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**Asset/Liability  
Commission**

**Semi-Annual Report**

**For Period Ending June 30, 2000**

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 Interim 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 January through June 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/ofm.html>

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## INTRODUCTION

This is the Commission's seventh semi-annual report under KRS 56.863 (11) for the period beginning January 1, 2000 through June 30, 2000. Key themes during the period were:

### *National*

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- Year 2000 issues proved to be a non-event.
- U.S. economy is beginning to show signs of slowing.
- Surge in oil prices heightens inflation fears.
- Federal Reserve increases short-term interest rates.
- Limited supply of new issue municipal bonds.

### *State*

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- Rating agencies upgrade certain appropriation-supported debt of the Commonwealth.
- Systematic conversion of ALCo short-term project note programs to permanent financing.
- Significant debt service savings were achieved in Fiscal Year 2000.
- New bond authorization for FY01-02 in the amount of \$1,053,015,600.

# INVESTMENT MANAGEMENT

## Market Overview

### Taxable

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The U.S. economy has been red hot the past twelve months with real growth in excess of 6 percent. Fueled by excess liquidity left over from Y2K concerns and strong wage gains, consumer spending and the equity markets have flourished. However, signs of slower growth are beginning to materialize due in part to a rapid price increase in petroleum products, higher home prices and rising interest rates. The question after nine years of real growth: is this deceleration a return to a lower, more sustainable rate of growth (soft landing) or a hint of something more significant (hard landing)?

In recent months it is clear that the Federal Reserve is focused on slowing growth in a controlled fashion to avoid a hard landing or recession through systematic rate increases and market communication. As a result, the Fed Funds Rate target was increased by 50 basis points in May from 6.00 percent to 6.50 percent. This action was preceded by two 25 basis point moves earlier in the year. The Fed did not take any action at the June meeting and given the recent economic data, investors seem to be assigning a low probability of an increase at the August meeting as well. The conventional wisdom seems to be that the Fed will be hesitant to increase interest rates until after the presidential election in November.

### Treasury Yields

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The Treasury yield-curve remains inverted, i.e. long-term rates are lower than short-term rates. The inverted yield curve reflects expectations for an economic slowdown that could occur with higher interest rates and the reduction in long-term Treasury debt. Most recently, the U.S. Treasury repurchased \$13 billion in long-term Treasury Bonds in the open market with proceeds derived from the budget surplus. Two-year Treasury Notes began the period at the low of 6.21 percent before rising to a high of 6.91 percent, increasing 70 basis points or approximately 11 percent. The average was 6.53 percent for the six-month period and 6.15 percent for the twelve months ended June 30, 2000. The benchmark 30-year Treasury Bond began the period at 6.47 percent, reached a high of 6.75 percent before dropping to a low of 5.67 percent and ended at 5.90 percent for an average of 6.13 percent for the six-month period.

## Tax Exempt

### Yield Relationships

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The Bond Buyer 20-year General Obligation Index ended the calendar year at 6.00 percent and rose to a high of 6.09 percent before falling to a low of 5.69 percent. The average for the period was 5.77 percent. Tax-exempt yield ratios versus Treasuries continued to trade at higher percentages reflecting the Treasury buy-back program and inverted treasury curve. The average for the reporting period was 96 percent. Retail investors continue to be the primary market for new issue municipal bonds. Institutional demand remains tepid, due to bond fund redemptions and wider yield spreads available in the taxable agency and corporate sectors.

The short-term tax-exempt market as measured by the 7-day Bond Market Association (“BMA”) Municipal Swap Index ranged from a low of 2.93 percent on the first business day of the new year to a high of 5.84 percent and finished the period at 4.77 percent. BMA averaged 4.06 percent for the six-month period and 3.75 percent for the twelve months ending June 30, 2000 or approximately 65.6 percent and 64.15 percent 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**

For Fiscal Year 2000 the Commonwealth’s investment portfolio averaged \$3.2 billion. As of June 30, 2000, the portfolio was invested in U.S. Treasury securities (14 percent), U.S. Agency securities (39 percent), Municipal securities (4 percent), Corporate securities (11 percent), U.S. Agency Mortgage Backed Securities and Collateralized Mortgage Obligations (9 percent), Asset Backed Securities (4 percent), Repurchase Agreements (17 percent) and Money Market Securities (2 percent). The portfolio had a current yield of 6.86 percent and a modified duration of 1.34 years.

The total portfolio is broken down into four investment pools. The pool balances as of June 30, 2000 were: Short-term (\$685.6 million), Intermediate-term (\$2,084.0 million), Long-term (\$346.8 million) and Bond Proceeds (\$196.1 million). See in the Appendix, the June 30, 2000 Monthly Investment Income Report.

Investment income for FY2000 was \$160.0 million versus \$152.4 million the previous fiscal year, a \$7.6 million increase. Total return for the fiscal year ending June 30, 2000 was 5.01 percent versus 4.81 percent during Fiscal Year 1999. The increase in total return is attributable to a modest improvement in interest rates and the ability to reinvest maturing principal amounts and new cash in higher yielding investments. 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.

The General Fund portion of total income was \$22,551,927 on a cash basis. New asset classes authorized under House Bill 5 of the 1997 First Extraordinary Session of the General Assembly contributed \$5,172,966 to total investment income of which \$1,093,701 has been allocated to the General Fund for FY2000. Mortgages added the bulk of the earnings, generating \$3.4 million while corporate securities added \$1.8 million.

# DEBT MANAGEMENT

## Rating Upgrades

On August 18, 2000, Fitch raised its rating to AA- from A+ on the appropriation-backed debt of the State Property and Buildings Commission (“SPBC”) and certain General Fund lease obligations of the Kentucky Infrastructure Authority and the Kentucky Asset/Liability Commission.

Standard and Poor’s (“S&P”) also raised its ratings to AA- from A+ on the appropriation-backed debt of the State Property and Buildings Commission and Kentucky Infrastructure Authority on March 8, 2000. Moody’s upgraded the appropriation-backed debt obligation ratings for the State Property and Buildings Commission, Kentucky Infrastructure Authority and School Facilities Construction Commission to Aa3 during the summer 1999. The Commonwealth benefited from the rating agencies broad review and appreciation for the history of appropriation supported debt for funding public projects. This macro view when combined with steady economic growth and the state’s efforts to manage its finances in a responsible manner through programs like ALCo resulted in a ratings upgrade to one level below that which the state’s general obligation bonds would be rated, if the Commonwealth issued such bonds.

## Appropriation Supported Debt Issuing Entities

Entity	Statutory Authority	Debt Limitations	Ratings Moody's/S & P
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA- Fitch AA-
Kentucky Asset/Liability Commission	KRS 56 Provides for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	KRS 175.410 – 175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	A1/A+
Postsecondary Education (9 universities)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to \$60 and \$125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/AA-
School Facilities Construction Commission	KRS 157.800 –157.895 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+ Fitch A

Below is a summary of the Commissions's debt issued and outstanding as of June 30, 2000.

### Kentucky Asset/Liability Commission

Debt Summary - June 30, 2000

<b>TRANS</b>	<b>Amount Issued</b>	<b>Amount Outstanding <sup>(1)</sup></b>	<b>Initial Date</b>	<b>Maturity Date</b>	<b>Coupon</b>	<b>Price</b>	<b>Yield</b>
1999 Series A	\$ 300,000,000	\$0	07/01/99	06/28/00	4.250%	100.839	3.375%
1999 Series B	\$ 101,000,000	\$0	11/01/99	06/28/00	4.500%	100.430	3.830%
2000 Series A	\$ 400,000,000	\$0 <sup>(4)</sup>	07/03/00	06/27/01	5.250%	100.668	4.540%
<b>PROJECT NOTES</b>	<b>Amount Authorized</b>	<b>Amount Outstanding <sup>(1)</sup></b>	<b>Initial Date</b>	<b>Maturity Date</b>	<b>Coupon</b>	<b>Price</b>	<b>Yield <sup>(2)</sup></b>
<b>General Fund</b>							
1998 First Series <sup>(3)</sup>	\$ 157,000,000	\$ -	02/04/98	06/30/01	3.359%	100.000	3.359%
1999 First Series	\$ 49,195,000	\$ 42,920,000	03/01/99	03/01/06	4.000%	99.941	4.144%
1999 Second Series	\$ 135,000,000	\$ 20,280,000	08/25/99	06/30/03	3.655%	100.000	3.655%
1999 Third Series	\$ 138,000,000	\$ 20,280,000	09/23/99	06/30/03	3.904%	100.000	3.904%
1999 Fourth Series	\$ 135,000,000	\$ 20,000,000	11/17/99	06/30/03	3.880%	100.000	3.880%
<b>Road Fund</b>							
1999 First Series	\$ 78,000,000	\$ 75,200,000	10/06/99	06/30/03	3.835%	100.000	3.835%
1999 Second Series	\$ 128,000,000	\$ 25,000,000	10/27/99	06/30/03	3.824%	100.000	3.824%
<b>Agency Fund</b>							
1998 Agency Fund	\$ 110,000,000	\$ 15,000,000					
<i>UK Stadium</i>		\$ -	09/02/98	06/30/02	3.633%	100.000	3.633%
<i>Morehead H &amp; D</i>		\$ -	04/21/99	06/30/02	3.645%	100.000	3.645%
<i>UK Housing &amp; Dining</i>		\$ 15,000,000	03/09/00	06/30/02	4.043%	100.000	4.043%

(1) Amount Outstanding as of June 30, 2000

(2) Weighted average yields from inception to June 30, 2000

(3) 1998 General Fund First was fully redeemed April 14, 2000

(4) Priced June 6, 2000 with delivery date of July 3, 2000

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

### **1999 Tax and Revenue Anticipation Notes**

The Commission authorized the FY2000 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. The net benefit to the General Fund for FY2000 is \$7,276,672. The 1999 TRAN program was marketed by Salomon Smith Barney.

### **2000 Tax and Revenue Anticipation Notes**

The Commission authorized the FY2001 TRAN program in an amount not to exceed \$550.7 million. On July 3, 2000, \$400 million was issued to mature on June 27, 2001. The 2000 Series A TRANs were sold by Salomon Smith Barney on June 6, 2000 and carried a coupon of 5.25 percent to yield 4.54 percent. The Series B TRAN is expected to be sold by early October depending upon General Fund cash flow patterns.

## **General Fund 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 were converted to permanent financing with the issuance of State Property and Buildings Commission Project 65 Revenue Bonds on February 16, 2000 and are no longer outstanding. The Notes were not redeemed until April 14, 2000 to take advantage of arbitrage opportunities afforded by currently refunding the Notes within 90 days of the maturity date.

Since inception, the Notes had a weighted average yield of 3.359 percent, 13.5 basis points less than the BMA Index over the same time period. The all-in cost, including remarketing fees and credit facility fees, was 3.569 percent. The Notes had a mandatory redemption date of June 30, 2001 and were offered by Bear, Stearns & Company in the Commercial Paper Mode. The Notes were supported by a direct-pay letter of credit issued by the New York branches of Landesbank Hessen-Thüringen Girozentrale and HypoVereinsbank AG, two of Germany's leading banks.

### **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. These Notes were issued as a one-year fixed rate note to yield 2.95 percent and matured on November 1, 1999. These Notes were converted to permanent financing by State Property and Buildings Commission Revenue Bonds Project 64 sold on August 17, 1999.



## **1999 General Fund First Series**

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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 Notes and debt service appropriations. As mentioned in the previous report 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 percent 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**

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On August 25, 1999, the Commission delivered \$20,280,000 of Project Notes. The Notes were issued in the Commercial Paper mode and provided interim financing for \$133,902,000 of 1998 General Fund authorized bond projects. One project, the State Office Building Asbestos Removal (Transportation Cabinet), was transferred from the 1998 General Fund First Series to the 1999 General Fund Second Series because of expenditure expectations. Through June 30, 2000 expenditures were approximately 17 percent of total project scope and additional funds will be drawn in September. The Notes are supported by a direct-pay letter of credit provided by Credit Local de France, which recently changed its name to Dexia. Merrill Lynch is the remarketing agent for the Notes and for the bonds, which are scheduled for sale in the spring of 2001.

## **1999 General Fund Third Series**

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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 1998 General Fund authorized bond projects of which approximately 5 percent of the proceeds have been expended. Bayerische Landesbank Girozentrale provides a standby letter of credit to support the transaction. Paine Webber is the remarketing agent for the Notes and the bonds, which are anticipated to be issued later this fall.

