

COMMONWEALTH OF KENTUCKY
KENTUCKY ASSET/LIABILITY COMMISSION
SEMI-ANNUAL REPORT

For the period ended June 30, 2026

59th Edition



Andy Beshear, Governor of the Commonwealth of Kentucky

Holly M. Johnson, Secretary of the Finance and Administration Cabinet

Robert K. Miller, Executive Director, Office of Financial Management

Prior copies of this report:

[https://finance.ky.gov/Office-of-the-Controller/Office-of-Financial-Management/
Pages/alco-semi-annual-reports.aspx](https://finance.ky.gov/Office-of-the-Controller/Office-of-Financial-Management/Pages/alco-semi-annual-reports.aspx)

The Commonwealth's Annual Comprehensive Financial Report (ACFR):

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The Municipal Securities Rulemaking Board (MSRB)

Electronic Municipal Market Access (EMMA):

<http://emma.msrb.org/>

Commonwealth of Kentucky Investor Relations:

<https://bonds.ky.gov/>

Office of Financial Management (OFM):

<https://ofm.ky.gov>

Table of Contents

<u>SECTION</u>	<u>PAGE</u>
Introduction	4
Investment Management	5
Market Overview	5
Portfolio Management	10
Tax-Exempt Interest Rates and Relationships	11
Credit Management	13
Mid-Year Reflection	13
Credit Process	13
Debt Management	15
Authorized But Unissued Debt	15
Ratings Update	16
Cash Management Strategies	17
ALCo Financial Agreements	19
Asset/Liability Model	19
Road Fund	21
Summary	23
 <i>Appendix</i>	
A - Approved Credits	25
B - Appropriation Supported Debt	26
C - ALCo Notes Outstanding	27

INTRODUCTION

The Kentucky Asset/Liability Commission (“ALCo”) presents its 59th semi-annual report to the Capital Projects and Bond Oversight Committee and the Interim Joint Committee on Appropriations and Revenue pursuant to [KRS 56.863 \(11\)](#) for the period January 1, 2026 through June 30, 2026.

Provided in the report is the current structure of the Commonwealth’s investment and debt portfolios and the strategy used to reduce both the impact of variable revenue receipts on the budget of the Commonwealth and fluctuating interest rates on the interest-sensitive assets and interest-sensitive liabilities of the Commonwealth.

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 Board of Governors kept the federal funds target rate unchanged at 3.50 percent to 3.75 percent during the first half of 2026.
- The unemployment rate ended the first half of 2026 at 4.2 percent, down from 4.4 percent in December 2025.
- Economic growth, as measured by the gross domestic product (“GDP”), slowed in the first half of 2026. The seasonally adjusted annual rate of GDP growth was 2.1 percent in the first quarter and 1.5 percent in the second quarter.
- Inflation measures were mixed during the first half of 2026. Core consumer price index (“CPI”) rate (excluding food and energy) ended June at 2.6 percent, unchanged from December 2025, while headline CPI accelerated during the period, reaching 4.3 percent at the end of May amid higher energy prices.
- Kentucky non-farm employment growth rates for the four quarters of FY 2026 were -0.2 percent, -0.4 percent, 0.1 percent, and -0.04 percent.
- Kentucky personal income growth rates for the four quarters of FY 2026 were 4.9 percent, 4.4 percent, 3.7 percent, and 2.4 percent.
- The FY 2026 General Fund surplus deposit to the Budget Reserve Trust Fund was \$418.3 million, resulting in an ending balance of \$3.74 billion. After accounting for appropriated uses, the unobligated balance is projected to be \$2.99 billion at the end of FY 2028.
- The current Budget Reserve Trust Fund balance, economic development initiatives, and improved pension funding ratios are positive credit features for the Commonwealth; however, large unfunded pension liabilities continue to put stress on the Commonwealth’s credit rating.

On the state level

- General Fund receipts for Fiscal Year (“FY”) 2026 totaled \$15,975.5 million, an increase of 1.7 percent over FY 2025 collections. General Fund revenues exceeded the official revenue estimate by \$476.6 million.
- Road Fund receipts for FY 2026 totaled \$1,821.9 million, a decrease of 2.2 percent from FY 2025. Road Fund collections were \$22.1 million less than the official revenue estimate.

INVESTMENT MANAGEMENT

State Investment Commission

The State Investment Commission (“SIC” or “Commission”) is responsible for investment oversight. The Commission is composed of the State Treasurer (Chair), the Secretary of the Finance and Administration Cabinet, the State Controller, and two Gubernatorial Appointees.

The Commission’s investment objectives are three-fold: preservation of principal, maintenance of sufficient liquidity to meet cash flow needs, and maximization of returns.

The Office of Financial Management (“OFM”) serves as staff to the Commission and conducts investment activities in accordance with KRS 42.500 and 200 KAR 14.011, 14.081, and 14.091.

Market Overview

After three rate cuts in the second half of 2025, the Federal Open Market Committee (“FOMC”) maintained the federal funds target rate at 3.50 percent to 3.75 percent throughout the first six months of 2026. While additional rate cuts were initially expected during the first half of the year, progress toward returning inflation to the Federal Reserve’s 2 percent objective stalled. This shifted expectations from additional rate cuts toward the possibility of rate increases if inflation remains elevated and labor market conditions are sufficiently strong to withstand tighter monetary policy. While the unemployment rate declined to 4.2 percent during the first half of the year, non-farm payroll growth remained weak, indicating some underlying softness in the labor market. The Federal Reserve’s balance sheet gradually expanded during the first six months of 2026, reversing a four-year trend of allowing securities

to gradually roll off. The balance sheet ended June at approximately \$6.7 trillion.

The outlook for rates during the remainder of 2026 remains uncertain as new, and often conflicting, economic data continues to emerge. The labor market showed signs of strain, while persistent inflation increased the possibility of additional monetary policy tightening. Complicating the outlook is slowing GDP growth, which could make the economy more sensitive to higher interest rates. As of the end of June, market expectations had shifted toward the possibility of at least one rate hike before the end of the year; however, new data concerning inflation or employment can rapidly change that assessment.

Employment

While inflation data remains a key economic indicator closely monitored by the FOMC, monthly employment reports are also an important consideration in monetary policy decisions. After average monthly job gains of approximately 15,000 in 2025, employment growth strengthened in 2026. During the first six months of the year, job creation averaged approximately 75,000 per month. While an improvement over 2025, the pace of job growth remained relatively weak, indicating continued softness in the labor market.

The unemployment rate declined to 4.2 percent in June, down from 4.4 percent at the end of 2025. The decline in the unemployment rate occurred alongside a decline in the Labor Force Participation Rate (“LFPR”), indicating that some of the improvement in the unemployment rate reflects fewer individuals participating in the labor force rather than stronger employment

INVESTMENT MANAGEMENT

growth. After reaching a post-pandemic high of 62.5 percent in late 2023, the LFPR declined to 61.5 percent in June 2026. Job openings reversed a multi-year downward trend during the first half of the year, increasing to 7.4 million from 6.5 million at the end of 2025.

Inflation

Progress toward the Federal Reserve's 2 percent inflation objective took a step back in the first half of 2026. After remaining between 2.5 percent and 3.0 percent for an extended period, inflation accelerated following the Iran conflict and subsequent increase in oil prices, pushing the headline CPI to 4.3 percent at the end of May. While well below the 9 percent inflation rate reached in 2022, returning inflation to the 2 percent target remains challenging. The FOMC's preferred inflation gauge, core personal consumption expenditures, showed a similar increase, rising above 3 percent to its highest level since 2023. The inflation picture suggests that future rate hikes may be necessary to bring inflation back toward the target.

Economic Growth

A large downward revision to fourth-quarter 2025 GDP indicated weaker economic growth entering 2026, and that weakness persisted through the first two quarters of the year. The first quarter posted a 2.1 percent growth rate before slowing to 1.5 percent in the second quarter. This slower pace of growth suggests an economy that may struggle to adapt to higher rates if the FOMC deems them necessary to contain inflation. After a strong finish to 2025, consumption, the largest contributor to GDP, declined significantly in the first quarter before rebounding in the second quarter. Net exports contributed negatively to growth in both

quarters, while business fixed investment provided a boost.

Interest Rates

After 75 basis points of rate cuts in the second half of 2025, the FOMC maintained the federal funds target rate at 3.50 percent to 3.75 percent throughout the first six months of 2026. Notably, several FOMC meetings included dissenting votes, showing the members are not unanimous in their views on where rates should go next. As of the end of June, a single rate hike is penciled in by traders for the remainder of 2026, although this is dependent on incoming economic data. Softer inflation data could reduce expectations for an increase, while it is also possible that rates remain unchanged through the end of the year.

