	156,147	102,424	258,571	25,503
Feb-99	271,156	115,822	386,978	115,078
Mar-99	308,874	111,706	420,580	116,144
Apr-99	256,583	118,073	437,498	118,110
May-99	323,705	194,360	518,065	166,653
Jun-99	297,933	164,218	462,151	147,667
<b>FYE 6/30/99:</b>	<b>2,446,624</b>	<b>1,273,240</b>	<b>3,782,706</b>	<b>862,910</b>
Jul-99	287,709	151,269	438,978	152,958
Aug-99	289,357	162,708	452,065	133,580
Sep-99	285,902	159,368	445,270	95,998
Oct-99	280,111	155,135	435,246	84,939
Nov-99	283,533	158,545	442,078	67,709
Dec-99	278,270	144,317	422,587	60,236
<b>FYE 6/30/00 YTD:</b>	<b>1,704,882</b>	<b>931,342</b>	<b>2,636,224</b>	<b>595,420</b>





**Exhibit II**  
**Kentucky Asset/Liability Commission**  
**LOC Fee Summary**

ALCo Note	98 GF	98 AF	99 GF 2	99 GF 3	99 GF 4	99 RF 1	99 RF2
Bank Name	Helaba / Hypo	Commerzbank AG	Credit Local de France	Bayerische Landesbank	JP Morgan	JP Morgan	West LB
<b>Long-Term Ratings</b>	Aa2/NR/AA-	Aa3/AA-/AA-	Aa1/AA+/AA+	Aaa/AAA	Aa3/AA+/AA+	AAA/AA+/AA+	Aaa/AAA/AA+
<b>Short-Term Ratings</b>	VMIG1/NR/F1+	VMIG/A-1+/F1+	P-1/A-1+/F1+	P-1/A-1+	P-1/A-1+/F-1+	VMIG1/F1+/A-1+	VMIG11/F1+/A-1+
<b>Expiration</b>	7/5/2001	7/5/2002	8/5/2001	9/22/2002	11/17/2000	10/6/2001	6/30/2003
<b>Type of LOC</b>	Direct Pay	Direct Pay	Direct Pay	Direct Pay	Stand By	Stand By	Stand By
<b>Bank Rate</b>	Prime.Fed +.5%	LIBOR +1%	CLF Fed Funds +1.5%	BLB Base/ Fed +.5%	JPM Prime/Fed +.5%	Fed Fund +.5%	Fed Fund +1.0%
<b>Default Rate</b>	Base Rate 2%	Fed or LIBOR +2%	Bank Rate +2%	BLB Base +2%	LIBOR +3%	LIBOR +3%	Prime/FF +1%
<b>Term-Out Loan Rate</b>	*6	Fed or LIBOR +1%	*1	*2	*3	*4	*5
<b>Capped Fees</b>	30,000	42,000	35,500	25,000	25,000	25,000	30,000
<b>Termination Fee</b>			40,000				
<b>Draw Fee</b>	250	250	200	150	250	250	150
<b>Transfer Fee</b>	1,000	1,000	100	1,000	750	750	100

<b>Facility Fees (BP)</b>								
<b>364 Day</b>	<b>Utilized Portion</b>	na	na	na	na	17	na	na
	<b>Unutilized Portion</b>	na	na	na	10	10	na	na
<b>2 Year</b>	<b>Utilized Portion</b>	na	na	12.5	20	na	20	na
	<b>Unutilized Portion</b>	na	na	10	na	na	na	na
<b>3 Year</b>	<b>Utilized Portion</b>	12.5	na	na	na	na	na	22
	<b>Unutilized Portion</b>	7.5	na	na	na	na	na	10
<b>4Year</b>	<b>Utilized Portion</b>	na	18	na	na	na	na	na
	<b>Unutilized Portion</b>	na	na	na	na	na	na	na
<b>Commitment Fees</b>	<b>Upfront</b>							
	<b>Annual</b>							

<b>Bank Interest Rates</b>							
<b>0-30 Days</b>	Base Rate	Fed +.5%	Fed +.5%	Fed +.5%	Base Rate	Base Rate	Base Rate
<b>31-90 Days</b>	Term Loan Rate	Fed +.5%	Fed +.5%	BLB Base +1%	Term Loan Rate	Term Loan Rate	Term Loan Rate
<b>91-180 days</b>	Term Loan Rate	Fed +.5%	Fed +1.0%	BLB Base +1%	Term Loan Rate	Term Loan Rate	Term Loan Rate

**Term-Out Loan Rate**

- \*1 Higher of CLF Prime or CLF Fed funds
- \*2 Term out not to exceed 4 years @ Bank rate
- \*3 LIBOR plus 1% per annum for year one, LIBOR plus 1.5% per annum from year two to final maturity
- \*4 3 year/ 20 year amort
- \*5 3 year/ 20 year amort.