## **1999 General Fund Fourth Series**

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On November 17, 1999, the Commission delivered \$20,000,000 of Project Notes. The Notes were issued in the Commercial Paper mode to fund the balance of 1998 General Fund bond authorized projects in the amount of \$132,139,000 of which approximately 10 percent has been expended. The Fourth Series Trust Indenture varies from the 1999 General Fund Second and Third Series 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. J.P. Morgan provides a stand-by letter of credit that expires November 17, 2000. Salomon Smith Barney is the remarketing agent for the Notes and the bonds, which are scheduled to close September 19, 2000.

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.

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

### **Project Notes**

On October 6, 1999 the Commission delivered \$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 1998 \$200 million Road Fund 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 fiscal-year-end all of the proceeds from the First Series have been spent. This is the first Road Fund supported transaction since the issuance of Turnpike Authority bonds 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 of which approximately \$4.5 million has been spent. The Notes were issued in the Commercial Paper mode to fund the remaining \$125 million balance of the original \$200 million of Road Fund supported bond authorization. Westdeutsche Landesbank Girozentrale ("West LB") provides a stand-by letter of credit and Lehman Brothers is the remarketing agent.

Request for Proposals to provide permanent financing for both Road Fund Series has been issued and it is anticipated that bonds will be sold in late 2000 or early 2001.

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

### **Project Notes**

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 Center for Rural Health, ECU Law Enforcement Basic Training Complex, KHEAA Office Building and the Kentucky River Authority lock and dam improvements. Participants in the Agency Bond Pool (state universities) had the option of using this program to meet their financing needs, however Morehead State University was the only participant other than the University of Kentucky to use the program.

State Property and Buildings Commission Project 66 (Agency Fund) Revenue Bonds were issued on June 22, 2000 to provide permanent financing for the UK Stadium Expansion, ECU Law Enforcement Basic Training Complex and the KHEAA Office Building. The bonds are insured by MBIA and will be paid entirely from restricted agency receipts. The bonds were issued as Series A, tax-exempt bonds, and Series B, taxable bonds. The Series B bonds represent the allocable private use of the UK Stadium. MBIA provided a very aggressive bid of 14.9 basis points to insure the bonds, the lowest premium ever bid on a SPBC issue. The combination of a low insurance premium, economies of scale for issuance of

the bonds, and favorable bond market provided a lower interest cost to the agencies than they would have been able to achieve on a stand alone basis. The all-in TIC for the bonds was 5.69 percent.

Additionally, Morehead State University Project Notes in the amount of \$3,045,000, which were issued to fund housing and dining projects on April 21, 1999, have also been converted to permanent financing with the issuance of Housing and Dining Revenue Bonds.

The only remaining 1998 Agency Fund Series Project Notes outstanding are \$15 million issued for the University of Kentucky to fund Housing and Administrative Projects. The 1998 Agency Fund Project Notes are supported by a direct-pay letter of credit issued by Commerzbank AG and marketed by Lehman Brothers. Fitch has recently downgraded Commerzbank from F-1+ to F-1, which will diminish the universe of eligible buyers somewhat. Given the rating action, staff has advised the University of Kentucky to convert the remaining Housing and Dining Project Notes to permanent financing prior to the end of the calendar year.

### **Project Note Cost of Capital**

Cost of capital has been computed for each series of Project Notes since inception, excluding and including fees and expenses. Excluding expenses gives a better comparison of actual trading performance versus the benchmark, the Bond Market Association Index (“BMA”). BMA is a compilation of yields based upon highly rated seven-day variable rate demand notes (“VRDN”) that reset weekly. Comparison versus the benchmark has improved over the reporting period as Tax-exempt Commercial Paper yields lag the weekly market, both when rates are increasing and decreasing and tend to smooth out some of the volatility that the weekly markets can experience due to short-term technical factors. Over time we would expect the Commission’s credit enhanced variable rate debt to trade very close to BMA.

A summary of credit facility providers for ALCo Project Notes may be found in the Appendix.

**Project Note Performance**  
**Kentucky Asset/Liability Commission**  
 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 Stadium (3)	Morehead H & D	UK Housing Adm.	Combined (4)	1999 First Series	1999 Second Series
Dated Date	02/04/98	08/25/99	09/23/99	11/07/99	09/02/98	04/21/99	03/09/00	09/02/98	10/06/99	10/07/99
WAC (6/30/00) (5)	3.563%(6)	4.172%	4.500%	4.105%				4.543%	4.453%	3.967%
BMA (6/30/00)	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%	4.77%

Inception Weighted Average Yields (1)										
<b>June 30, 2000</b>	<b>3.359%</b>	<b>3.655%</b>	<b>3.904%</b>	<b>3.880%</b>	<b>3.633%</b>	<b>3.645%</b>	<b>4.043%</b>	<b>3.595%</b>	<b>3.835%</b>	<b>3.824%</b>
BMA	3.382%	3.864%	3.923%	4.016%	3.496%	3.700%	4.388%	3.496%	3.927%	3.966%
Difference	-0.023%	-0.209%	-0.019%	-0.136%	0.137%	-0.055%	-0.345%	0.099%	-0.092%	-0.142%
<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
- (5) Current Weighted Average Coupon
- (6) Weighted Average Coupon as of 4-13-2000

## FINANCIAL AGREEMENTS

The Commission had one financial agreement outstanding as of June 30, 2000, 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 June 30, 2000 that contract had a market value of \$188,000 versus \$61,000 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.

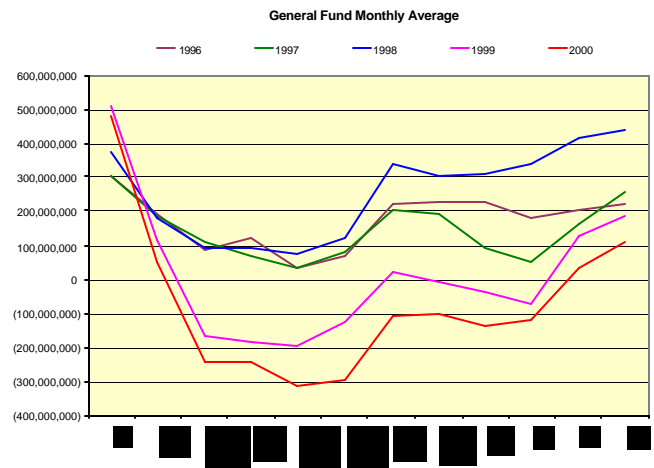
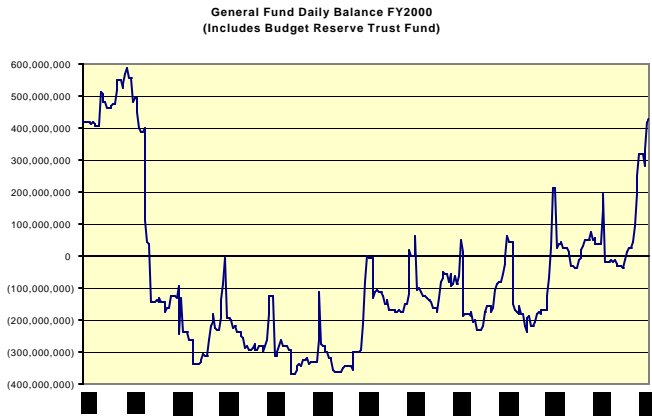
The Commission continues to evaluate the merits of using several different financial agreement structures to provide additional value to the investment and debt management programs of the state. Any transactions will require acceptable documentation and favorable market conditions.

# ASSET/LIABILITY MODEL

As previously reported, progress with the asset/liability model has been very frustrating as the program that was acquired to perform these computations was dropped by the vendor, including all support. At the present time, debt staff is evaluating an add-on product to existing software utilized by the investment area. The initial results are promising, but it will take some time to determine whether or not this product can be developed into a meaningful model.

## General Fund Model

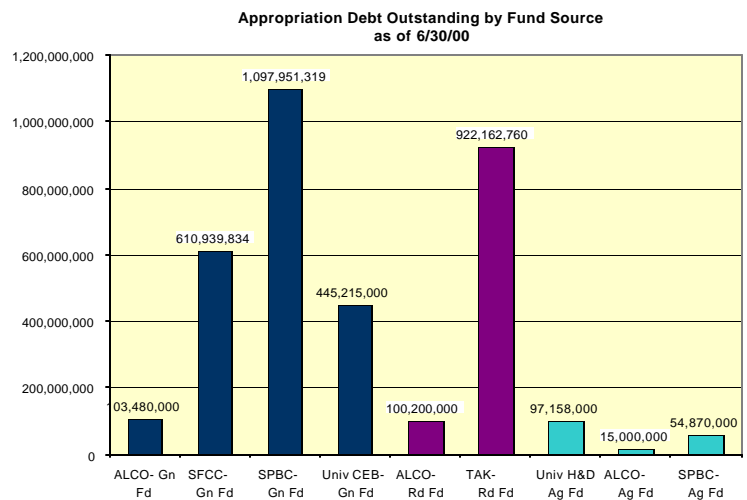
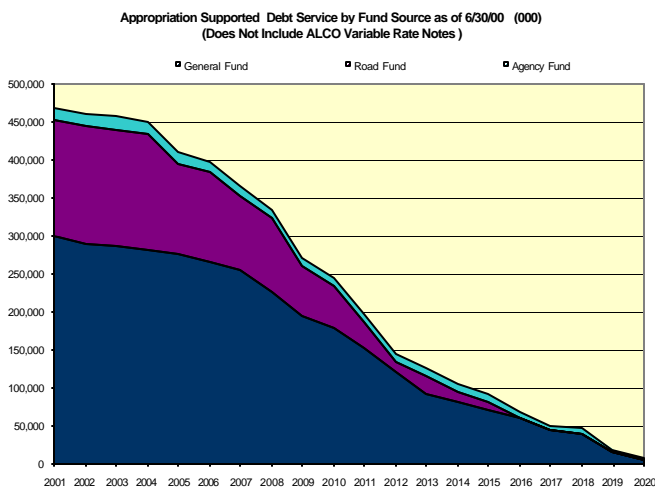
The initial work with the new software is being performed on the outstanding debt of the State Property and Buildings Commission as well as that of the Turnpike Authority, the latter of which is reflected in the Road Fund discussion below. The preliminary work with the SPBC data shows that the weighted average coupon (5.00 percent) and modified duration (4.70 years) are somewhat less than expected. As a result, the net interest margin, or the mismatch between interest sensitive assets and liabilities, is expected to be lower than originally anticipated. SPBC is a large portion of the General Fund appropriation-supported debt, but there are other components that must be included such as portions of Kentucky Infrastructure Authority and the School Facilities Construction Commission (“SFCC”) before drawing any final conclusions. While this news is encouraging, it is unlikely that we will be able to improve our position significantly and in fact may move to a wider mismatch based upon the large debt authorization in the 2000-2002 biennium. Staff is continuing to build the database and functions necessary to rollup the pieces into aggregates by fund source for further analysis.



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 year with a balance of \$478.3 million. The average and median balances were a negative \$72.8 million and a negative \$141.3 million, respectively. For purposes of calculating the available balance for the TRAN computation, \$119.6 million of the Budget Reserve Trust Fund is excluded. Taking into account this adjustment the balances were as follows: the high was \$467.8 million on July 29, the low was minus \$487.1 million on November 12, 1999, the average was negative \$192.4 million and the median was negative \$260.9 million. The ending balance on an adjusted basis was negative \$358.7

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 positive \$328.3 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 \$191.4 million through June 30, 2000 versus investment income of \$22.5 million, resulting in a net interest margin of negative \$168.8 million. Debt service lapse resulting from Project Note management of capital construction projects was \$29 million for FY2000, representing 13.28 percent of total General Fund debt service appropriations.



The General Fund received a significant capital investment with \$1.053 billion of bond authorized projects for the 2000-2002 biennium. The continued systematic approach of the ALCO structure will be very important in managing the funding of the new authorization and the conversion of the existing FY98-00 authorization to permanent financing over the coming months. Staff will be challenged to develop new innovative structures to finance the considerable investment in Community Development projects and initiatives funded from Tobacco Settlement Agreement receipts. While the Commonwealth has benefited from strong economic performance, sound financial management and a better appreciation of lease appropriation debt from the rating agencies and buyers, the recent rating upgrades are still very much a function of the essentiality of the underlying projects financed with bond proceeds. A major rating agency reminded the Commonwealth of this during their review of SPBC Project 66, which converted restricted agency fund projects to permanent financing.

## Road Fund Model

The Road Fund average daily balance for FY2000 was \$682.8 million. Of that average amount, \$483.3 million was invested in the Intermediate-term Investment Pool and \$199.4 million in the Long-term Investment Pool. The duration of the respective pools was 1.57 years and 2.30 years as of June 30, 2000. The Road Fund earned \$32.5 million on a cash basis.