The first half of the year saw significant volatility in treasury and corporate bond yields as geopolitical concerns affected the bond market. The two-year treasury began the year at 3.47 percent and ended June at 4.17 percent, an increase of 70 basis points during a period in which the FOMC maintained the federal funds target. The longer end of the yield curve experienced more modest increases, with the 10-year treasury rising from 4.19 percent to 4.47 percent. This steepening of the yield curve eliminated the inversion that had persisted in recent years, resulting in a positively sloped curve.

Equities

Equity markets experienced significant volatility during the first half of 2026, as the outbreak of the Iran conflict pushed stock indices down sharply in March, only to see them rebound to new highs in April. By the end of June, gains for the S&P 500 exceeded 9

INVESTMENT MANAGEMENT

percent for the year. The tech-heavy NASDAQ rose almost 13 percent during the same period as the artificial intelligence (“AI”) boom continued to lift valuations. Beyond geopolitical concerns, the dominant narrative surrounding equities continues to be the effect the rapidly growing AI industry is having on the market and whether current valuations are sustainable. At this point, the market is three full years into what can be considered the AI rally and has yet to show signs of slowing. Since the beginning of 2023, the NASDAQ has risen 156 percent. This concentration of the market in large technology companies could eventually weigh on valuations; however, it is also possible that earnings growth catches up to current valuations and the rally continues.

Outlook

The FOMC remains strongly committed to returning inflation to its 2 percent long-term objective. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee's assessments will take into account a wide range of information, including readings on inflation and inflation expectations, wages, other measures of labor market conditions, and financial and international developments.

In conjunction with the FOMC meeting held on June 17, 2026, meeting participants submitted their projections of the most likely outcomes for GDP, the unemployment rate, and inflation for each year from 2026 to 2028 and over the longer run.

For 2026, the median forecast for GDP, the unemployment rate, and inflation are 2.2 percent, 4.3 percent and 3.6 percent, respectively. The projected federal funds rate at the end of 2026 is 3.8 percent.

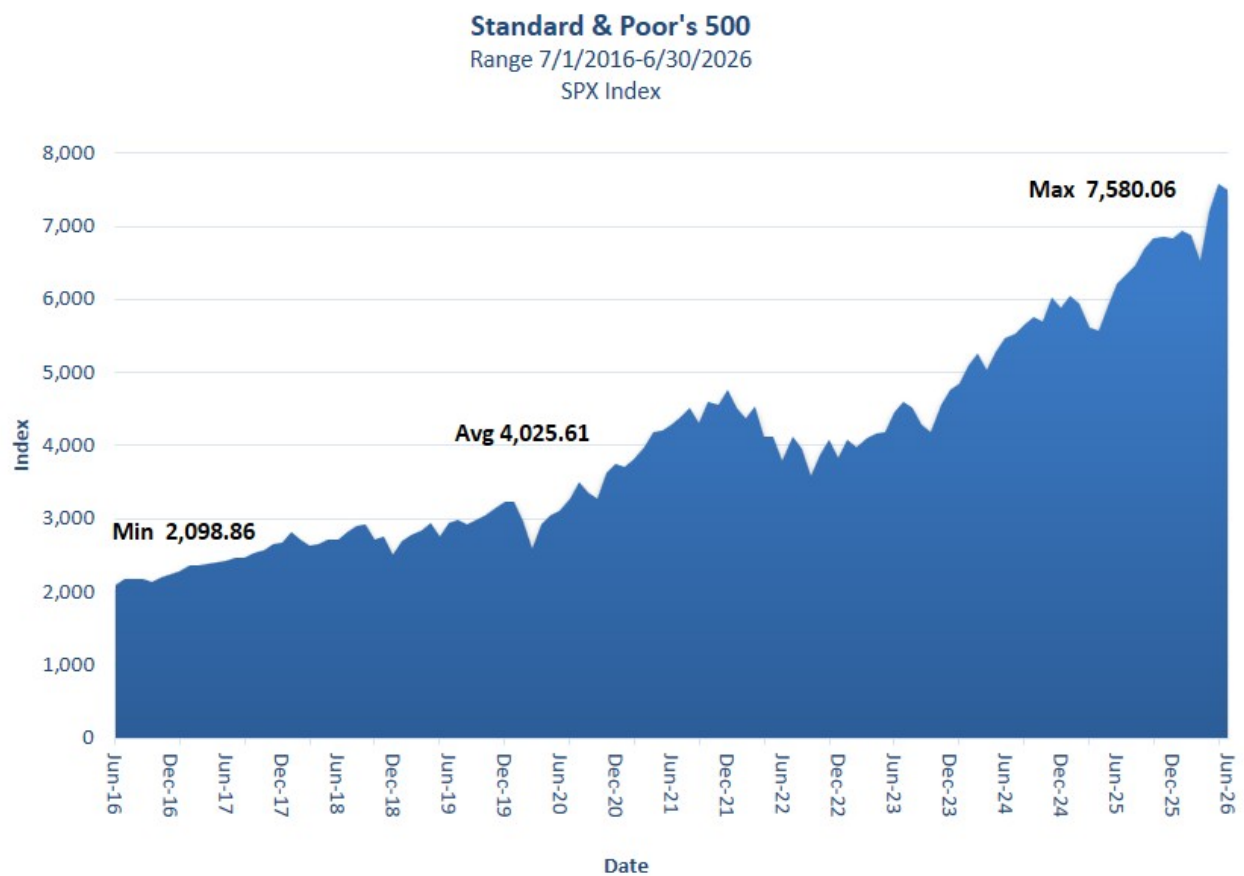
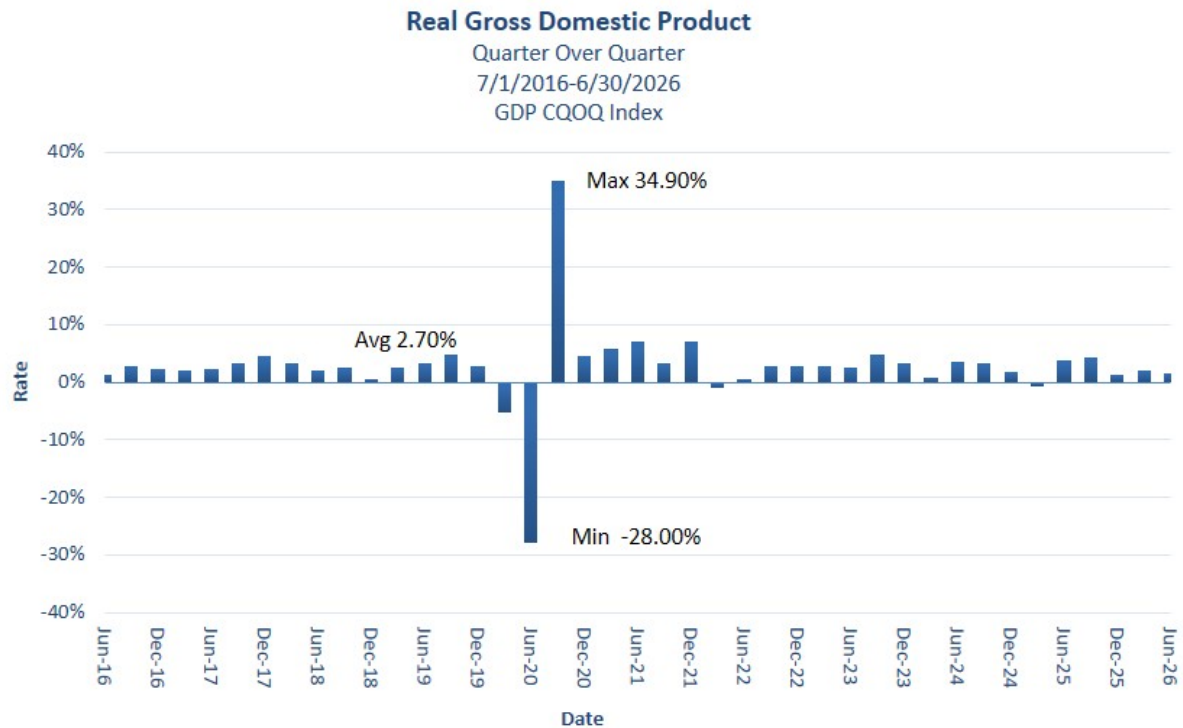
For 2027, the median forecast for GDP, the unemployment rate, and inflation are 2.3 percent, 4.3 percent and 2.3 percent, respectively. The expected federal funds rate at the end of 2027 is 3.6 percent.

For 2028, the median forecast for GDP, the unemployment rate, and inflation are 2.2 percent, 4.2 percent and 2.0 percent, respectively. The expected federal funds rate at the end of 2028 is 3.4 percent.

Additionally, the longer run projections are 2.0 percent for GDP, 4.2 percent for unemployment, and 2.0 percent for inflation, with an expected federal funds rate of 3.1 percent.