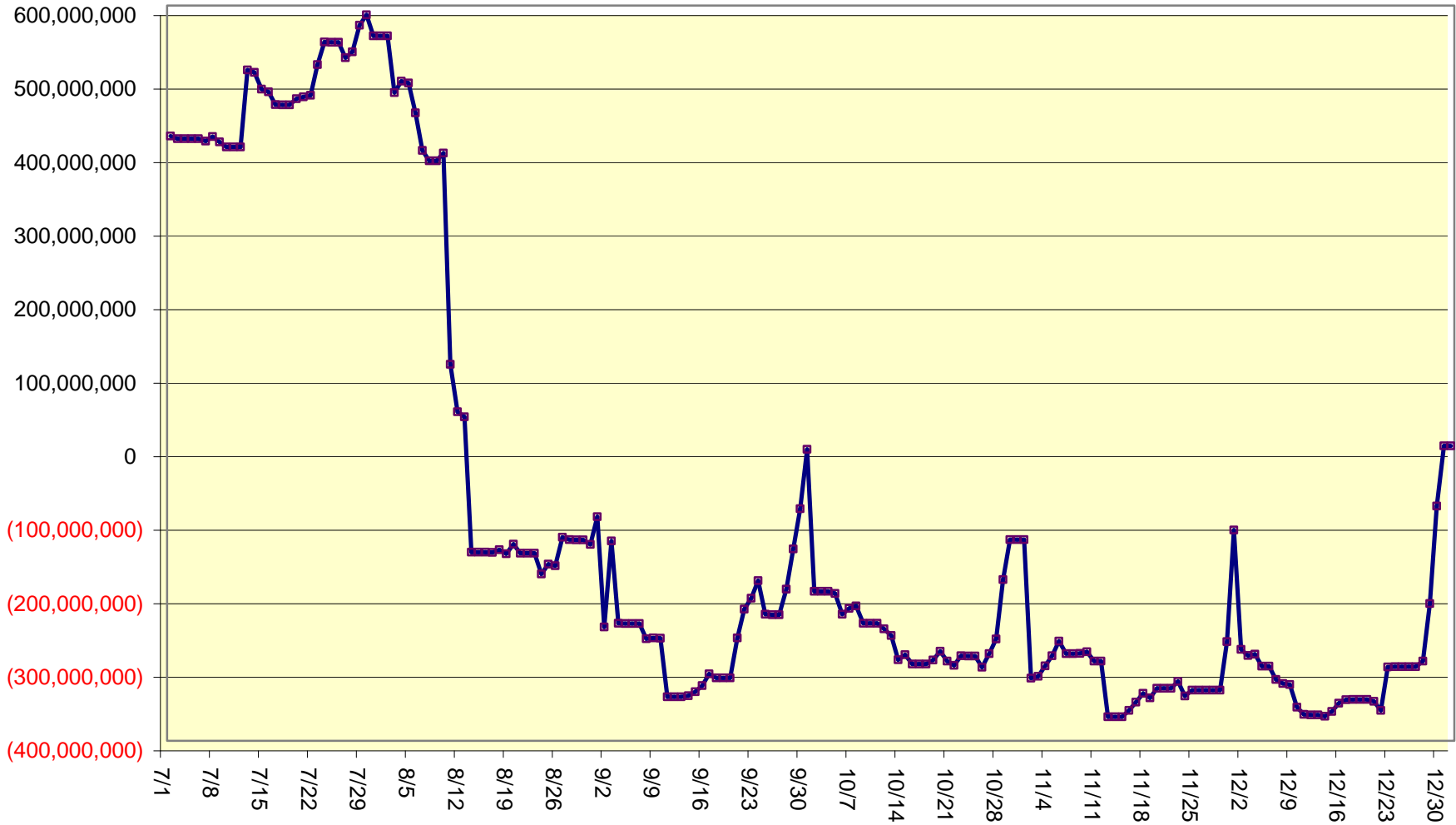
**EXHIBIT III  
PROJECT LIST BY PROJECT NOTE SERIES**