As of June 30, 2000, the Turnpike Authority of Kentucky (“TAK”) had \$1.2 billion of bonds outstanding with a weighted average coupon of 5.41 percent and a modified duration of 3.71 years. The yield at market was 4.68 percent indicating that selected maturities might be refundable depending upon the tax status of the bonds. The duration of the outstanding bonds has continued to shorten with the absence of any new issuance by the TAK since April of 1995. Combining the 1999 Road Fund Project Notes to the outstanding debt of the TAK, the duration falls to approximately 3.44 years, based upon our preliminary Road Fund model estimates. Given the general increase in interest rates and without a new money transaction to add economies of scale, there was not an opportunity to refund any of the Turnpike Authority’s existing debt during the period. However, a Request for Proposal to provide permanent financing for the 1999 Road Fund Project Notes, First Series and Second Series, as well as any refunding candidates, has been issued and a financing team will be in place should the opportunity arise.

Debt service paid, net of reserve fund credits, during FY2000 was \$158.6 million resulting in a net interest margin (investment income earned less debt service paid) of negative \$126.1 million versus negative \$117.6 million in FY1999. The decrease in net interest margin stems from a decrease in available balances for investment and an increase in debt service resulting from the issuance of bond anticipation notes through ALCo. Should cash balances continue to deteriorate, we will reevaluate the level of commitment to the variable rate market exposure. However, with the conversion of the existing series of project notes to permanent financing and a limited amount of new money authorization in the coming biennium, the duration gap between the assets and the liabilities of the Road Fund should continue to remain in a manageable range.



# SUMMARY

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

## **Investments**

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Incremental returns derived from new investment asset classes are \$5.2 million for FY2000 and \$10.3 million since inception.

## **Cash Management**

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Improved dramatically with the implementation of the General Fund Tax and Revenue Anticipation Note program producing \$3.4 million in FY1998, \$4.7 million in FY1999 and \$7.2 million for FY2000 for a total of \$15.3 million.

## **Debt Management**

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Contributed an estimated \$40.5 million in value-added.

1. Synthetic advanced refunding of SPBC Project 40 (Second Series) using a delayed start interest rate swap produced \$0.8 million as of the execution date.
2. Lapsed debt service for FY1999 was \$10.5 million and FY2000 was \$29.1 million for a total of \$39.7 million. This amount reflects all the actual savings versus budgeted debt service, excluding additional principal payments that will result in lower debt service in future years.

**Total value added since inception, \$66,099,279.**

# **A P P E N D I X**



### **Kentucky Asset/Liability Commission Members**

CHAIR: John P. McCarty, Secretary  
Finance and Administration Cabinet

Members: A. B. Chandler III, Attorney General  
Jonathan S. Miller, State Treasurer  
F. Michael Haydon, Secretary, Revenue Cabinet  
Dr. James R. Ramsey, State Budget Director

**MONTHLY  
INVESTMENT  
INCOME  
REPORT**

**June 2000**

Date: 6/30/00

**PORTFOLIO SUMMARY  
LONG TERM POOL**

	TYPE	MARKET VALUE	MARKET YIELD (%)	DURATION (Years)	PERCENT of TOTAL	STATUTORY LIMIT
Treasuries						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	101,048,963.00	6.38	2.35	0.29	
	Sub-total	101,048,963.00	6.38	2.35	0.29	
Agencies						
	Notes	102,370,383.00	7.02	2.54	0.30	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	102,370,383.00	7.02	2.54	0.30	
Municipals						
		26,894,781.00	7.25	2.24	0.08	
Corporates						
		18,209,071.00	7.19	2.69	0.05	25%
Mortgages						
	Pools	21,043,142.00	7.45	3.23	0.06	
	CMO's	54,152,150.00	7.49	2.00	0.16	
	Sub-total	75,195,292.00	7.48	2.34	0.22	25%
Asset Backs						
		19,994,500.00	7.40	0.76	0.06	20%
Repurchase Agreements						
	Overnight	3,090,000.00	6.87		0.01	
	< 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				0.00	
	Sub-total	3,090,000.00	6.87		0.01	
Money Market Securities						
	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	0.00	0.00	0.00	0.00	20%
<b>TOTALS</b>		346,802,990.00	6.98	2.30	100.00	

Date: 6/30/00

**PORTFOLIO SUMMARY  
SHORT TERM POOL**

	TYPE	MARKET VALUE	MARKET YIELD (%)	DURATION	PERCENT of TOTAL	STATUTOI LIMIT
Treasuries						
	Bills	0.00	0.00	0.0000	0.00	
	Treasury Notes	0.00	0.00	0.0000	0.00	
	Sub-total	0.00	0.00	0.0000	0.00	
Agencies						
	Notes	0.00	0.00	0.0000	0.00	
	Discounts	200,000,000.00	6.51	0.1300	0.29	
	Sub-total	200,000,000.00	6.51	0.1300	0.29	
Corporates						
		71,815,000.00	6.62	0.4300	0.10	
Municipals						
		0.00	0.00	0.0000	0.00	
Mortgages						
	CMOs	9,695,115.00	6.87	0.7000	0.01	
Repurchase Agreements						
	Overnight	354,881,000.00	6.87	0.0027	0.52	
	< 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				0.00	
	Sub-total	354,881,000.00	6.87	0.0027	0.52	
Money Market Securities						
	Commercial Paper	49,200,000.00	6.30	0.2300	0.07	A1-P1
	Bankers Acceptances	0.00	0.00	0.0000	0.00	
	Certificates of Deposit	0.00	0.00	0.0000	0.00	
	Sub-total	49,200,000.00	6.30	0.2300	0.07	
<b>TOTALS</b>		685,591,115.00	6.70	0.1100	100.00	

Date: 6/30/00

**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	319,102,184.00	6.33	1.61	0.15	
	Sub-total	319,102,184.00	6.33	1.61	0.15	
<b>Agencies</b>						
	Notes	854,110,214.00	6.96	1.92	0.41	
	Discounts	25,000,000.00	6.19	0.22	0.01	
	Sub-total	879,110,214.00	6.94	1.87	0.42	
<b>Municipals</b>						
		124,137,751.00	7.25	1.89	0.06	
<b>Corporates</b>						
		286,139,584.00	7.12	1.44	0.14	25%
<b>Mortgages</b>						
	Pools	42,877,377.00	7.58	2.26	0.02	
	CMO's	160,714,570.00	7.25	1.36	0.08	
	Sub-total	203,591,947.00	7.32	1.55	0.10	25%
<b>Asset Backs</b>						
		106,897,223.00	7.27	1.18	0.05	20%
<b>Repurchase Agreements</b>						
	Overnight	81,543,000.00	6.87	0.0027	0.04	
	< 30 days	70,811,283.00	6.27	0.08	0.03	
	< 60 days	119,555.00	4.28	0.18	0.00	
	< 90 days	481,406.00	4.40	0.25	0.00	
	< 1 year	8,342,476.00	5.04	0.90	0.00	
	< 2 years	3,082,767.00	5.63	1.80	0.00	
	> 2 years	0.00	0.00	0.00	0.00	
	Flex Repos				0.00	
	Sub-total	164,380,487.00	6.28	0.12	0.08	
<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	1,094,867.00	4.41	0.49	0.00	
	Sub-total	1,094,867.00	4.41	0.49	0.00	20%
<b>TOTALS</b>		2,084,454,257.00	6.91	1.57	100.00	

Date: 6/30/00

**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>
Treasuries						
	Bills	0.00	0.00	0.00	0.00	
	Treasury Notes	101,048,963.00	6.38	2.35	0.29	
	Sub-total	101,048,963.00	6.38	2.35	0.29	
Agencies						
	Notes	102,370,383.00	7.02	2.54	0.30	
	Discounts	0.00	0.00	0.00	0.00	
	Sub-total	102,370,383.00	7.02	2.54	0.30	
Municipals		26,894,781.00	7.25	2.24	0.08	
Corporates		18,209,071.00	7.19	2.69	0.05	25%
Mortgages						
	Pools	21,043,142.00	7.45	3.23	0.06	
	CMO's	54,152,150.00	7.49	2.00	0.16	
	Sub-total	75,195,292.00	7.48	2.34	0.22	25%
Asset Backs		19,994,500.00	7.40	0.76	0.06	20%
Repurchase Agreements						
	Overnight	3,090,000.00	6.87		0.01	
	< 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				0.00	
	Sub-total	3,090,000.00	6.87		0.01	
Money Market Securities						
	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	0.00	0.00	0.00	0.00	20%
<b>TOTALS</b>		346,802,990.00	6.98	2.30	100.00	



Date: 6/30/00

**PORTFOLIO SUMMARY  
BOND PROCEEDS POOL**

TYPE	MARKET VALUE	MARKET YIELD (%)	DURATION (Years)	PERCENT of TOTAL	STATUTORY LIMIT
<b>Treasuries</b>					
Bills	0.00	0.00	0.00	0.00	
Treasury Notes	45,442,862.00	6.31	1.20	0.23	
Sub-total	45,442,862.00	6.31	1.20	0.23	
<b>Agencies</b>					
Notes	114,214,542.00	7.02	2.01	0.58	
Discounts	0.00	0.00	0.00	0.00	
Sub-total	114,214,542.00	7.02	2.01	0.58	
<b>Municipals</b>					
	0.00	0.00	0.00	0.00	
<b>Mortgages</b>					
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	
<b>Asset Backs</b>					
	0.00	0.00		0.00	
<b>Repurchase Agreements</b>					
Overnight	36,486,000.00	6.87		0.19	
< 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				0.00	
Sub-total	36,486,000.00	6.87		0.19	
<b>Money Market Securities</b>					
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>	196,143,404.00	6.83	1.45	100.00	

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## Investable Balances

As of 10/31/99

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	Average Daily Balances	
	AvgBal	Fiscal Year to Date
Bond Proceeds	197,494,650.56	211,038,959.34
Long Term	350,002,725.35	359,599,101.37
Short Term	808,567,359.10	461,525,180.33
Intermediate	2,168,297,604.29	2,170,975,553.46
	<b>3,524,362,339.30</b>	<b>3,203,138,794.50</b>

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## Investment Income

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As of 06/30/00

Pool	Month		Fiscal Year to Date	
	Amount	Yield *	Amount	Yield**
Bond Proceeds	3,514,269.76	21.71%	10,878,280.26	5.15%
Long Term	5,030,166.89	17.53%	15,233,305.33	4.24%
Short Term	4,021,091.53	6.07%	25,515,290.30	5.53%
Intermediate	18,500,703.59	10.41%	108,402,055.89	4.99%
<b>Grand Total</b>	<b>\$ 31,066,231.77</b>		<b>160,028,931.78</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.