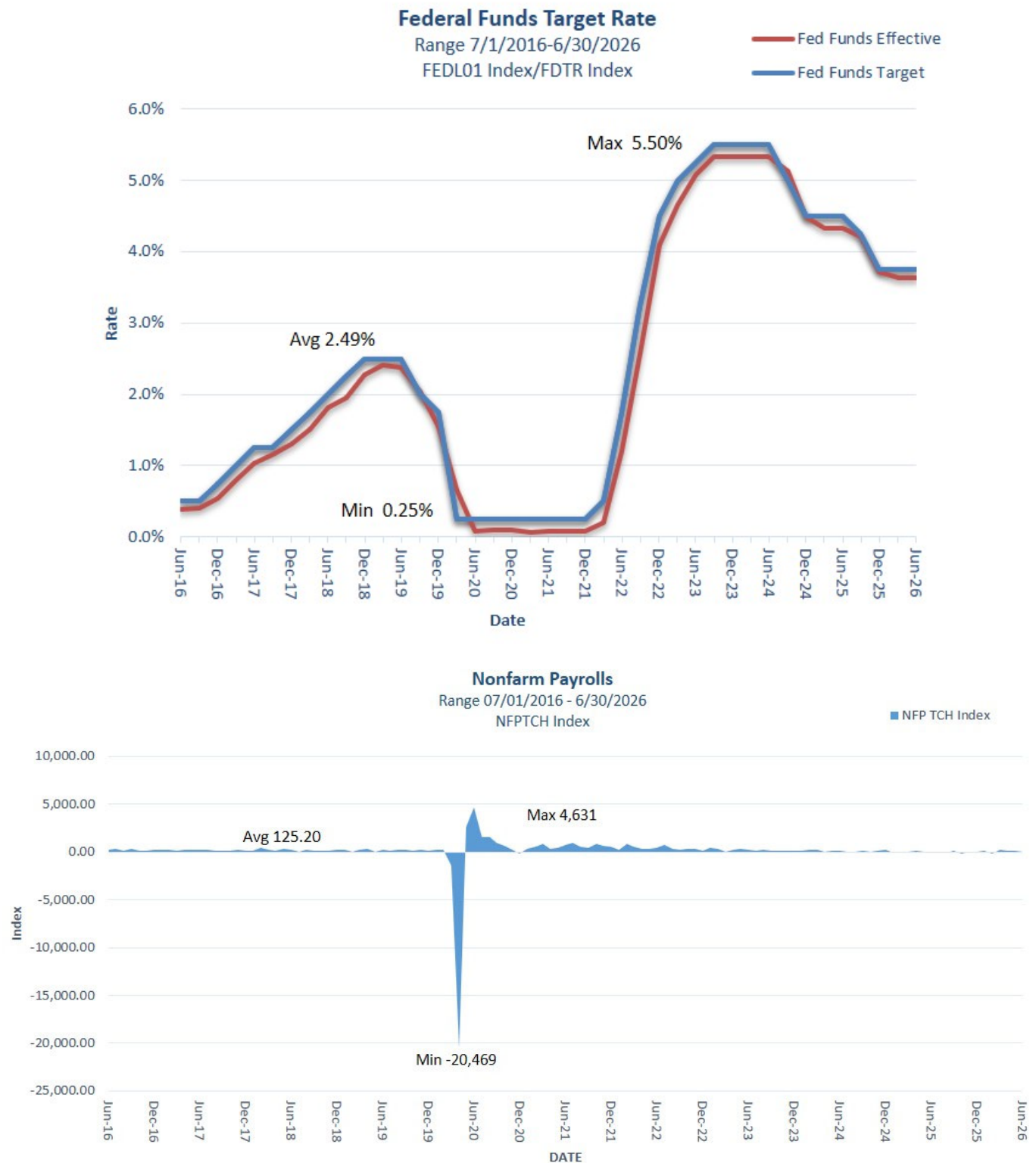
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Real Gross Domestic Product & Standard & Poor's 500



INVESTMENT MANAGEMENT

Federal funds Target Rate & NonFarm Payrolls



INVESTMENT MANAGEMENT

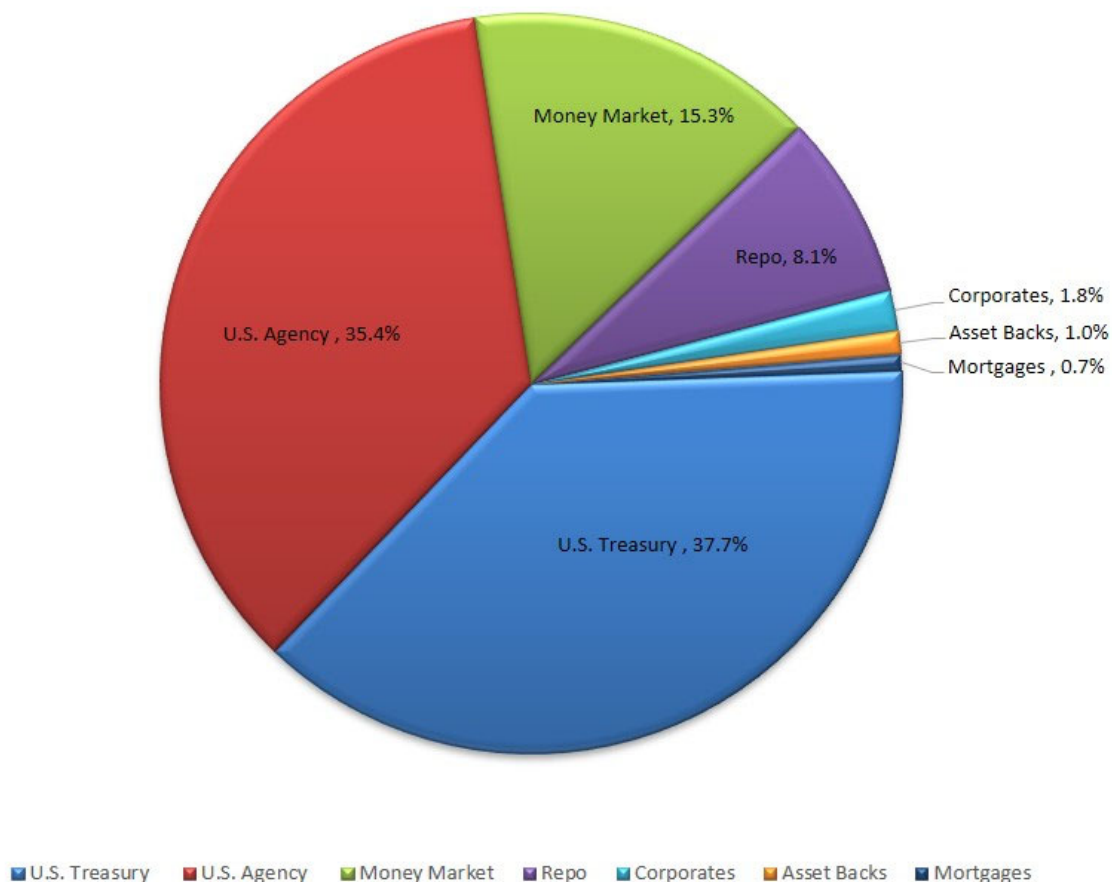
Portfolio Management

For the six months ended June 30, 2026, the Commonwealth's investment portfolio was approximately \$14.9 billion. The portfolio was invested in U.S. Treasury Securities (37.7%), U.S. Agency Securities (35.4%), Mortgage-Backed Securities (0.7%), Repurchase Agreements (8.1%), Corporate Securities (1.8%), Asset-Backed Securities (1.0%), and Money Market

Securities (15.3%). The portfolio had a market yield of 3.75% and an effective duration of 0.50 years.

The total portfolio is broken down into three investment pools. The pool balances as of June 30, 2026 were \$7.0 billion (Short Term Pool), \$2.8 billion (Limited Term Pool), and \$5.1 billion (Intermediate Term Pool).