<b>ALCo Note</b>	<b>Agency</b>	<b>Project</b>	<b>Authorization</b>	<b>Term</b>	<b>FY98-00 Budget</b>
98GF1	Local Gov	Local Participation Match Program	2,500,000	20	Reauthorized
98GF1	Corrections	GRCC - 314 Bed Medium Security Dorm	7,960,000	20	Reauthorized
98GF1	Corrections	RCC - 150 Bed Dormitory	5,702,000	20	Reauthorized
98GF1	Corrections	KSR - 150 Bed Medium Security Dorm	8,800,000	20	Reauthorized
98GF1	Corrections	RCC - 200 Bed Boot Camp	5,500,000	20	Reauthorized
98GF1	State Police	Law Information Network of KY (LINK)	3,150,000	20	Reauthorized
98GF1	Public Protection	Public Service Commission New Building	4,684,000	20	Reauthorized
98GF1	Juvenile Justice	Northern KY-Secure Juvenile Detention Center	4,300,000	20	Reauthorized
98GF1	Juvenile Justice	Western KY-Secure Juvenile Detention Center	4,300,000	20	Reauthorized
98GF1	KCTCS	Hopkinsville Tech Training Ctr-Feasibility & Design	11,445,000	20	Reauthorized
98GF1	KCTCS	CC Ashland Classroom Building	5,500,000	20	Reauthorized
98GF1	UL	Health Science Center	14,000,000	20	Reauthorized
98GF1	UK	Animal Science Research Center-Phase 1	12,480,000	20	Reauthorized
98GF1	KCTCS	Prestonsburg CC Classroom/Health Education Bldg	5,500,000	20	Reauthorized
98GF1	WKU	Renovation of Institute for Economic Development	4,000,000	20	Reauthorized
98GF1	EKU	Classroom Building Wellness Center	4,000,000	20	Reauthorized
98GF1	KCTCS	Madisonville CC Student/Auditorium Parking	800,000	20	Reauthorized
98GF1	KCTCS	Hazard CC Regional Classroom Ctr/Faculty Offices	5,500,000	20	Reauthorized
98GF1	KCTCS	KY Tech - Pike Co Technology Center	8,244,000	20	Reauthorized
98GF1	Econ Dev	Northern KY Convention Center	3,000,000	20	Reauthorized
98GF1	Tourism Parks	Yatesville Lake - Marina Development	1,173,000	20	Reauthorized
98GF1	Tourism Parks	My Old Kentucky Home Visitors Center	1,300,000	20	Reauthorized
98GF1	Tourism Parks	Pine Mountain - Develop Lake Area/Golf Course	2,938,000	20	Reauthorized
98GF1	Tourism Parks	Jefferson Davis - Visitors Center	650,000	20	Reauthorized
98GF1	Tourism Parks	Taylorsville Lake Campgrounds Development	2,125,000	20	Reauthorized
98GF1	Tourism Parks	Yatesville Lake Campground Development	2,200,000	20	Reauthorized
98GF1	Tourism Parks	Cumberland Falls - New Interpretive Center	636,000	20	Reauthorized
98GF1	Tourism Parks	General Butler Conference Center	2,230,000	20	Reauthorized
98GF1	Tourism Parks	KY Horse Park - Additional Stalls	550,000	20	Reauthorized
98GF1	Tourism Parks	Buckhorn - New Conference Center	1,120,000	20	Reauthorized
98GF1	Tourism Parks	Lake Barkley - Covered Pool	1,427,000	20	Reauthorized
98GF1	Tourism Parks	Lake Cumberland Additional Parking	968,000	20	Reauthorized
98GF1	Tourism Parks	Blue Licks - Multipurpose Building/Guest House	1,500,000	20	Reauthorized
98GF1	Tourism Parks	Dale Hollow - Lodge Completion	1,500,000	20	Reauthorized
98GF1/SPBC60	Econ Dev	North American Stainless - Carroll Co	1,000,000	20	Reauthorized
98GF1/SPBC60	Econ Dev	Matsushita Electric Motor Corp - Berea	500,000	20	Reauthorized
98GF1/SPBC60	Econ Dev	Mattel Operations Inc - Murray	400,000	20	Reauthorized
98GF1/SPBC60	Econ Dev	Hennegan Company - Boone Co	258,000	20	Reauthorized
99GF1	PSE	Commonwealth Virtual University Technology Pool	19,393,300	7	New Debt
99GF1	PSE	Research Equipment/Lab Replacement/Acquisition	26,250,000	7	New Debt
99GF1	KCTCS	Automated Administrative Systems	3,200,000	7	New Debt
99GF2	EKU	Student Service / Classroom Build	20,000,000	20	New Debt
99GF2	NKU	Natural Science Building	36,500,000	20	New Debt
99GF2	UK	Aging/Allied Health Blding Phase II	20,000,000	20	New Debt
99GF2	UK	Mechanical Engineering Building	19,600,000	20	New Debt
99GF2	State Police	LaGrange State Police Post Replacement	1,200,000	20	New Debt
99GF2	State Police	Hazard State Police Post	1,450,000	20	New Debt
99GF2	State Police	Integrated Criminal Apprehension Program Upgrade	1,583,000	7	New Debt
99GF2	State Police	Accident Reporting System	1,587,000	7	New Debt
99GF2	State Police	Basic Radio Replacement	20,082,000	10	New Debt
99GF2	Finance	State Office Building Asbestos Removal (Transportation)	11,900,000	20	New Debt
99GF3	Public Protection	Public Service Commission Building	1,100,000	20	New Debt
99GF3	KSU	Hill Student Center Renovation/Addition	8,250,000	20	New Debt
99GF3	MuSU	Carr Health/Business Building Renovations and Education Bui	10,184,000	20	New Debt
99GF3	KCTCS	Central Regional PSE Center - Phase I Western KY University	13,452,000	20	New Debt