**ACCRUED  
EARNINGS**  
June 2000

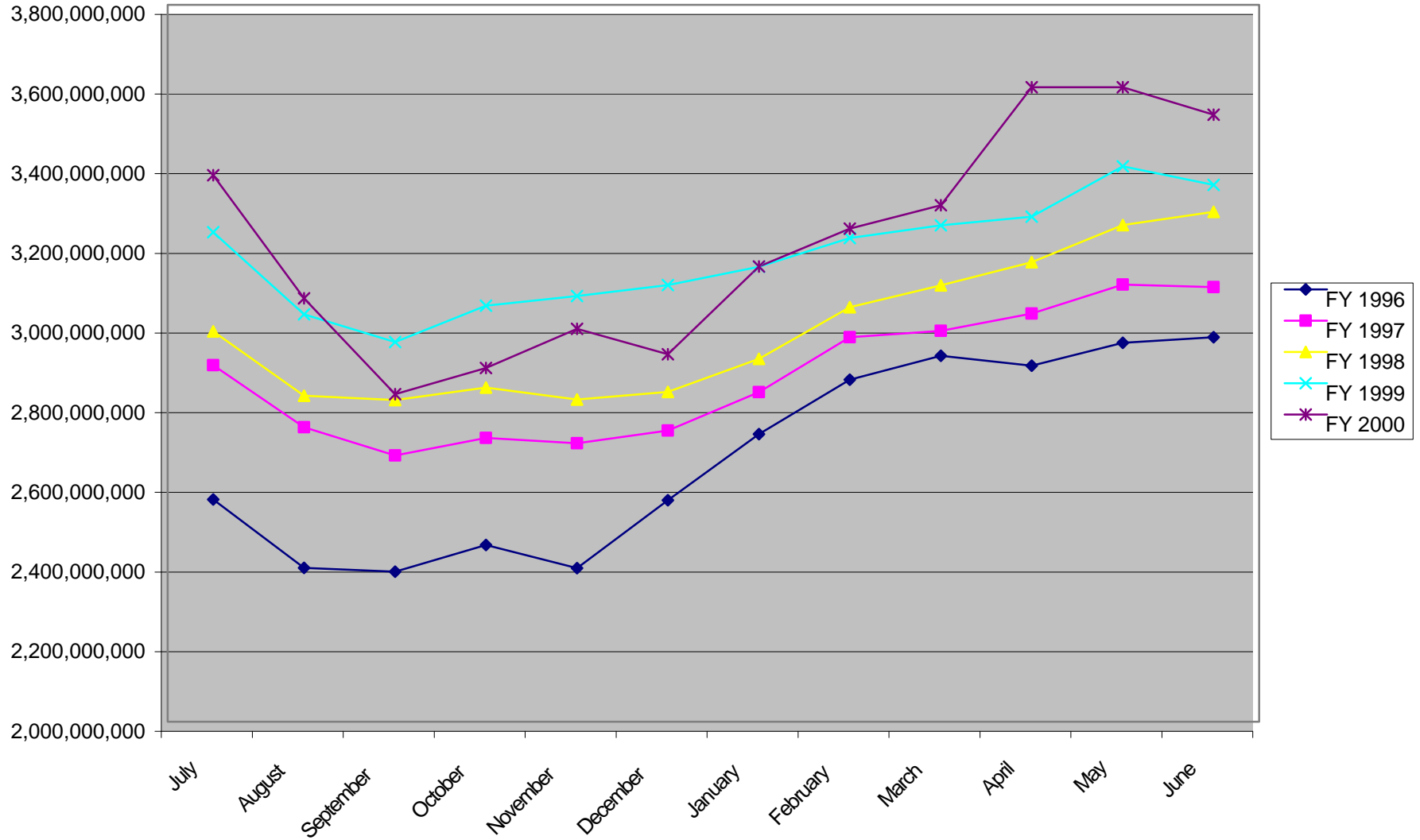
		<u>Month</u>		<u>YTD</u>	
	Actual		Budget	Actual	Budget
General Fund	3,894,343		1,463,385	17,517,128	17,560,620
Capital Con.	4,088,754		666,667	20,579,193	8,313,543
Agency	973,669		333,333	8,373,778	4,049,997
T&R	1,034,473		52,083	5,379,270	696,873

## CASH DISTRIBUTION

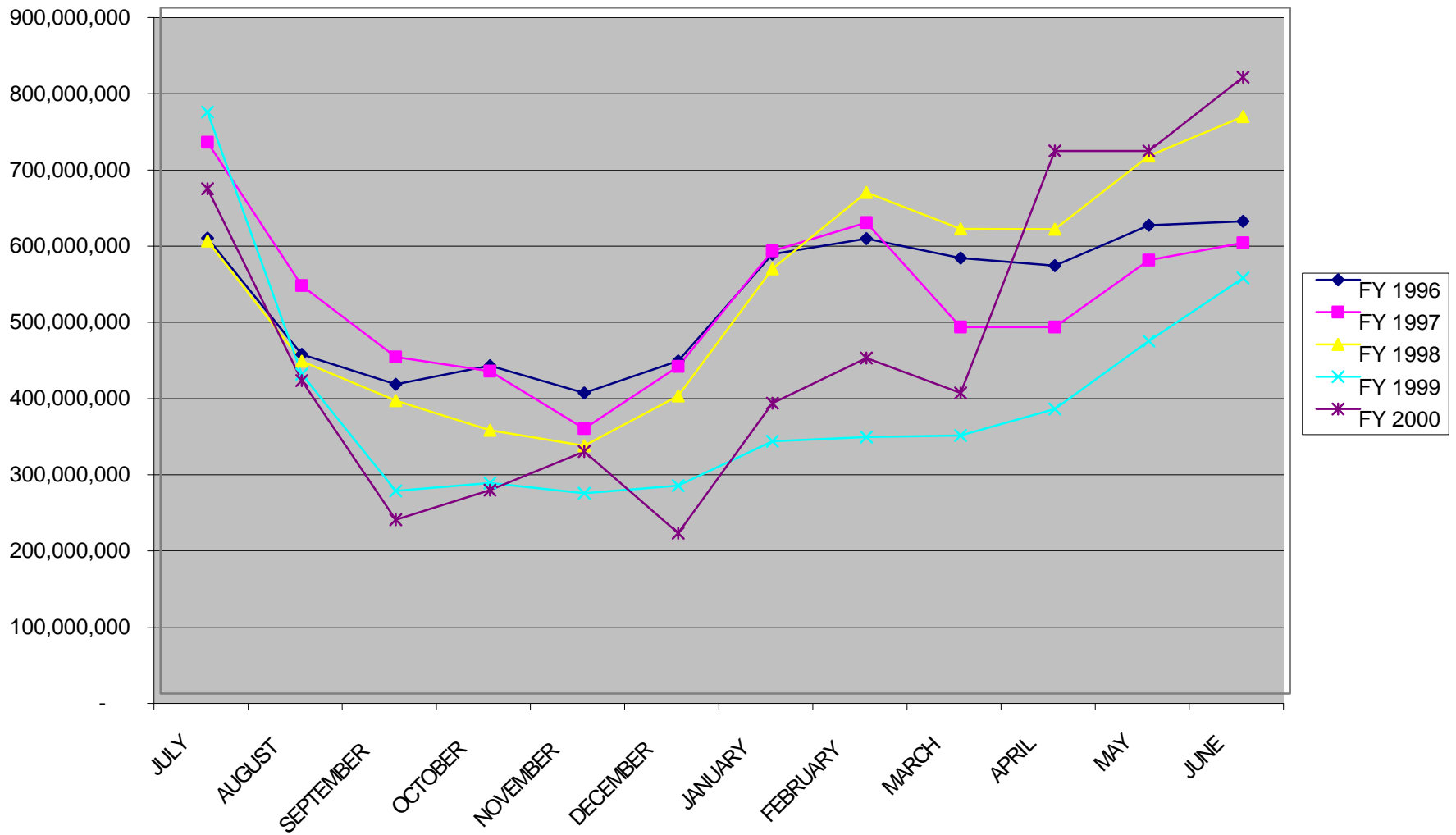
June 2000

		<u>Month</u>		<u>YTD</u>	
	Actual	Budget	Actual	Budget	
General Fund	2,924,322	1,463,385	22,551,927	17,560,620	
Capital Con.	1,562,270	666,667	21,626,456	8,313,543	
Agency	929,792	333,333	10,468,370	4,049,997	
T&R	415,490	52,083	5,486,077	696,873	