Distribution of Investments as of June 30, 2026



INVESTMENT MANAGEMENT

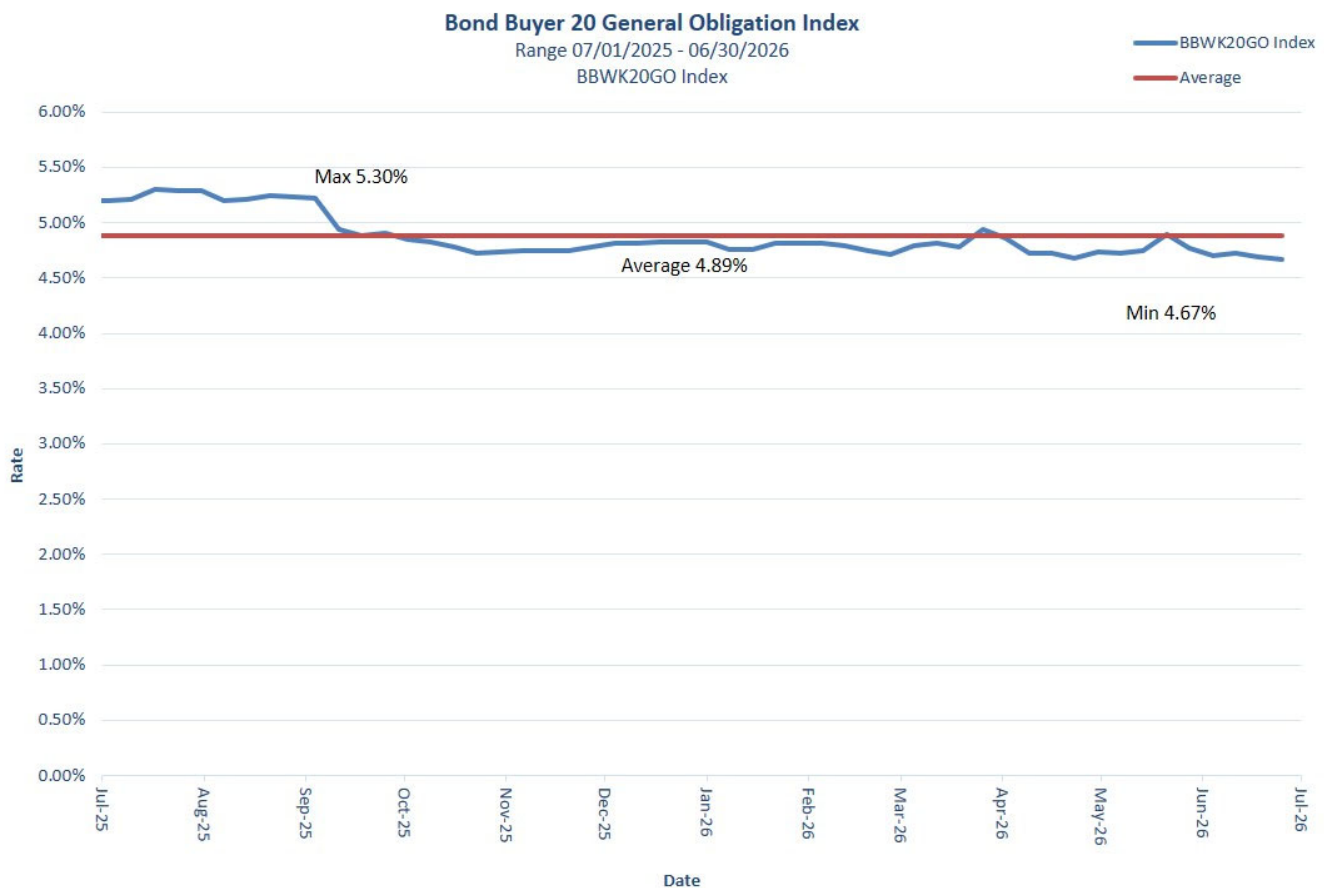
Tax-Exempt Interest Rates and Relationships

The Bond Buyer 20 General Obligation Index averaged 4.89 percent during FY 2026. The high was 5.30 percent on July 17, 2025, and the low was 4.67 percent on June 25, 2026.

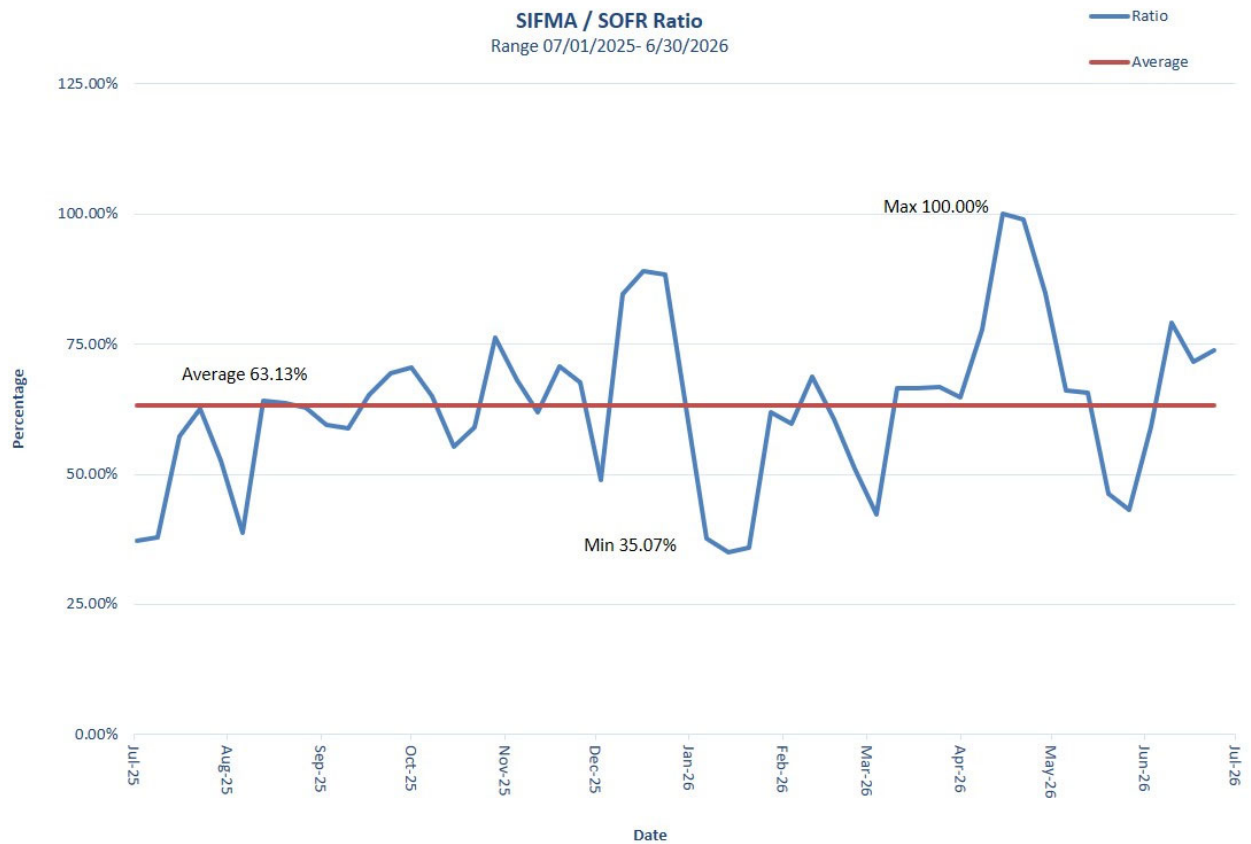
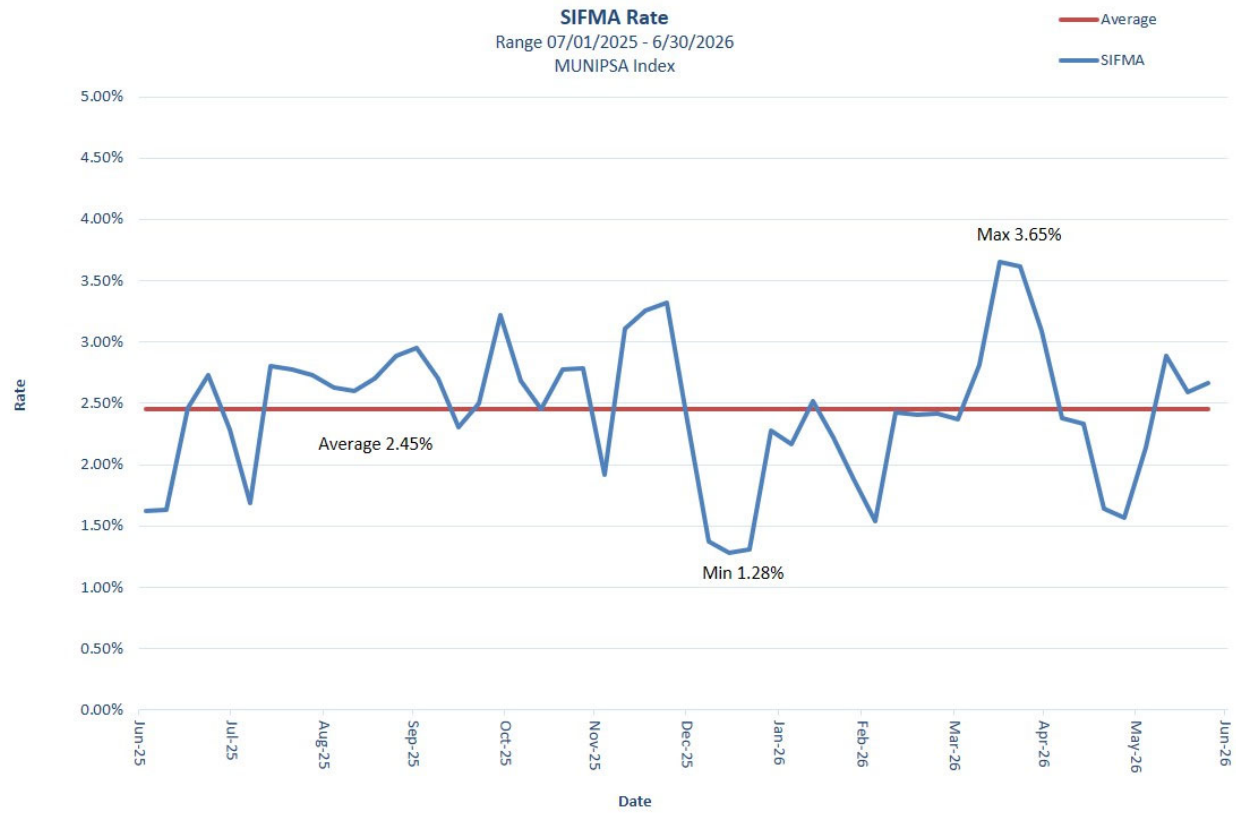
The Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Index averaged 2.45 percent during FY 2026. The high was 3.65 percent on April 15, 2026, and the low

