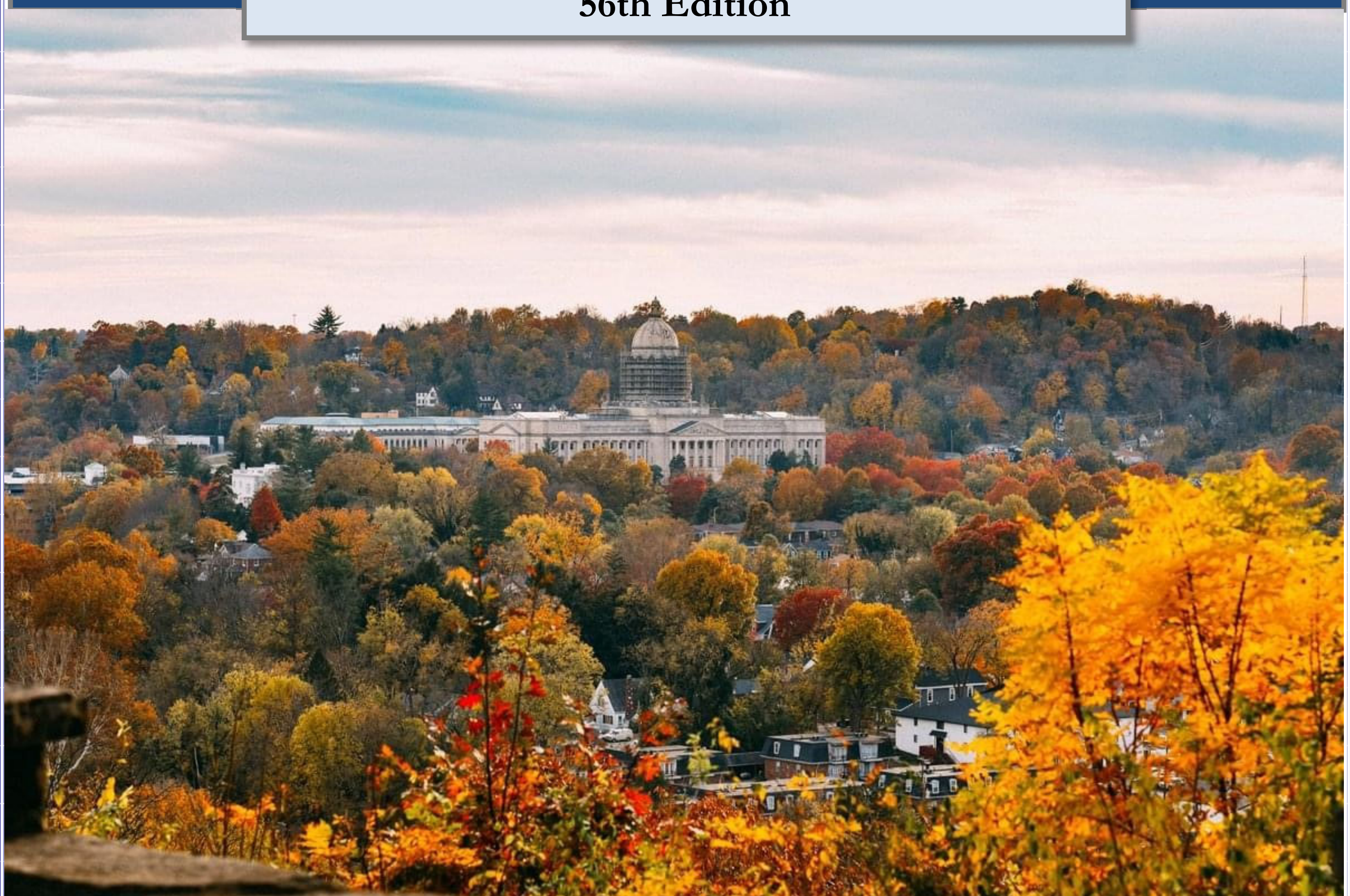
COMMONWEALTH OF KENTUCKY

KENTUCKY ASSET/LIABILITY COMMISSION

SEMI-ANNUAL REPORT

For the period ending December 31, 2024

56th Edition



KENTUCKY ALCo ASSET/LIABILITY COMMISSION

Andy Beshear, Governor of the Commonwealth of Kentucky

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

Chelsey Couch, 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

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

https://finance.ky.gov/office-of-the-controller/office-of-statewide-accounting-services/financial-reporting-branch/Pages/annual-comprehensive-financial-reports.aspx

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

TEAM KENTUCKY™

Table of Contents

INTRODUCTION

The Kentucky Asset/Liability Commission ("ALCo" or the "Commission") presents its 56th 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 beginning July 1, 2024 through December 31, 2024.

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 lowered the Federal Funds Rate from 5.25 percent - 5.50 percent to 4.25 percent - 4.50 percent during the second half of 2024.
- The unemployment rate remained stable at 4.1 percent in December 2024, no change from June 2024.
- The annual rate of economic growth as measured by the gross domestic product ("GDP") rose slightly in the second half of 2024. The seasonally adjusted rate was 3.1 percent for the third quarter and 2.2 percent for the fourth quarter.
- Inflation stabilized during the second half of 2024 with the core consumer price index ("CPI") rate (ex-energy and food) ending the year at 3.2 percent, down from 3.3 percent in June 2024.

On the state level

- General Fund receipts totaled $7.874 billion for the first six months of Fiscal Year ("FY") 2025, representing a 1.7 percent increase over the same period in FY 2024. The official General Fund revenue estimate for FY 2025 calls for no revenue growth. Based on year to date collections, General Fund revenue receipts can fall 1.6 percent for the remainder of the fiscal year and still meet the official estimate of $15.573 billion.
- Road Fund receipts totaled $918.5 million for the first six months of FY 2025, representing a 0.2 percent increase over the same period in FY 2024. The official Road Fund revenue estimate for FY 2025 calls for revenue to decline 2.6 percent compared to FY 2024 actual receipts. Based on the first half results, Road Fund revenue receipts can fall 5.4 percent over the remainder of the fiscal year and still meet the official estimate of $1.825 billion.