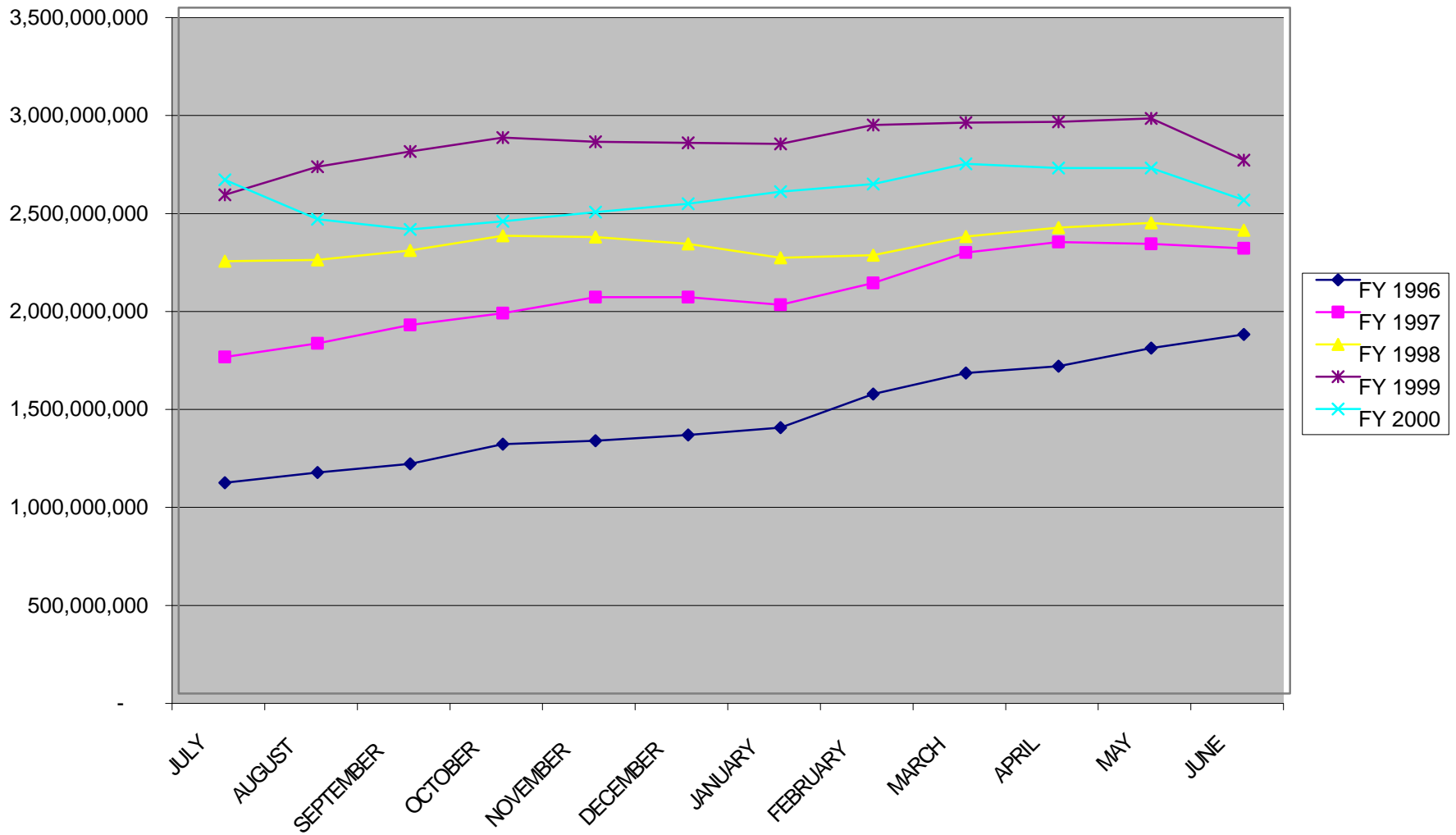
# INVESTABLE BALANCES



## SHORT TERM POOL INVESTABLE BALANCES

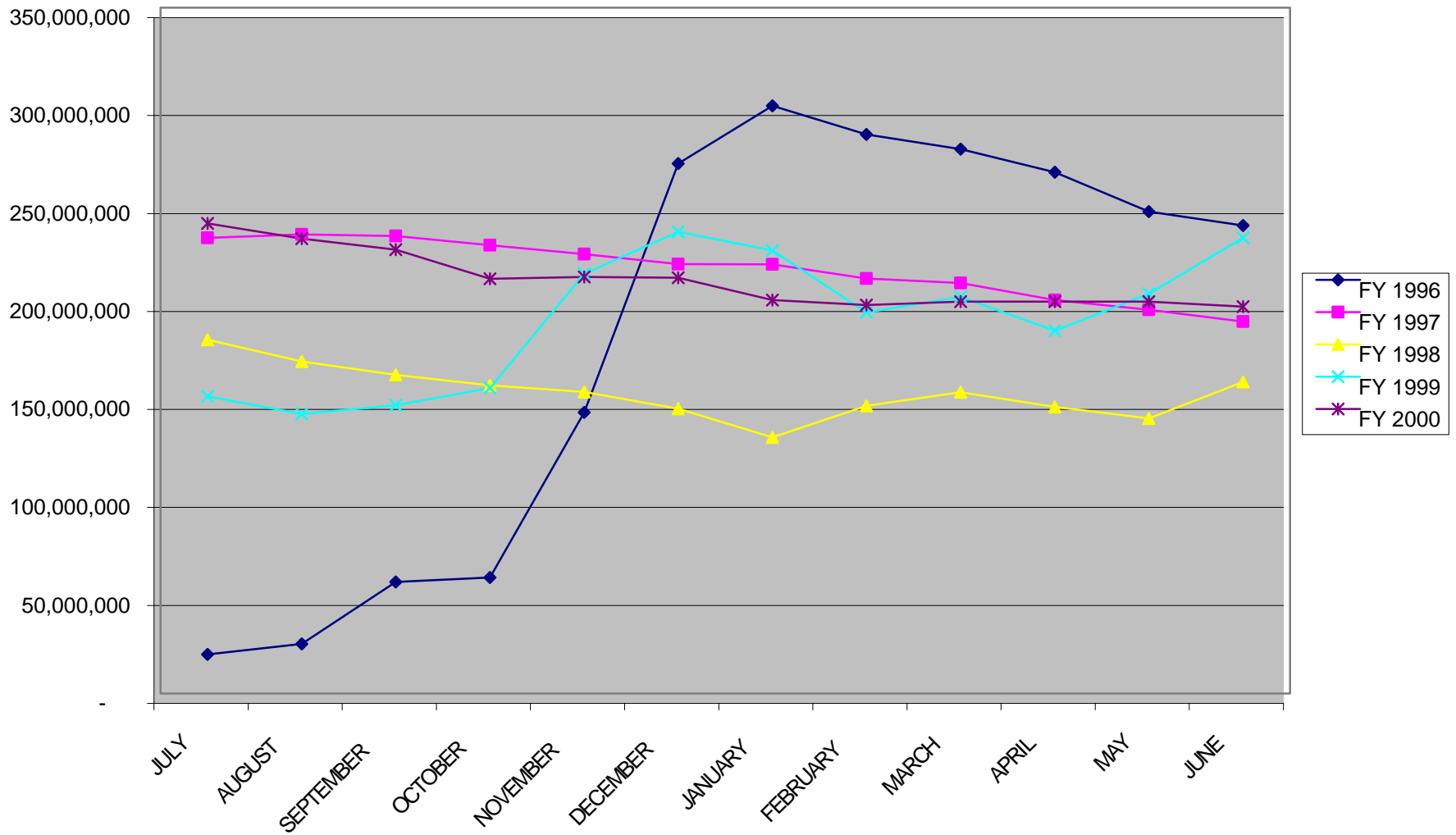


## INTERMEDIATE - LONG TERM POOL INVESTABLE BALANCES



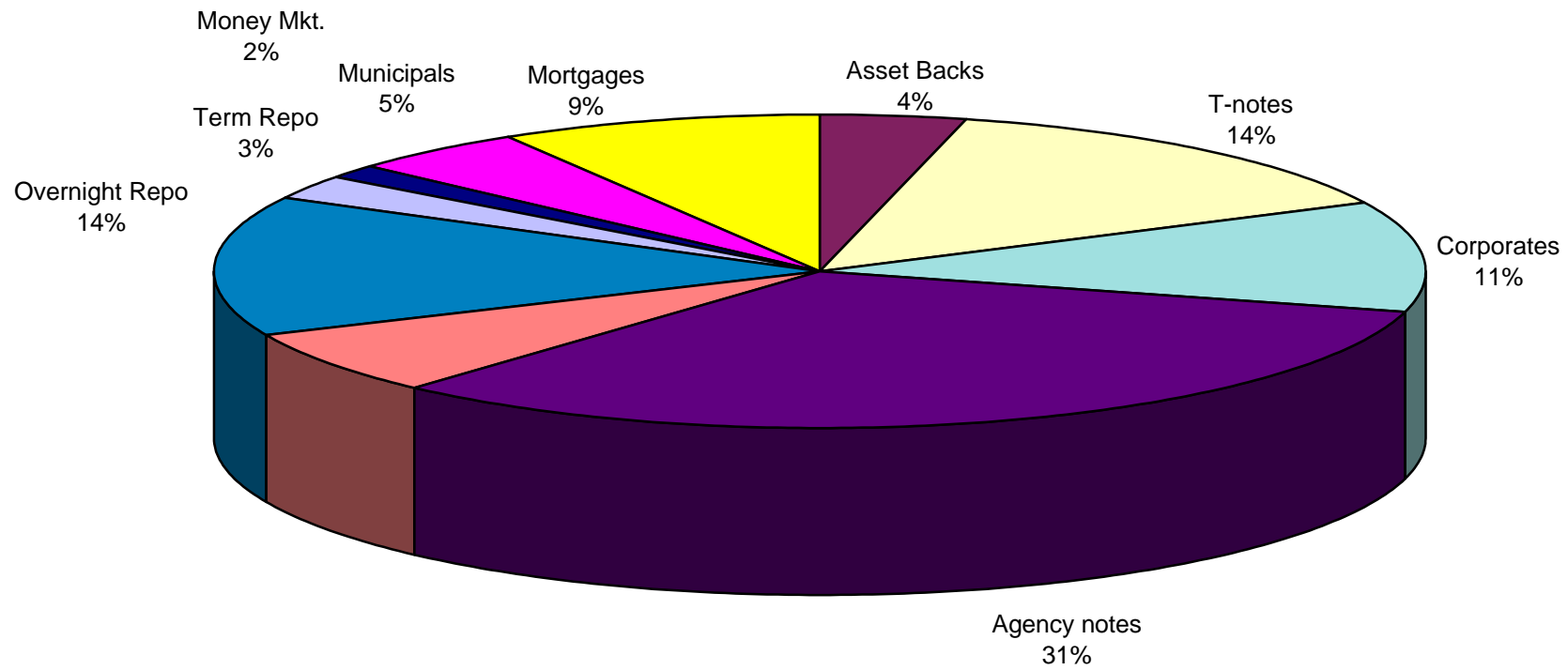


## US TREASURY-AGENCY INVESTABLE BALANCES

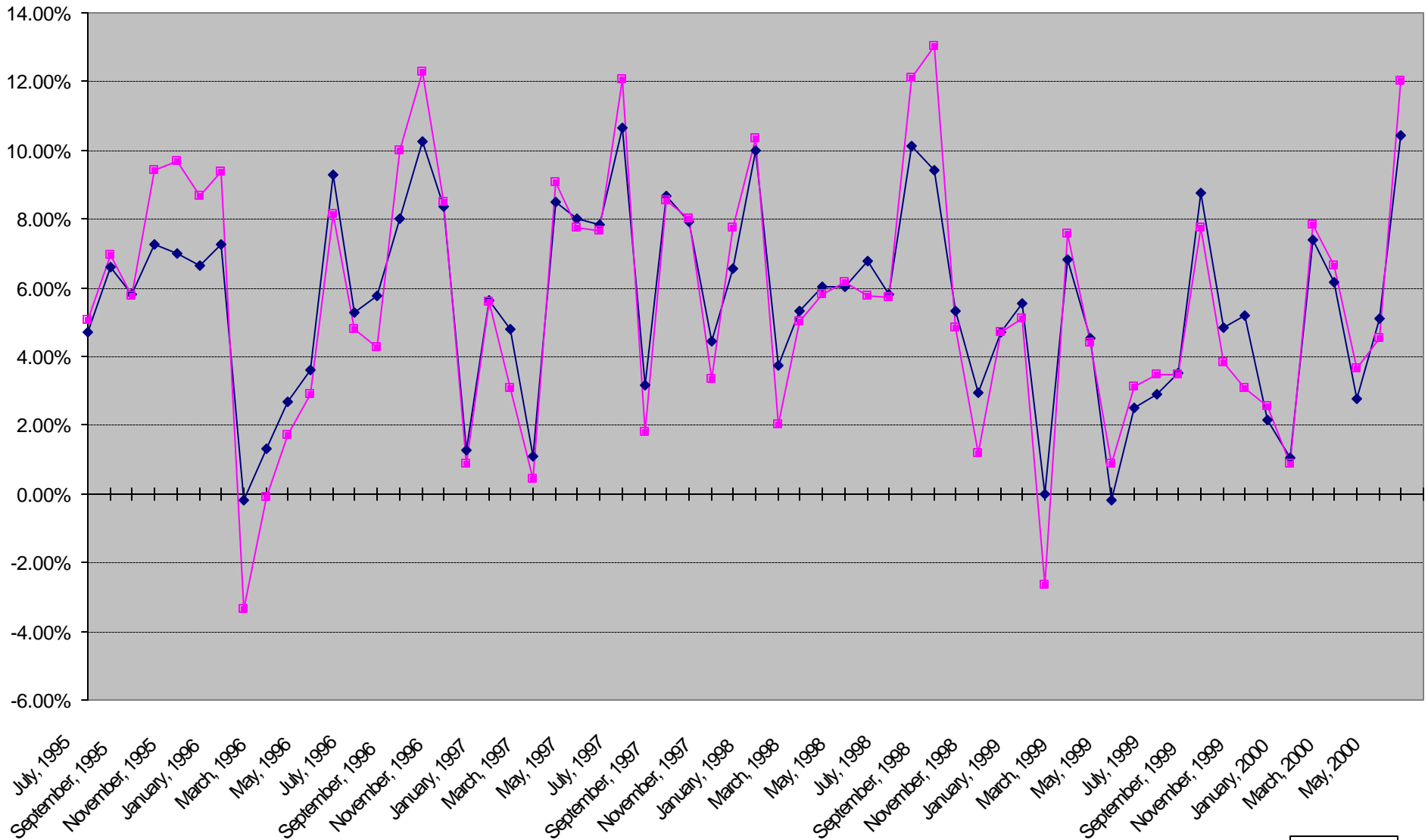


# DISTRIBUTION OF INVESTMENTS

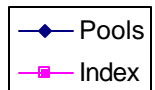
## June 2000



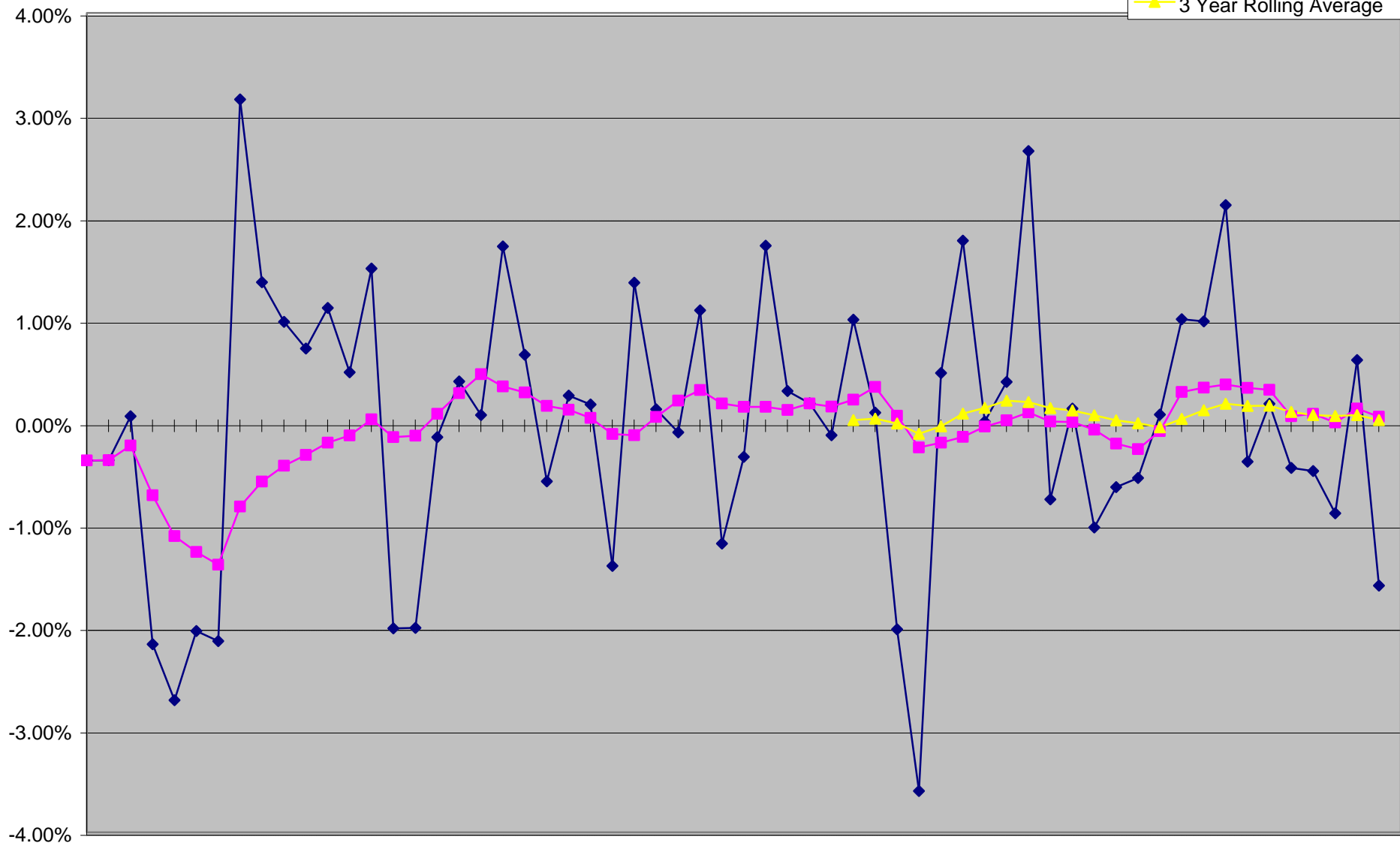
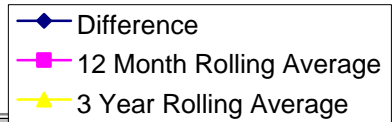
## INTERMEDIATE POOL ANNUALIZED YIELD