was 1.28 percent on January 14, 2026. The 30-day Secured Overnight Financing Rate (“SOFR”) averaged 3.90 percent during FY 2026. The high was 4.42 percent on September 5 and September 12, 2025, and the low was 3.55 percent on May 15 and May 22, 2026.

During FY 2026, SIFMA traded at an average of 63.13 percent of the 30-day SOFR, with a high of 100.00 percent on April 15, 2026, and a low of 35.07 percent on January 14, 2026.



SIFMA & SIFMA/SOFR Ratio



CREDIT MANAGEMENT

Mid-Year Reflection

Credit

Progress toward returning inflation to the Federal Reserve's long-run objective of 2 percent stalled during the first half of 2026. After increasing in April and May amid geopolitical pressures, core CPI returned to 2.6 percent by the end of the period, unchanged from the rate at the end of 2025. Persistent inflation eliminated expectations for an imminent rate cut by the FOMC and renewed discussion of a potential rate increase before year-end. Adding to the uncertainty surrounding the path of monetary policy is the appointment of Kevin Warsh as the new Chair of the Federal Reserve following his predecessor's eight-year tenure. The new Chair's views on monetary policy and inflation could influence the direction of future rate decisions. As of the end of June, the FOMC had held its target rate steady throughout the year at 3.50 percent to 3.75 percent. With oil prices rising and inflation remaining persistent, market expectations increasingly shifted toward the possibility of tighter monetary policy, although rates could remain unchanged into 2027.

GDP growth moderated in the first half of 2026, with gains of 2.1 percent in the first quarter and 1.5 percent in the second quarter, indicating some deceleration compared with the 2.1 percent GDP growth recorded for full-year 2025. Personal income remained stable during the first six months of the year, while consumer spending increased modestly. Household debt continued to rise, although at a slower pace during the first quarter of 2026.

Delinquency rates held steady during the first quarter, breaking a streak of increases over several consecutive quarters.

Non-financial corporations continued to add debt, with outstanding debt reaching \$22.6 trillion at the end of the first quarter. After briefly declining during the second half of 2025 amid stronger GDP growth, the ratio of corporate debt to GDP increased again during the first half of 2026. Corporate debt issuance was particularly strong, increasing 28 percent compared with the same period in 2025. This increase was driven primarily by investment-grade debt, while high-yield issuance remained relatively flat. Corporate bankruptcies were also relatively unchanged during the first half of the year, leaving the bankruptcy rate near a 16-year high. Corporate bond spreads experienced significant volatility amid geopolitical developments and rising oil prices, but by the end of June, had returned to approximately their levels at the beginning of the year. The Senior Loan Officer Opinion Survey on Bank Lending Practices reported that lending standards for businesses generally tightened during the first half of the year, while demand remained relatively flat across all categories. Lending standards for households remained unchanged, while demand remained flat or weakened across most categories.

OFM Credit Process

Our credit strategy invests in creditworthy corporate issuers with a long-term rating of A3/A-/A- or better, as rated by Moody's, S&P, or Fitch, with the lowest of the three ratings used to determine credit rating compliance. The strategy focuses on adding

CREDIT MANAGEMENT

value through a disciplined approach to credit selection. Through independent research and prudent diversification across industries and issuers, our goal is to deliver consistent longer-term investment performance over U.S. Treasuries.

Default Monitoring

The Bloomberg credit risk model is our primary tool for monitoring default risk. The default likelihood model is based on the Merton distance-to-default (“DD”) measure, along with additional economically and statistically relevant factors. Firms are assigned a default risk measure that provides a high-level summary of their credit health through an explicit mapping of the default likelihood to default risk.

A daily report is generated using our approved list and their peers, enabling us to track market activity in selected names, including credit default swaps (CDS).

Industry/Company Analysis

We use a combination of top-down and bottom-up approaches in our investment process. The top-down approach focuses on understanding the current (and future) business cycle, or the “big picture” of the economy and financial environment, in order to identify attractive industries. Once these industries are identified, a bottom-up approach is utilized, with portfolio managers focusing on specific company fundamentals to select the strongest companies within each sector.

Fundamental analysis is then performed by looking at competitive position, market share, operating history and trends, management

strategy and execution, and financial statement ratio analysis.

Approved List

Once analysis has been completed, the State Investment Commission reviews the list for approval on a quarterly basis. During the first half of 2026, no names were added or removed from the Corporate Credits Approved list. The Corporate Credits Approved list as of June 30, 2026, is located in Appendix A.

DEBT MANAGEMENT

Authorized but Unissued Debt Summary

The current State Budget includes authorized debt service for more than \$7.56 billion of projects supported by the General Fund, Agency Fund, Road Fund, and Federal Fund, which were approved during prior sessions of the General Assembly. This pipeline of projects is anticipated to be financed through a number of future bond transactions. The timing of these financings will depend on the pace of capital spending and will be coordinated among the project sponsors, the Office of the State Budget

Director and the Office of Financial Management.

As of June 30, 2026, the balance of prior bond authorizations of the General Assembly dating from 2010 through 2026 that are subject to state intercept totals \$7,558.50 million. Of this amount, \$4,281.38 million is supported by the General Fund, \$2,964.62 by the Agency Fund, \$12.50 by Road Fund appropriations, and \$300.00 million by the Federal Highway Trust Fund through Grant Anticipation Revenue Vehicle Bonds (“GARVEEs”).

Summary of Authorized but Unissued Debt by Fund Type As of June 30, 2026:

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Fund (millions)	TOTAL (millions)
2010	\$ 14.24	\$ 17.50	-		\$ 31.74
2012	1.57	-	\$ 12.50		14.07
2014	4.63	-	-		4.63
2016	15.48	-	-		15.48
2018	124.97	-	-		124.97
2019	26.08	-	-		26.08
2020-2021	233.65	18.43	-		252.08
2022-2024	696.88	80.47	-	\$ 150.00	927.35
2024-2026	2,363.90	1,200.02	-	150.00	3,713.92
2026-2028	997.18	1,648.20			2,645.38
Bond Pool Proceeds	(197.20)	-	-	-	(197.20)
TOTAL	\$ 4,281.38	\$ 2,964.62	\$ 12.50	\$ 300.00	\$ 7,558.50

Looking Forward

ALCo continues to monitor the municipal bond interest rate market and, together with other relevant market data, evaluates whether interim

or variable rate financing would provide an economic advantage in conjunction with fixed rate bonds.

DEBT MANAGEMENT

Ratings Update

The rating agencies continually monitor the Commonwealth's budgetary policies and financial performance in areas such as revenue, the economy, pensions, and debt management. Pension unfunded liabilities continue to place downward pressure on the Commonwealth's credit ratings.

During the current reporting period, the Commonwealth's ratings were either affirmed or unchanged.

The Ratings Picture at June 30, 2026

	Moody's	S & P	Fitch	Kroll
General Obligation Issuer Rating (GO)	Aa2	A+	AA	AA-
General Fund Appropriation Rating (GF)*	Aa3	A	AA-	A+
Road Fund Appropriation Rating (RF)*	Aa2	A	AA-	AA-
Federal Highway Trust Fund Appropriation Rating*	A2	AA	A+	-

*Not all outstanding bonds are rated by every rating agency.