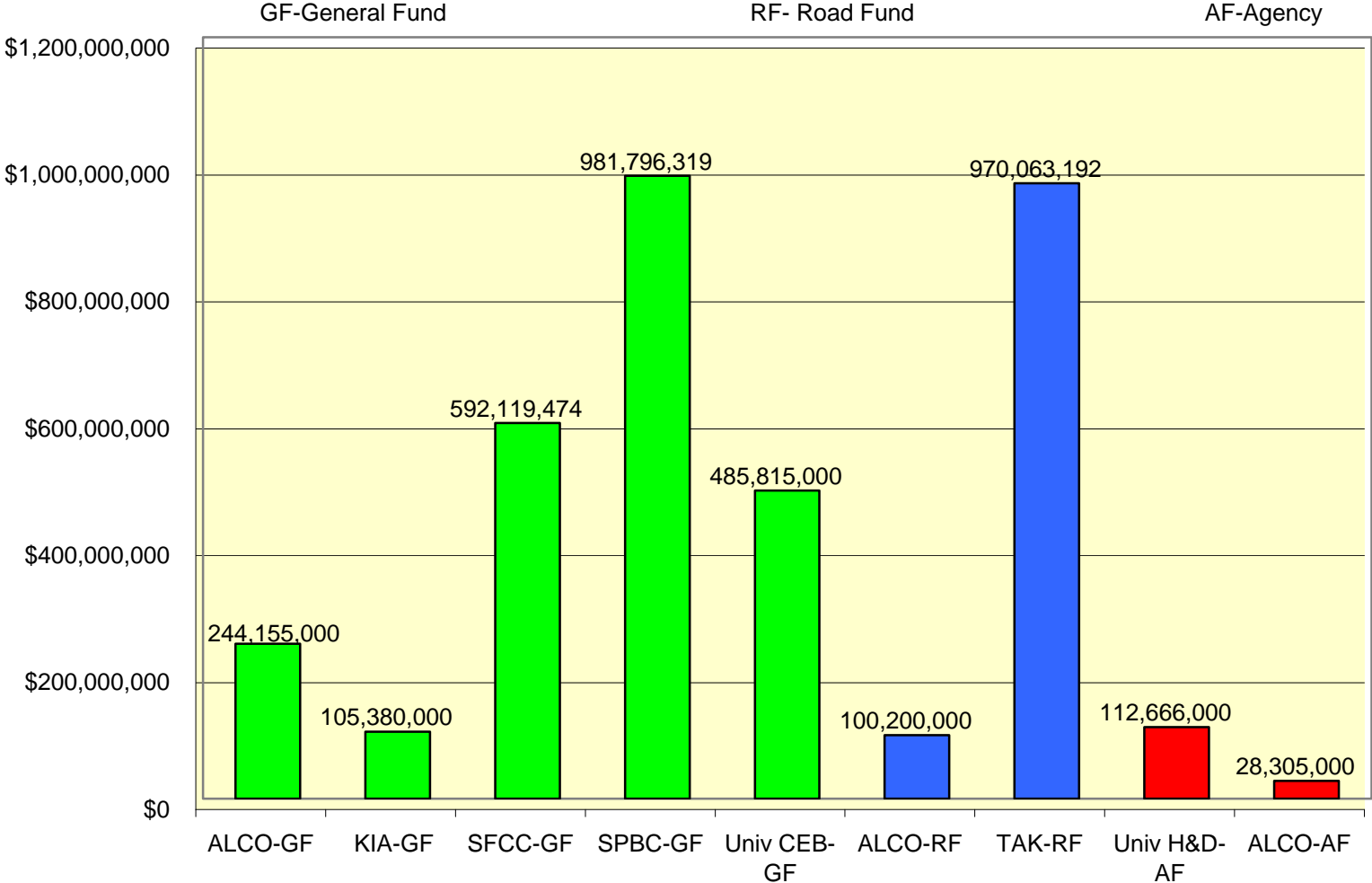
**EXHIBIT III**  
**PROJECT LIST BY PROJECT NOTE SERIES**