- Kentucky non-farm employment rose by 1.2 percent in the second quarter of FY 2025 compared to the second quarter of FY 2024.
- Mining employment was the fastest growing employment sector in Kentucky in the second quarter of FY 2025, growing 7.2 percent over the second quarter of FY 2024.
- Kentucky personal income rose by 5.4 percent in the second quarter of FY 2025 compared to the second quarter of FY 2024.
- Kentucky wages and salaries income was the fastest growing income component in the second quarter of FY 2025, growing 5.2 percent compared to the second quarter of FY 2024.
- Large unfunded pension liabilities continue to put stress on the Commonwealth's credit rating.

INVESTMENT MANAGEMENT

State Investment Commission

The State Investment Commission (SIC) is responsible for investment oversight with members of the Commission being State Treasurer (Chair), Finance and Administration Cabinet Secretary, State Controller and two Gubernatorial Appointees. The investment objectives are three-fold: preservation of principal, maintain liquidity to meet cash needs and maximization of returns. The Office of Financial Management is staff to the SIC and follows KRS 42.500, 200 KAR 14.011, 14.081, and 14.091 when making investment decisions.

Market Overview

After remaining stable for over a year, interest rate cuts finally began in the second half of 2024 as the Federal Open Market Committee ("FOMC") cut the federal funds rate by 50 basis points in September and 25 basis points in both November and December, bringing the rate down to 4.25 percent - 4.50 percent. This was primarily in response to the inflation rate finally trending downward towards the long-term 2 percent goal. In addition, the unemployment rate had reached 4.2 percent, up from a cycle low of 3.4 percent and nonfarm payroll growth had slowed. The FOMC believed that these data points provided sufficient evidence that it was time to begin the process of normalizing rates. During calendar year 2024, the FOMC continued to let securities roll off the balance sheet, which resulted in a year-end balance of $6.8 trillion, down significantly from the 2022 high of nearly $9 trillion but a large jump from the pre-pandemic figure of $4 trillion.