DEBT MANAGEMENT

Cash Management Strategies

Cash management strategies are dependent on market conditions and prevailing interest rates. Historical alternatives are listed below:

Tax and Revenue Anticipation Notes (“TRANS”)

TRANS can provide liquidity or leverage the difference between taxable and tax-exempt interest rate markets to create economies that provide a financial benefit to the Commonwealth.

No TRANS were issued during the reporting period.

Inter-Fund Borrowing

Cash in one fund is loaned to another fund experiencing a short-term cash flow shortfall. Historically, funds have been loaned to the short-term fund (General Fund).

As of June 30, 2026, total liquid resources available to the General Fund were \$14.932 billion.

No inter-fund loans were made during FY 2026.

Bond Anticipation Notes (“BANs”)

A BAN is a short-term interest-bearing security issued in advance of a larger future bond issue. BANs are typically issued to provide interim financing for projects until long-term bonds are issued.

No BANs were issued during the reporting period.

Notes or Direct Loans (“Notes”)

"Funding notes" means notes issued under the provisions of KRS 56.860 to 56.869 by ALCo for the purpose of funding:

(a) Judgments, with a final maturity of not more than ten (10) years; and

(b) The finance or refinance of obligations owed under KRS 161.550(2)

"Project notes" are notes issued under the provisions of KRS 56.860 to 56.869 by ALCo with a final maturity of not more than twenty (20) years for the purpose of funding authorized projects, which may include bond anticipation notes.

No Notes were issued during the reporting period.

Synthetic Fixed Rate

Synthetic Fixed Rate is an alternative to traditional fixed-rate borrowing in which funds are borrowed at a variable rate basis then an interest rate swap is used to effectively convert the borrowing to a fixed rate.

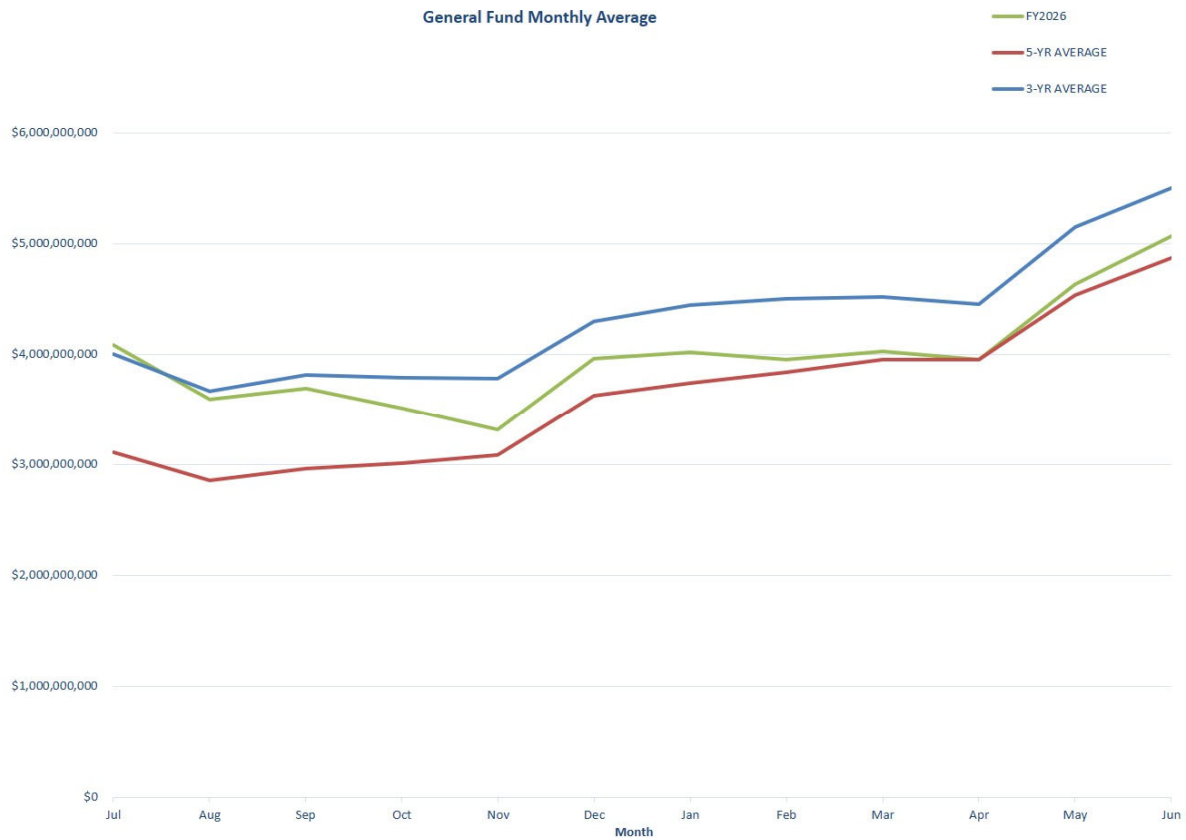
No synthetic fixed-rate transactions were entered into during the reporting period.

DEBT MANAGEMENT

General Fund Cash Balance
Fiscal Year 2026



General Fund Monthly Average



DEBT MANAGEMENT

ALCo Financial Agreements

ALCo has had no outstanding financial agreements since May 3, 2021, when all remaining interest rate swaps associated with variable-rate debt were retired.

Asset/Liability Model

General Fund

The total State Property and Buildings Commission (“SPBC”) debt portfolio as of June 30, 2026 had \$4.375 billion of bonds outstanding, with a weighted average coupon of 4.93 percent and a weighted average life of 8.5 years. The average coupon reflects continued investor preference for tax-exempt callable premium bonds in the current market, which price at yields lower than par or discount coupon bonds. Of the total outstanding debt, the \$2.547 billion callable portion had a weighted average coupon of 4.90 percent. The SPBC debt structure has 32.15 percent of principal maturing within 5 years and 56.97 percent of principal maturing within 10 years, reflecting the amortization structure of recent SPBC issuances and the reduced amount of principal remaining in longer dated maturities.

The General Fund had a maximum balance of \$6.277 billion on July 1, 2025, and a low of \$3.172 billion on November 17, 2025. The average and median balances were \$3.997 billion and \$3.871 billion, respectively. Returns on investable balances are impacted by investment earnings, fees, and mark-to-market rules on the underlying investments.

From a liability management perspective, total Commonwealth General Fund debt service, net of credits, was \$626.369 million for FY 2026. In

addition to the Commonwealth General Fund debt service, General Fund debt service of \$9.811 million was provided for an Eastern State Hospital financing that was first issued through the Lexington-Fayette Urban County Government in 2011. General Fund debt service of \$11.248 million was also provided for the 2015 and 2018 Certificates of Participation (related to the two Commonwealth state office Building projects). These projects are separately identified because they are not direct obligations of the Commonwealth, but they are General Fund supported.

Looking Forward

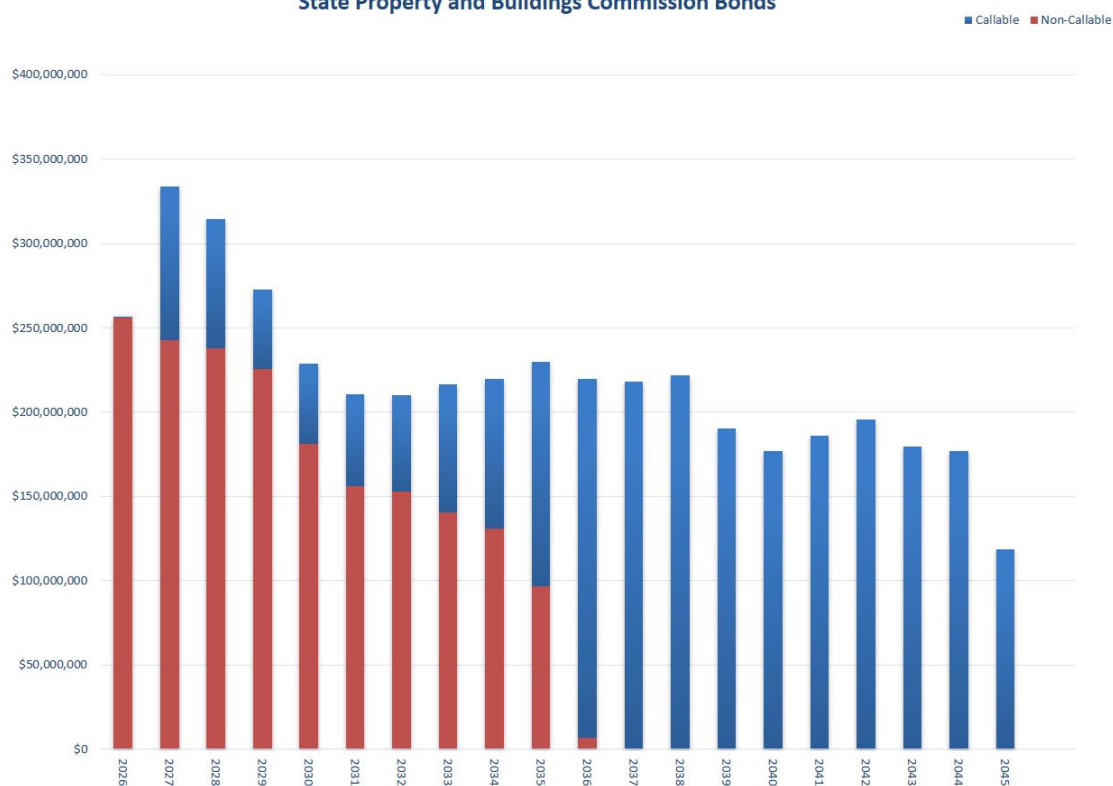
Since January 1, 2018, federal tax law has prohibited tax-exempt advance refunding bonds. In response, the Commonwealth has expanded its evaluation methods for identifying potential refunding candidates. The Commonwealth now considers and has executed advance refundings of its municipal bonds on a taxable basis through a forward delivery of tax-exempt bonds, convertible taxable to tax-exempt bonds, and tender and exchange transactions. Additional diligence and financial modeling are necessary to ensure economic savings in these transactions.