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

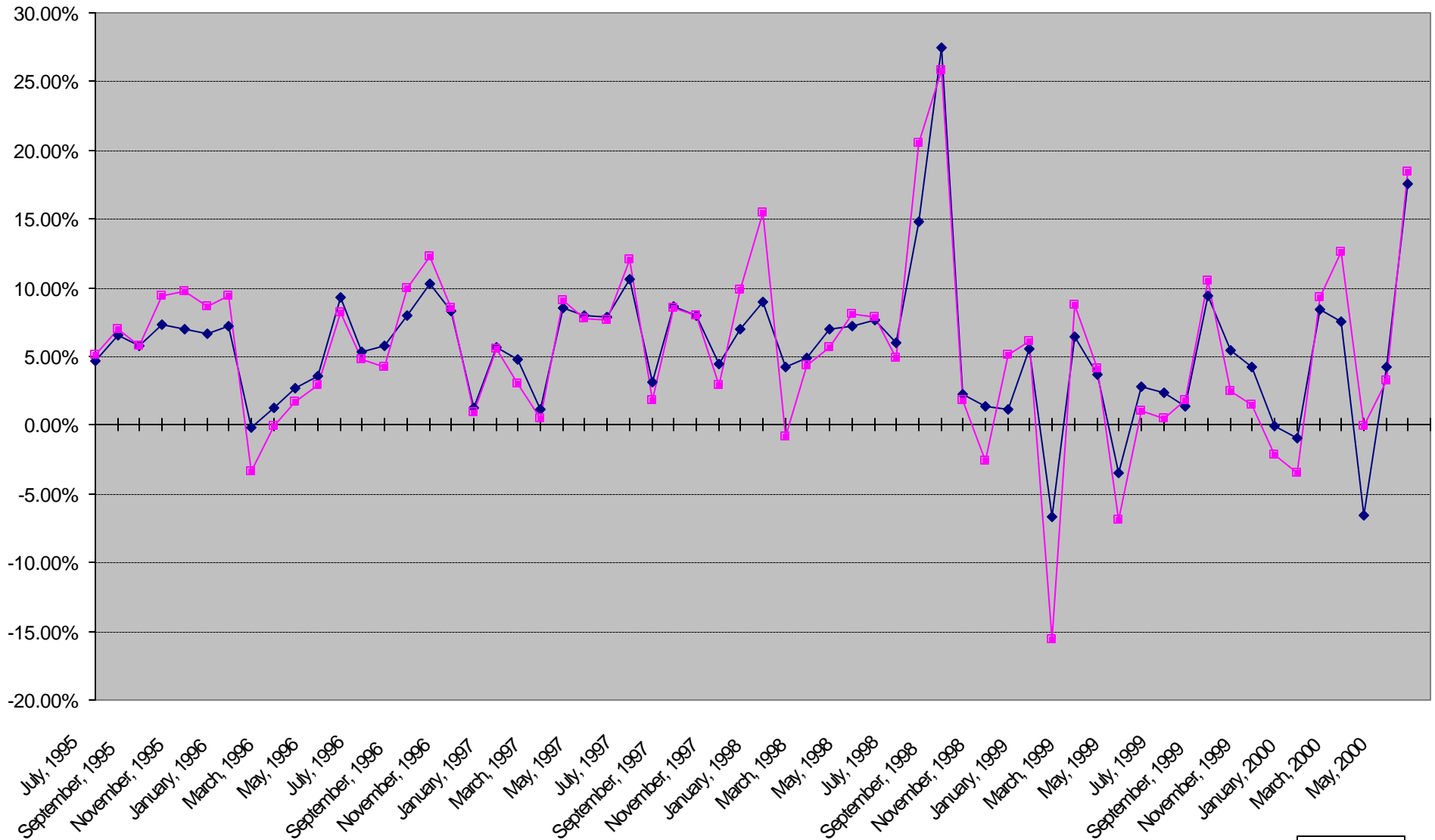


## INTERMEDIATE POOL ANNUALIZED YIELD DIFFERENCE

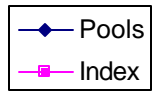


July, 1995  
 September, 1995  
 November, 1995  
 January, 1996  
 March, 1996  
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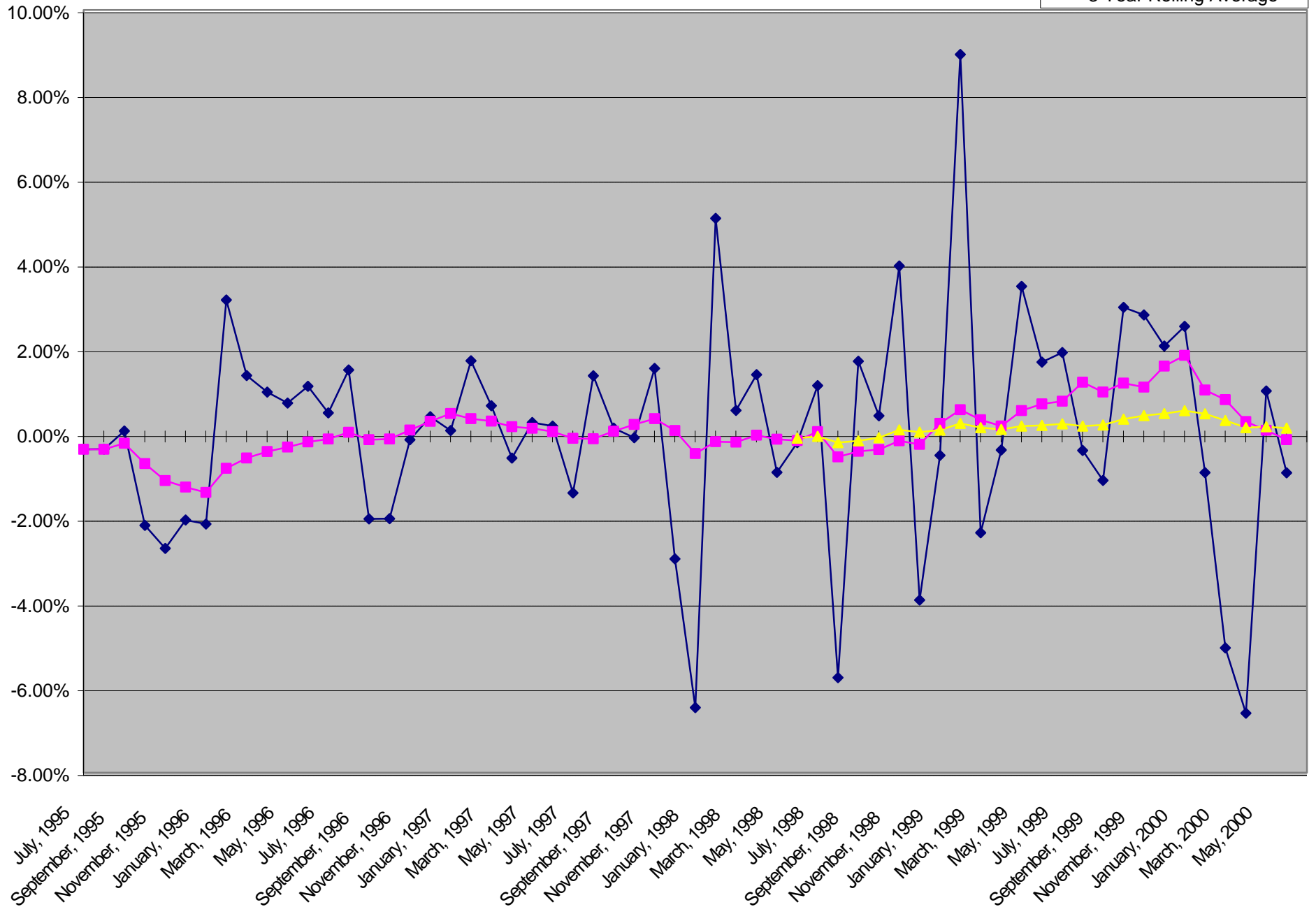
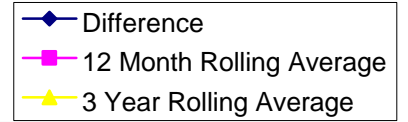
## LONG TERM POOL ANNUALIZED YIELD



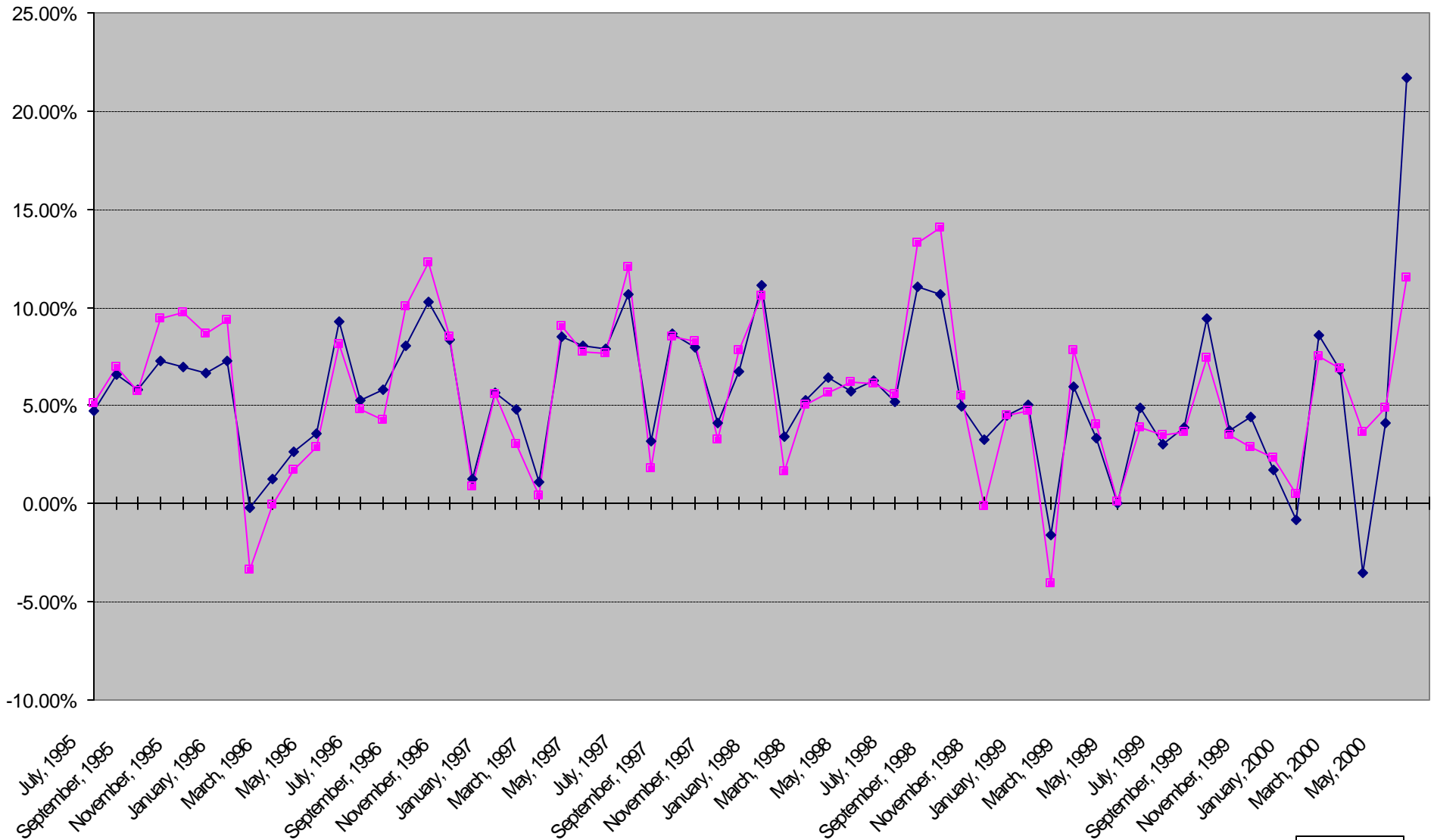
**Index consists of 85% Government 1-10 year, 10% Mortgage 0-3 and 5% US Corporate 1-10**



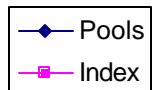
# LONG TERM POOL ANNUALIZED YIELD DIFFERENCE