The goal was always to achieve a soft-landing and the fear during the late summer was that rates had remained too restrictive for too long and the economy was on the brink of a recession. With 100 basis points of cuts in three months, the narrative quickly switched to wondering if the FOMC was cutting too quickly and rate cut expectations for 2025 were dialed back as GDP growth came in stronger than expected and the job market continued to hold up surprisingly well. In addition, and perhaps most crucially, inflation's progress towards the 2 percent goal had come to a halt above 3 percent and even begun to tick back up. This made it far more likely that the FOMC would at the very least pause rates for a while and see where they needed to go next based on additional data.

Employment

Other than inflation prints, the top economic indicator the FOMC watches is the monthly job report. After defying conventional thinking for several months in 2023 by staying firm despite a high interest rate environment, the unemployment rate finally began to creep upwards in 2024 and remained between 4.1 percent - 4.2 percent for the second half of the year. Job creation remained robust, with a very strong finish to the year causing the entire second half to average 168,000 jobs a month, up from 164,000 in the first six months of the year. Real income growth increased in the second half, averaging over 1.2 percent for the final six months compared with less than 1 percent for the first half of the year. While there are signs of weakness, all these data points together do not portray an economy in desperate need of interest rate cuts.

After peaking over 12 million in 2022, job openings declined to around 7.6 million by the end of December, a still strong number

INVESTMENT MANAGEMENT

compared to the roughly 7 million openings that existed at the beginning of 2020. The Labor Force Participation Rate ("LFPR") appears to be stuck in neutral after remaining flat in 2024, ending December at 62.6 percent. This compares to a rate of 63.3 percent at the beginning of 2020. Although not a full recovery, the LFPR is now relatively close to the 2014-2019 average.

Inflation

After a large drop in 2023, inflation as measured by the headline consumer price index ("CPI") largely stabilized in 2024 and ended the year on an upswing. The FOMC's preferred inflation gauge, core personal consumption expenditures ("PCE"), strips out more volatile categories like food and energy to present a more accurate picture of price increases. For the second half of 2024 the PCE mirrored the CPI with a small but steady climb upwards, ending the year at 2.8 percent. This casts some doubt on how correct the FOMC was to cut rates by 100 bps in the final months of the year and represents a large roadblock in achieving the long-run inflation goal of 2 percent. As a result, expectations for longer-run inflation have ticked up, as it appears the FOMC has not in fact won the battle against higher prices yet.

Economic Growth

GDP growth represented a bright spot in 2024 with a robust second quarter followed up with gains of 3.1 percent and 2.3 percent in the third and fourth quarters, respectively. While the full year average of 2.5 percent is down a bit from 2023, it still represents a healthy advanced economy not on the verge of a recession; something many economists predicted would begin in 2024. Personal consumption again led the way with business fixed investment also contributing positively. After dramatically lowering the growth number for the first two quarters, net exports moderated slightly in the second half and for the 4th quarter actually contributed positively to the final number.

Interest Rates

Interest rate cuts finally began in the second half of 2024 when the FOMC lowered the federal funds rate by 50bps in September and again by 25bps in both November and December. Almost immediately after the December cut, talk began that the Fed had already cut too quickly and inflation was primed to resume its upward climb. The decision to cut rates was based on a belief that the battle against inflation had been won and price increases would continue to trend downward towards the long-term 2 percent goal. So far, that has not happened and the headline inflation rate has remained stubbornly above 3 percent. Because of this, expectations for rate cuts in 2025 continue to be pushed further back.