DEBT MANAGEMENT

Call Analysis by Call Date
State Property and Buildings Commission Bonds



Call Analysis by Maturity Date
State Property and Buildings Commission Bonds



DEBT MANAGEMENT

Road Fund

The net Road Fund average daily cash balance for FY 2026 was \$211 million compared to \$368 million for FY 2025. The Road Fund cash was invested in the Intermediate Term Investment Pool, which had a duration of 1.12 years as of June 30, 2026.

The Road Fund earned \$6.9 million on a cash basis for FY 2026 versus \$19.0 million for FY 2025. Road Fund earnings decreased year over year due to lower short-term rates. The continued relatively low level of investable balances at certain times during the fiscal year limits the investment opportunities.

As of June 30, 2026, the Turnpike Authority of Kentucky ("TAK") had \$451.3 million of bonds outstanding with a weighted average coupon of 4.55 percent and an average life of 4.24 years.

Road Fund debt service paid in FY 2026 was \$117.0 million, resulting in a net interest margin (investment income earned year-to-date less debt service paid) of negative \$110.1 million. The negative margin stems from the level of investable balances as well as the limited callability of fixed-rate obligations on the liability side.

TAK 2026 Series A

On April 2, 2026, TAK closed on \$102,515,000 of Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2026 Series A. The bond proceeds refunded \$109,350,000 of certain outstanding TAK bonds. The transaction achieved an all-in true interest cost of 2.670 percent and net present value savings of \$5.637 million, or 5.155 percent

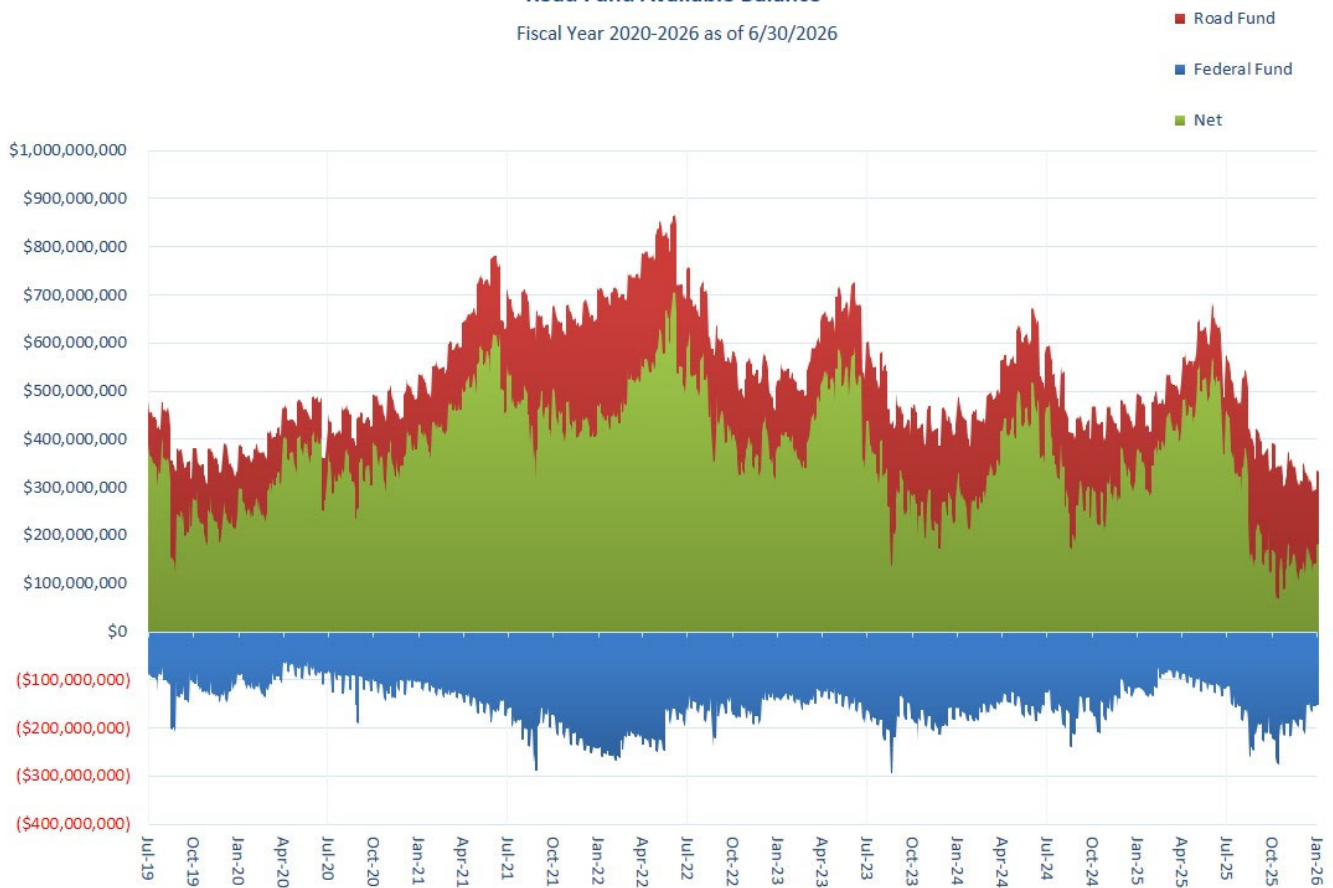
of refunded par.

The bonds were sold on a tax-exempt basis through a negotiated sale with J.P. Morgan serving as underwriter and Dinsmore & Shohl serving as bond counsel. The bonds received ratings of Aa2 and AA- from Moody's Investors Service, Inc. and Fitch Ratings, respectively.

DEBT MANAGEMENT

Road Fund Available Balance

Fiscal Year 2020-2026 as of 6/30/2026



SUMMARY

During the reporting period for the 59th semi-annual report, the FOMC maintained the federal funds target rate at 3.50 percent to 3.75 percent throughout the first six months of 2026. Progress toward returning inflation to the Federal Reserve's 2 percent objective stalled during the period, while the labor market continued to show signs of softness and economic growth moderated. Persistent inflation, rising oil prices, and geopolitical developments shifted market expectations away from additional rate cuts and toward the possibility of tighter monetary policy, although the outlook remains dependent on incoming economic data.

Treasury yields increased during the period, with the 2-year Treasury yield rising from 3.47 percent at the beginning of the year to 4.17 percent at the end of June and the 10-year Treasury yield increasing from 4.19 percent to 4.47 percent. The larger increase in shorter-term yields resulted in a positively sloped yield curve, eliminating the inversion that had persisted in recent years.

The cost of capital across the Commonwealth remained higher than the low-rate environment that existed prior to 2022. As a result of large cash balances, the Commonwealth has benefited from the spread between tax-exempt borrowing costs and taxable investment yields.

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

analyze potential opportunities for savings and 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. ALCo also continues to monitor municipal bond market conditions and evaluate whether the interim financing program may provide an economic advantage when used in conjunction with fixed-rate bonds.

The balance of prior bond authorizations of the General Assembly from 2010 through 2026 totals more than \$7.56 billion, with outstanding debt of \$4.38 billion for SPBC, \$852.67 million for SFCC, \$78.0 million for ALCo GARVEEs, \$9.85 million for ALCo bonds, and \$451.30 million for Turnpike bonds. All bonds are continually monitored for potential refunding opportunities.