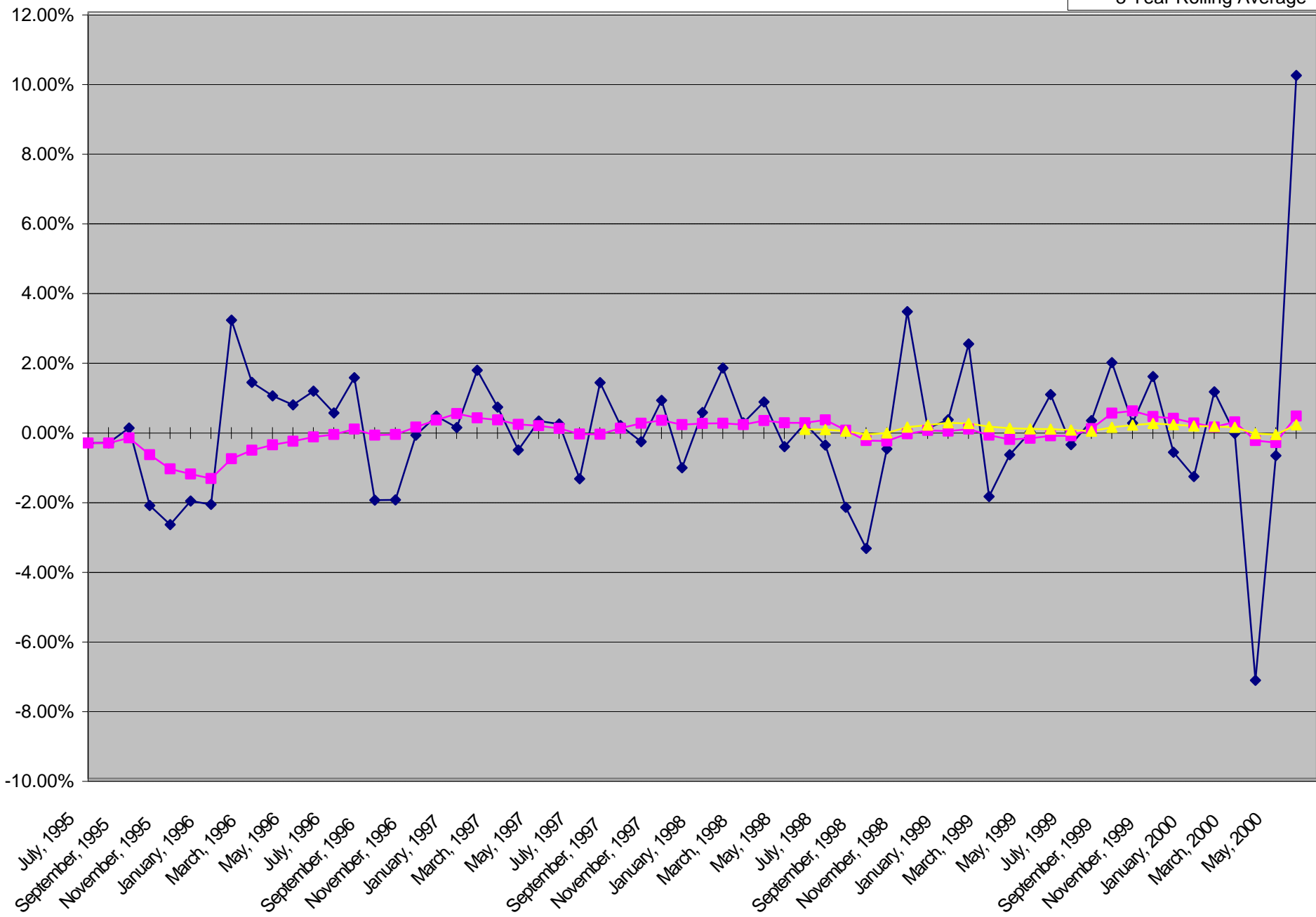
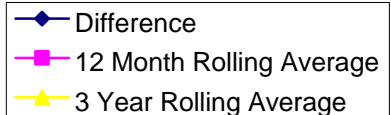
## BOND PROCEEDS POOL ANNUALIZED YIELD



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



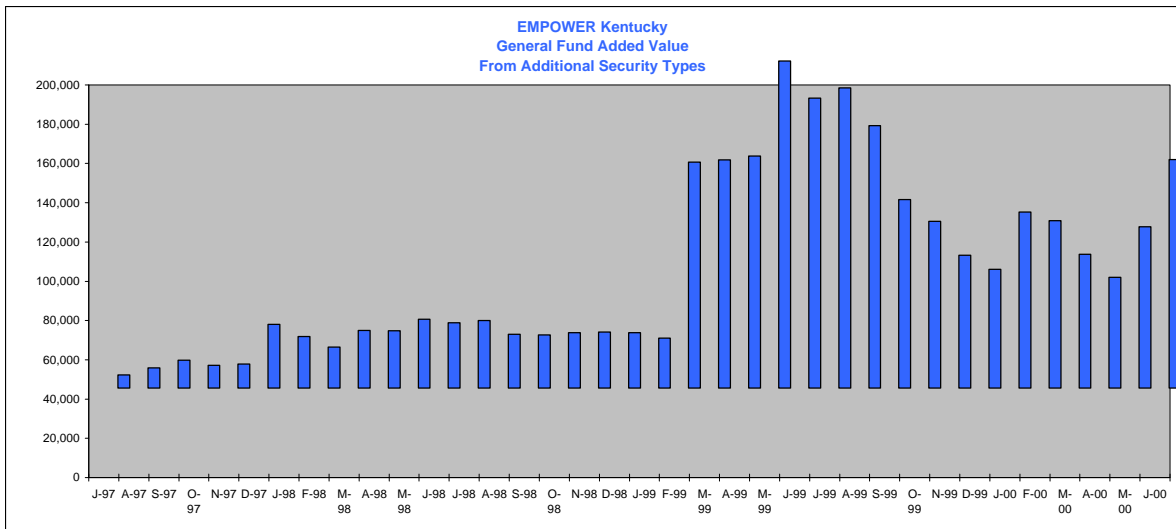
## BOND PROCEEDS POOL ANNUALIZED YIELD DIFFERENCE





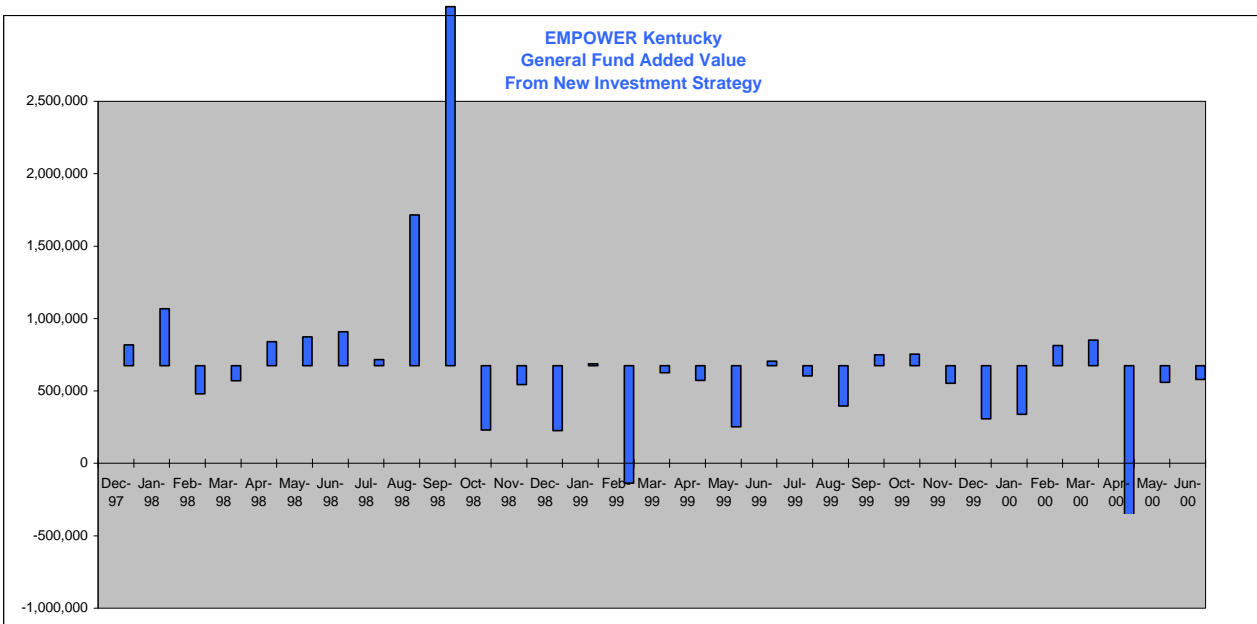
**EMPOWER Kentucky**  
**Added Value from Additional Security Types**  
**Cash Basis**

	MBS/CMO/ABS	Corporates	Total Added-Value	General Fund Share of Added-Value
<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	280,997	144,317	425,314	60,549
Jan-00	278,270	151,318	429,588	89,664
Feb-00	276,645	164,516	441,161	85,257
Mar-00	278,113	127,717	405,830	68,109
Apr-00	275,606	150,411	426,017	56,402
May-00	271,881	141,387	413,268	82,221
Jun-00	271,145	147,006	418,151	116,315
<b>FYE 6/30/00 YTD:</b>	<b>3,359,269</b>	<b>1,813,697</b>	<b>5,172,966</b>	<b>1,093,701</b>



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

	<b>BRTF Long-term Pool</b>	<b>General Fund Share of Added-Value</b>
<b>FYE 6/30/98:</b>	<b>844,071</b>	<b>664,615</b>
Jul-98	42,050	25,913
Aug-98	1,040,624	640,596
Sep-98	3,986,448	2,480,615
Oct-98	-696,294	-442,960
Nov-98	-194,794	-128,580
Dec-98	-697,724	-446,891
Jan-99	24,856	14,432
Feb-99	-1,786,031	-809,580
Mar-99	-112,994	-48,446
Apr-99	-236,251	-101,251
May-99	-971,228	-421,228
Jun-99	76,002	32,669
<b>FYE 6/30/99:</b>	<b>474,664</b>	<b>795,289</b>
Jul-99	-163,541	-70,208
Aug-99	-636,410	-276,410
Sep-99	175,733	75,733
Oct-99	182,772	79,439
Nov-99	-281,273	-121,273
Dec-99	-833,440	-366,774
Jan-00	-675,493	-333,826
Feb-00	307,613	140,946
Mar-00	404,990	178,323
Apr-00	-2,735,856	-1,172,523
May-00	-268,336	-115,002
Jun-00	-218,752	-93,752
<b>FYE 6/30/00 YTD:</b>	<b>-4,741,993</b>	<b>-2,075,327</b>



**Cost of Capital**  
**Kentucky Asset/Liability Commission**  
Weighted Average Yields

	General Fund				Agency Fund				Road Fund	
	1998 First Series (1)	1999 Second Series	1999 Third Series	1999 Fourth Series	UK Stadium (2)	Morehead H & D	UK Housing Dining	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	15,000,000	41,970,000	75,000,000	125,000,000
Total Credit Available	149,689,639	143,654,795	146,847,124	53,205,480	26,843,742	3,240,214	16,506,255	46,590,210	80,021,041	133,013,699

**Inception Weighted Average Yields - Includes Fees**

**June 30, 2000**

Average Notes Outstanding	101,209,241	20,280,000	20,280,000	20,000,000	27,577,964	3,045,000	15,000,000	29,565,419	75,200,000	25,000,000
Weighted Yields	3.359%	3.655%	3.904%	3.880%	3.633%	3.645%	4.043%	3.460%	3.835%	3.824%
Remarketing Fee	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%
Credit Facility Fee	<u>0.170%</u>	<u>0.769%</u>	<u>0.838%</u>	<u>0.357%</u>	<u>0.211%</u>	<u>0.274%</u>	<u>0.195%</u>	<u>0.214%</u>	<u>0.220%</u>	<u>0.668%</u>
Average Cost of Funds	<b>3.589%</b>	<b>4.484%</b>	<b>4.802%</b>	<b>4.297%</b>	<b>3.904%</b>	<b>3.979%</b>	<b>4.298%</b>	<b>3.734%</b>	<b>4.115%</b>	<b>4.552%</b>

**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	<u>0.184%</u>	<u>0.766%</u>	<u>0.832%</u>	<u>0.347%</u>	<u>0.216%</u>	<u>0.280%</u>	-	<u>0.217%</u>	<u>0.213%</u>	<u>0.664%</u>
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**