After a sharp drop in August and September due to impending FOMC rate cuts, yields on treasury securities and corporate bonds rebounded towards the end of the year as it became apparent that more work was needed to return inflation to 2 percent. Still, yields as a whole fell during 2024 with the 2-year treasury peaking at over 5 percent in April and ending the year at 4.24 percent. Yields on the longer end suffered the same drop in August and November, but the 10-year treasury finished the year around 4.57 percent, a dramatic increase compared to 3.92 percent at the beginning of the year. Overall, the yield curve inversion has all but disappeared with rates finally dropping on the front-end in response to the cuts in the federal funds rate.

INVESTMENT MANAGEMENT

Equities

The stock market continued to be a bright spot for the overall economy with continued gains in the second half of 2024. After gaining 14 percent in the first six months, the S&P 500 tacked on an additional 7 percent in the second half. Since the beginning of 2023, the S&P 500 has gained a remarkable 54 percent. The underlying concern however is that the gains are not broadly spread out. The so-called Magnificent Seven stocks, all tech companies, powered the majority of these gains. The other 493 companies in the index have not been nearly as successful on average, leading to concerns around if this kind of performance is sustainable for much longer.

Outlook

The FOMC is strongly committed to returning inflation to the 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 December 18, 2024, meeting participants submitted their projections of the most likely outcomes for GDP, the unemployment rate, and inflation for each year from 2025 to 2027 and over the long-run.

For 2025, the median forecast for GDP, unemployment rate and inflation is 2.1 percent, 4.3 percent and 2.5 percent, respectively. The expected Federal funds rate at the end of 2025 is 3.9 percent.

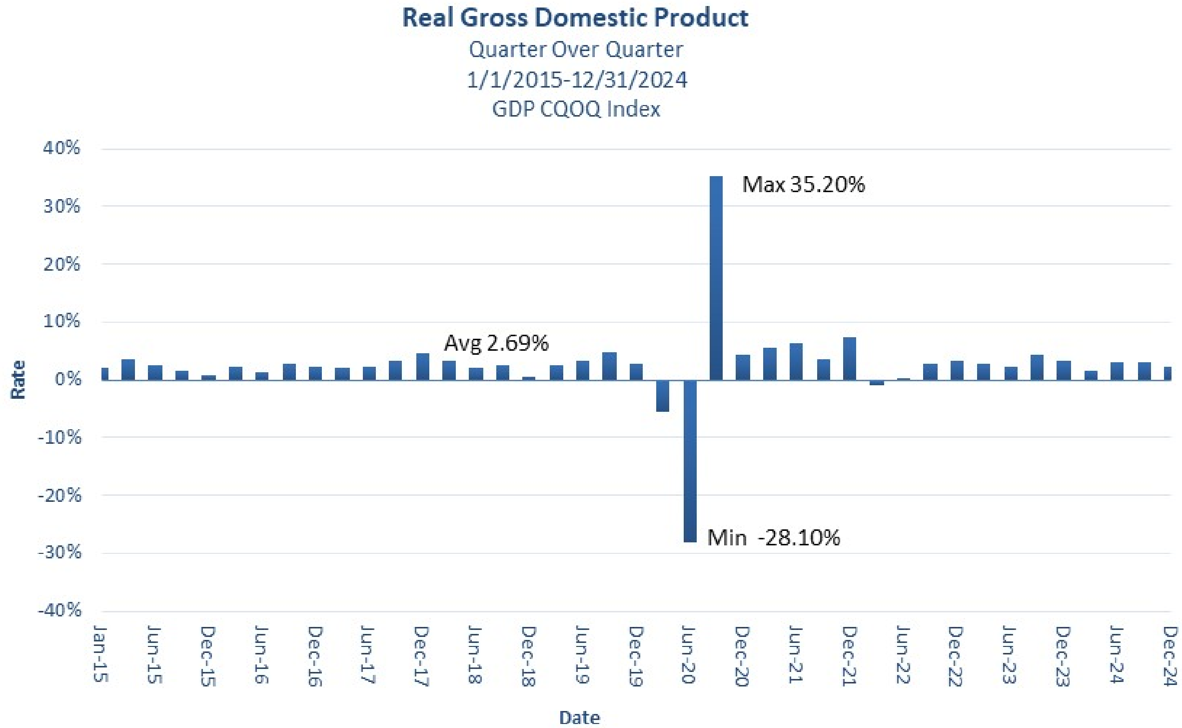
For 2026, the median forecast for GDP, unemployment rate and inflation is 2.0 percent, 4.3 percent and 2.1 percent, respectively. The expected Federal funds rate at the end of 2026 is 3.4 percent.