APPENDIX

APPENDIX A

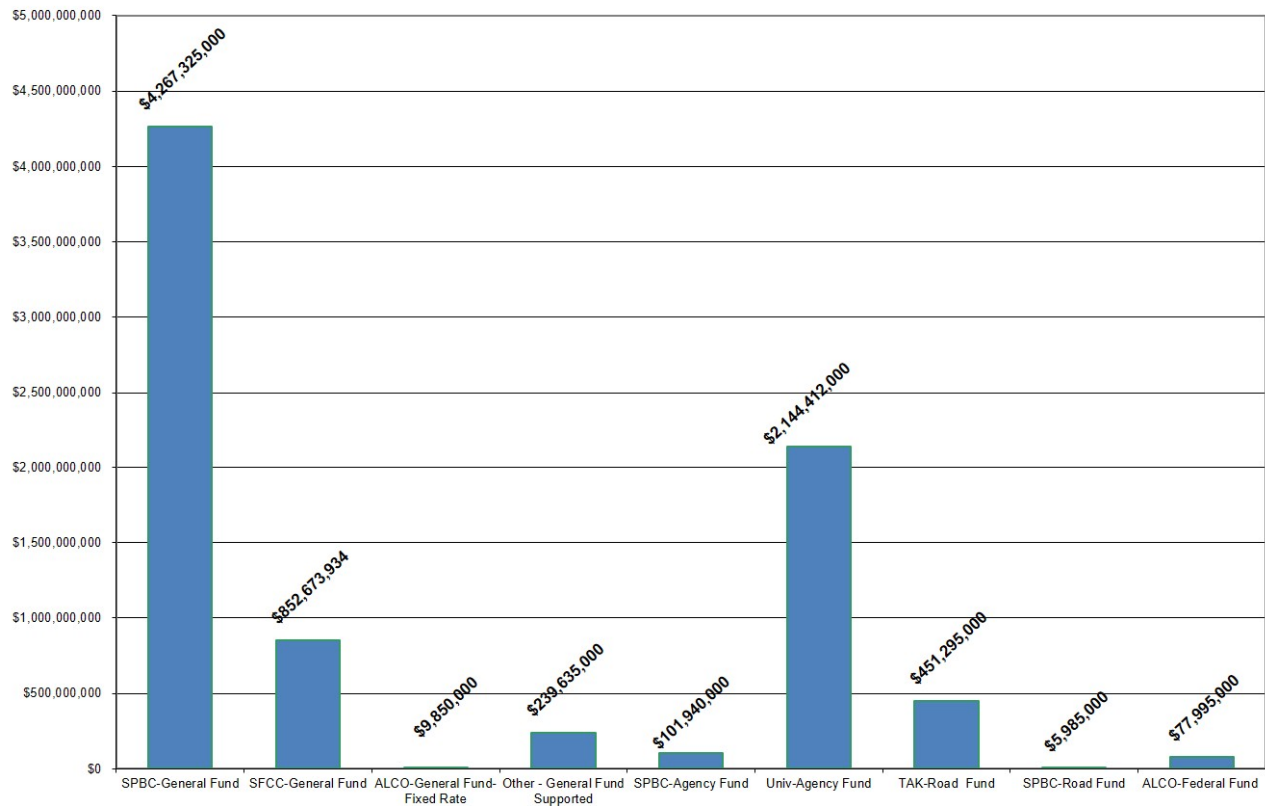
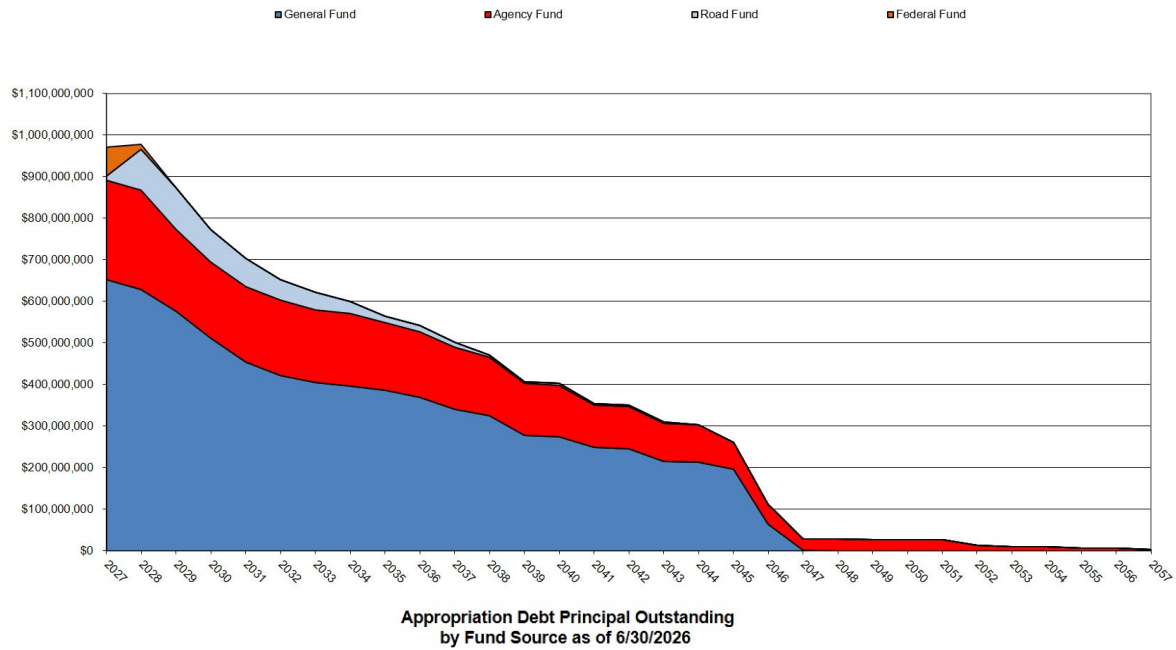
Corporate Credits Approved For Purchase

6/30/2026

Company <u>Name</u>	Repurchase <u>Agreements</u>	Commercial <u>Paper</u>	<u>Bonds</u>
Apple Inc		Yes	Yes
Bank of America	Yes	No	No
Bank of Montreal	Yes	Yes	Yes
Bank of Nova Scotia	Yes	Yes	Yes
Bank of Tokyo-Mitsubishi UFJ		Yes	Yes
Berkshire Hathaway Inc		Yes	Yes
BNP Paribas Securities Corp	Yes	Yes	Yes
BNY Mellon NA		Yes	Yes
Canadian Imperial Bank of Comm		Yes	Yes
Cantor Fitzgerald	Yes	No	No
Chevron Corp		Yes	Yes
Cisco Systems Inc		Yes	Yes
Cooperative Rabobank		Yes	Yes
Cornell University		Yes	No
Costco Wholesale Corp		Yes	Yes
Deere & Co		Yes	Yes
Exxon Mobil Corp		Yes	Yes
Guggenheim Securities, LLC	Yes	No	No
Home Depot Inc		Yes	Yes
IBRD - World Bank		Yes	Yes
Johnson & Johnson		Yes	Yes
Linde PLC		Yes	Yes
Merck and Co Inc		Yes	Yes
Microsoft Corp		Yes	Yes
MUFG Bank Ltd/NY		Yes	Yes
Natixis SA/New York		Yes	Yes
Nestle Finance International		Yes	Yes
PepsiCo Inc		Yes	Yes
Pfizer Inc		Yes	Yes
Procter & Gamble Co/The		Yes	Yes
Royal Bank of Canada	Yes	Yes	Yes
Royal Dutch Shell PLC		Yes	Yes
Salvation Army		Yes	No
State Street Corp		Yes	Yes
Sumitomo Mitsui Trust Bank		Yes	Yes
Texas Instruments Inc.		Yes	Yes
Toronto-Dominion Bank/The		Yes	Yes
Total Energies		Yes	Yes
Toyota Motor Corp		Yes	Yes
Wal-Mart Stores Inc		Yes	Yes

APPENDIX B

Appropriation Supported Debt Service
by Fund Source as of 6/30/2026



*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 6/30/2026**

FUND TYPE SERIES TITLE	AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
General Fund Project & Funding Notes				
2021 General Fund Refunding Project Notes	\$113,940,000	5/2021	11/2027	\$9,850,000
FUND TOTAL	\$113,940,000			\$9,850,000
Federal Hwy Trust Fund Project Notes				
2024 Refunding Notes FHTF	\$107,040,000	6/2024	9/2026	\$56,375,000
2025 Refunding Notes FHTF	\$21,720,000	6/2025	9/2027	\$21,620,000
FUND TOTAL	\$128,760,000			\$77,995,000
ALCo NOTES TOTAL	\$242,700,000			\$87,845,000

REPORT PREPARED BY:



Office of Financial
Management

Commonwealth of Kentucky
200 Mero Street, 5th Floor
Frankfort, KY 40622
<https://ofm.ky.gov>

Creating Financial Value for the Commonwealth

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