<b>ALCo Note</b>	<b>Agency</b>	<b>Project</b>	<b>Authorization</b>	<b>Term</b>	<b>FY98-00 Budget</b>
99GF3	KCTCS	KY Tech Danville: Regional Technology Center - Phase 1	6,985,000	20	New Debt
99GF3	KCTCS	Hazard Community College Classroom Building - Phase II	6,500,000	20	New Debt
99GF3	KCTCS	KY Tech College of Arts and Crafts	4,100,000	20	New Debt
99GF3	KCTCS	Madisonville C.C. - Science/Technical Classroom Building	4,900,000	20	New Debt
99GF3	KCTCS	Maysville C.C. and KY Tech Maysville: New Technology Cent	7,500,000	20	New Debt
99GF3	KCTCS	Northeast Regional PSE Center Morehead State University	6,650,000	20	New Debt
99GF3	KCTCS	South Regional PSE Center - Phase I Western Kentucky Univ	9,000,000	20	New Debt
99GF3	KCTCS	West Regional PSE Center Murray State University	6,650,000	20	New Debt
99GF3	KCTCS	Southeast Regional PSE Center - Phase I Eastern Kentucky L	13,185,000	20	New Debt
99GF3	KCTCS	New KY Tech Shelby Co. Campus and Jefferson C.C. Extensi	10,758,000	20	New Debt
99GF3	KCTCS	South Central Regional PSE Center	6,537,000	20	New Debt
99GF3	KCTCS	Belinda Mason Academic/ Technical Building	5,000,000	20	New Debt
99GF3	KCTCS	Somerset C.C. and KY Tech - Academic Support/Technical Ec	10,258,000	20	New Debt
99GF3	Tourism Parks	Dale Hollow Golf Course and Club House	5,500,000	20	New Debt
99GF4	Military Affairs	Two-way Communications for Statewide Emergency Respons	1,200,000	10	New Debt
99GF4	Local Gov	Local Match Participation Program for Flood Control	5,000,000	20	New Debt
99GF4	MoSU	Breckinridge Hall Renovation	14,000,000	20	New Debt
99GF4	MoSU	West Liberty Ext. Campus Building	6,000,000	20	New Debt
99GF4	UL	Research Building (downtown campus)	32,040,000	20	New Debt
99GF4	WKU	PSE Improvement Act-1997 Facility	18,500,000	20	New Debt
99GF4	Juvenile Justice	Juvenile Detention Facility #2	5,357,000	20	New Debt
99GF4	Juvenile Justice	Juvenile Detention Facility #3	5,357,000	20	New Debt
99GF4	Corrections	Blackburn Dorm - Phase 1	5,195,000	20	New Debt
99GF4	Corrections	KCI Women Expansion Phase 1	16,434,000	20	New Debt
99GF4	Corrections	Northpoint Training Facility - Water Line & Tank Replacement	849,000	20	New Debt
99GF4	Corrections	New Men's 1790 Bed Medium Security Facility	3,440,000	20	New Debt
99GF4	Finance	Winchester State Office Building	2,500,000	20	New Debt

**EXHIBIT IV**  
**General Fund Available Balance FYTD00**  
**(Includes Budget Reserve Trust Fund)**



**EXHIBIT V**  
**Appropriation Debt Outstanding by Fund Source**  
**as of 12/31/99**



**EXHIBIT VI**  
**Appropriation Supported Debt Service by Fund Source as of 12/31/99 (000)**  
**(Does Not Include ALCO Variable Rate Notes )**