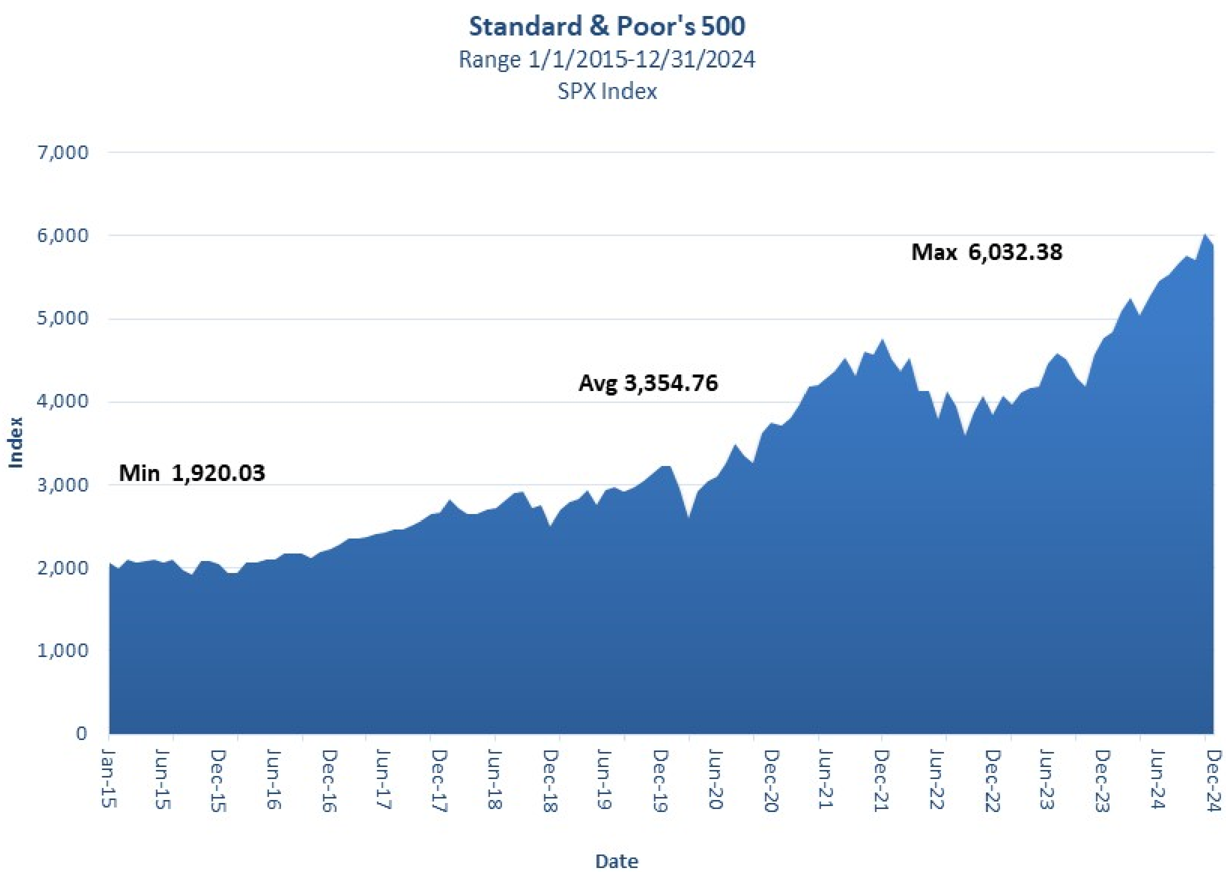
For 2027, the median forecast for GDP, unemployment rate and inflation is 1.9 percent, 4.3 percent and 2.0 percent, respectively. The expected Federal funds rate at the end of 2027 is 3.1 percent.