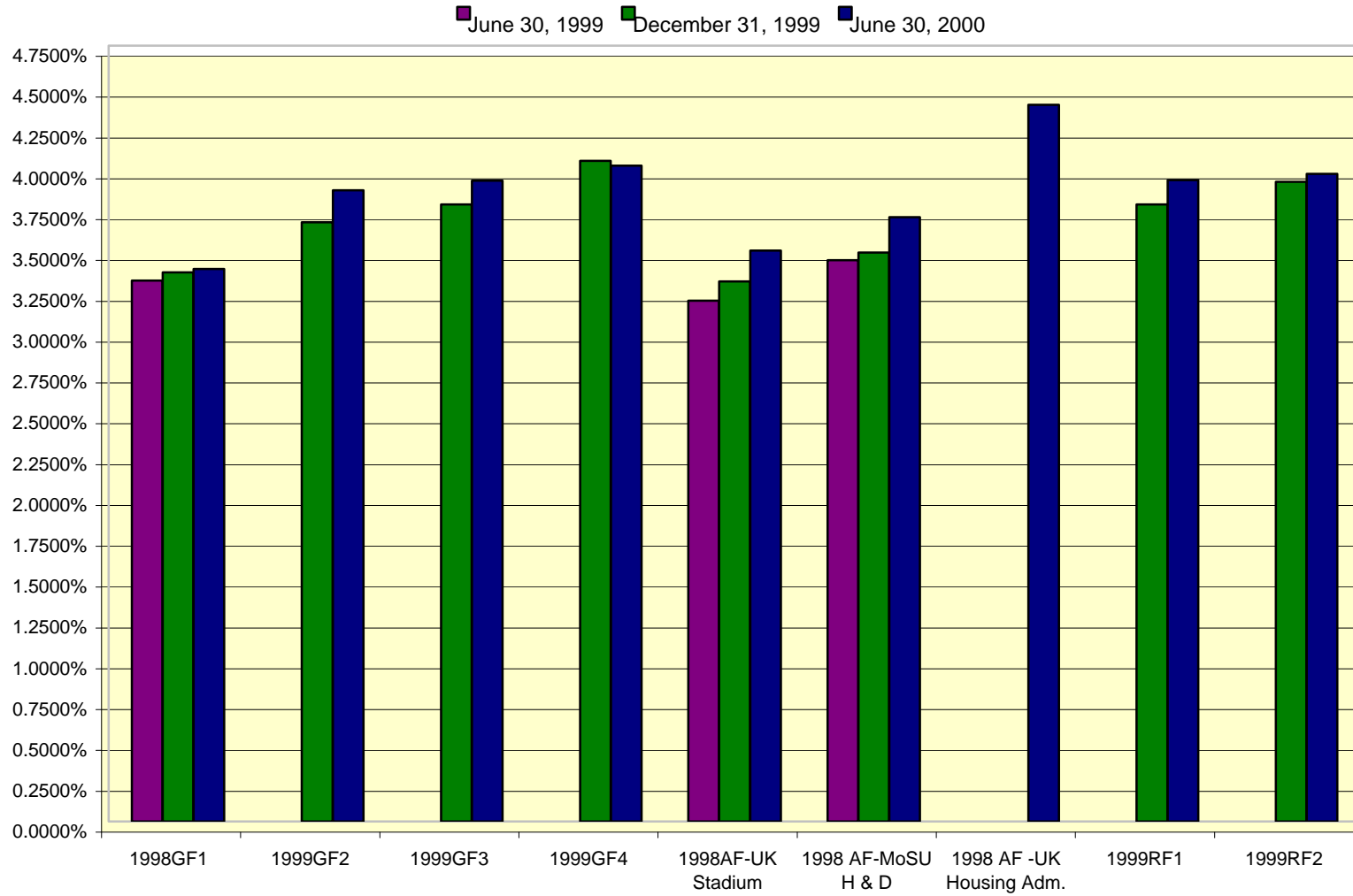
Average Notes Outstanding	75,473,438	-	-	-	24,724,901	3,045,000	-	25,430,695	-	-
Weighted Yields	3.294%	-	-	-	3.165%	3.200%	-	3.167%	-	-
Remarketing Fee	0.060%	-	-	-	0.060%	0.060%	-	0.060%	-	-
Credit Facility Fee	<u>0.205%</u>	-	-	-	<u>0.213%</u>	<u>0.192%</u>	-	<u>0.213%</u>	-	-
Average Cost of Funds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

(1) Includes taxable component for 29 days

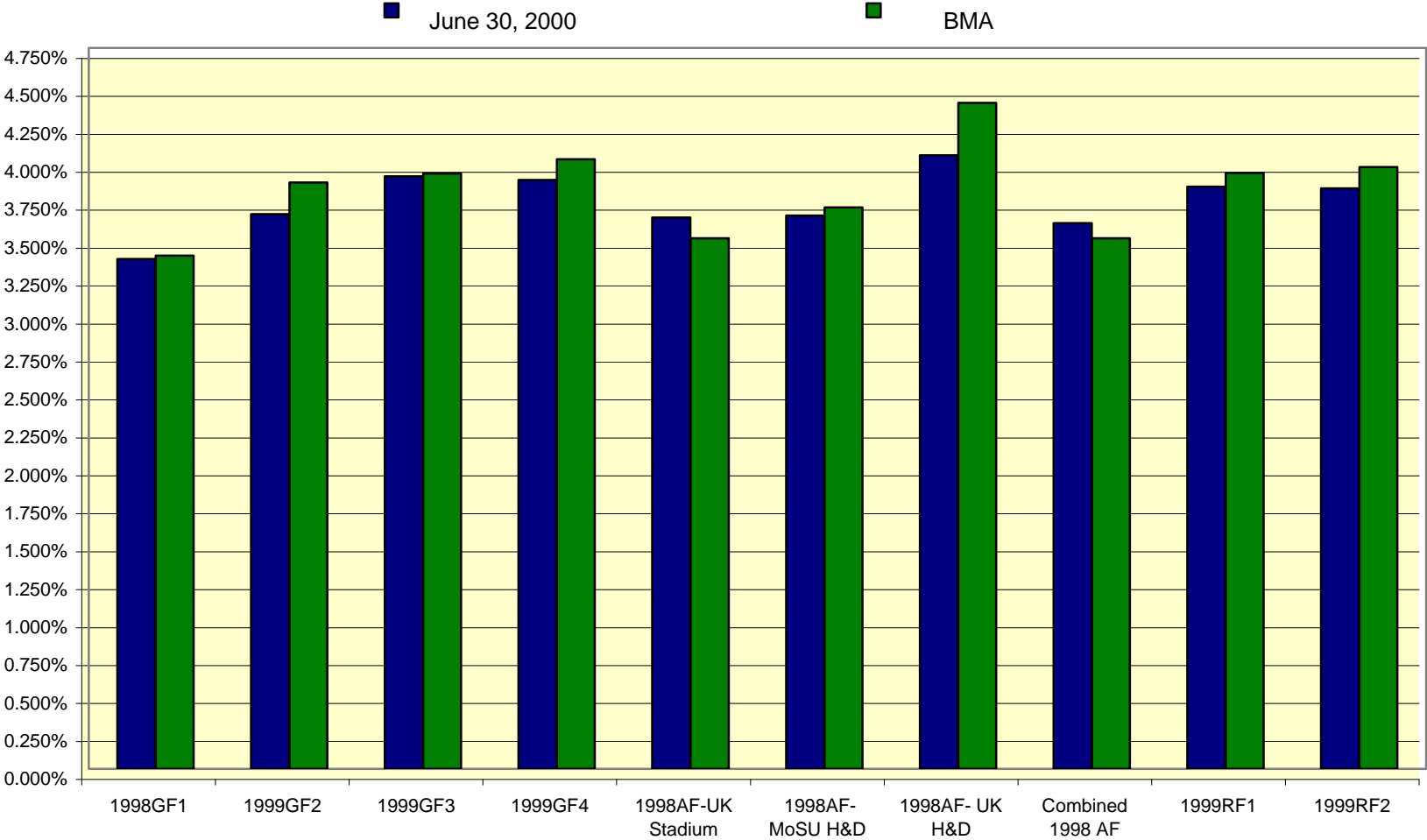
(2) UK Stadium includes a taxable component

(3) Agency Fund Combined includes taxable component

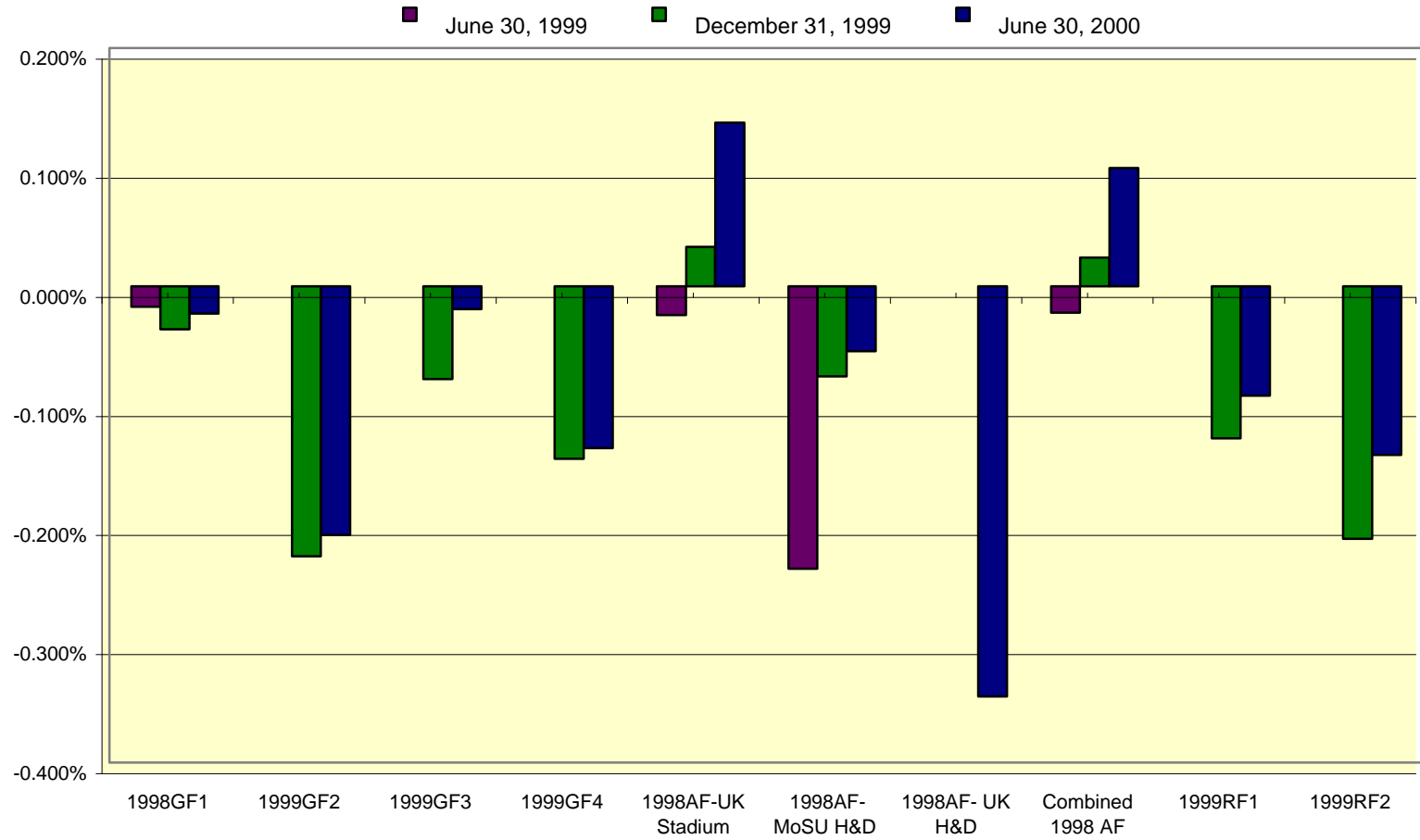
# BMA Since Inception



# Weighted Average Yield vs BMA Since Inception



# Net Spread Weighted Average Yield vs. BMA Since Inception



**Kentucky Asset/Liability Commission  
Credit Facility Provider 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	Commerzbank AG	Dexia	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+/F-	P-1/A-1+/F1+	P-1/A-1+	P-1/A-1+/F-1+	VMIG1/F1+/A-1+	VMIG1/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	Stand By	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.
- \*6 3 year/ 20 year amort.

**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	Reauthorized
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



**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



### **Kentucky Asset/Liability Commission Members**

CHAIR: John P. McCarty, Secretary  
Finance and Administration Cabinet

Members: A. B. Chandler III, Attorney General  
Jonathan S. Miller, State Treasurer  
F. Michael Haydon, Secretary, Revenue Cabinet  
Dr. James R. Ramsey, State Budget Director

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