Additionally, longer run projections are 1.8 percent for GDP, 4.2 percent for unemployment and 2.0 percent inflation with an expected Federal funds rate of 3.0 percent.

INVESTMENT MANAGEMENT

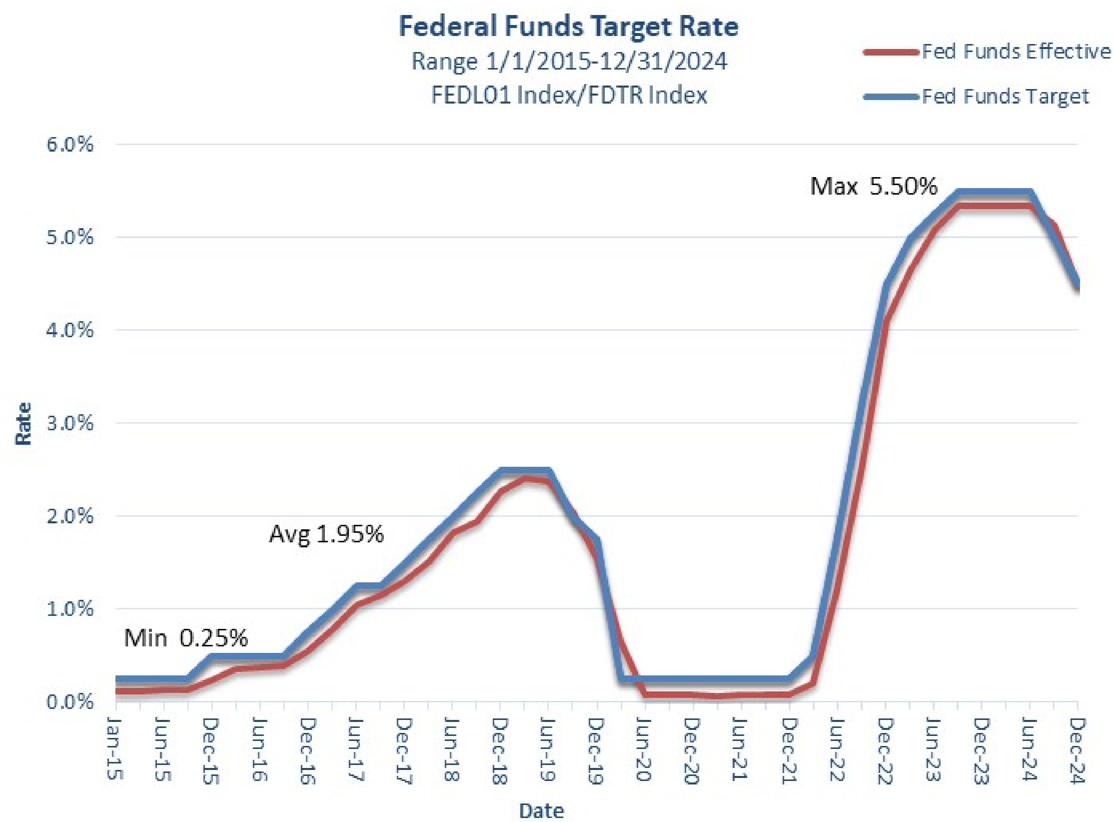
Real Gross Domestic Product & Standard & Poor's 500

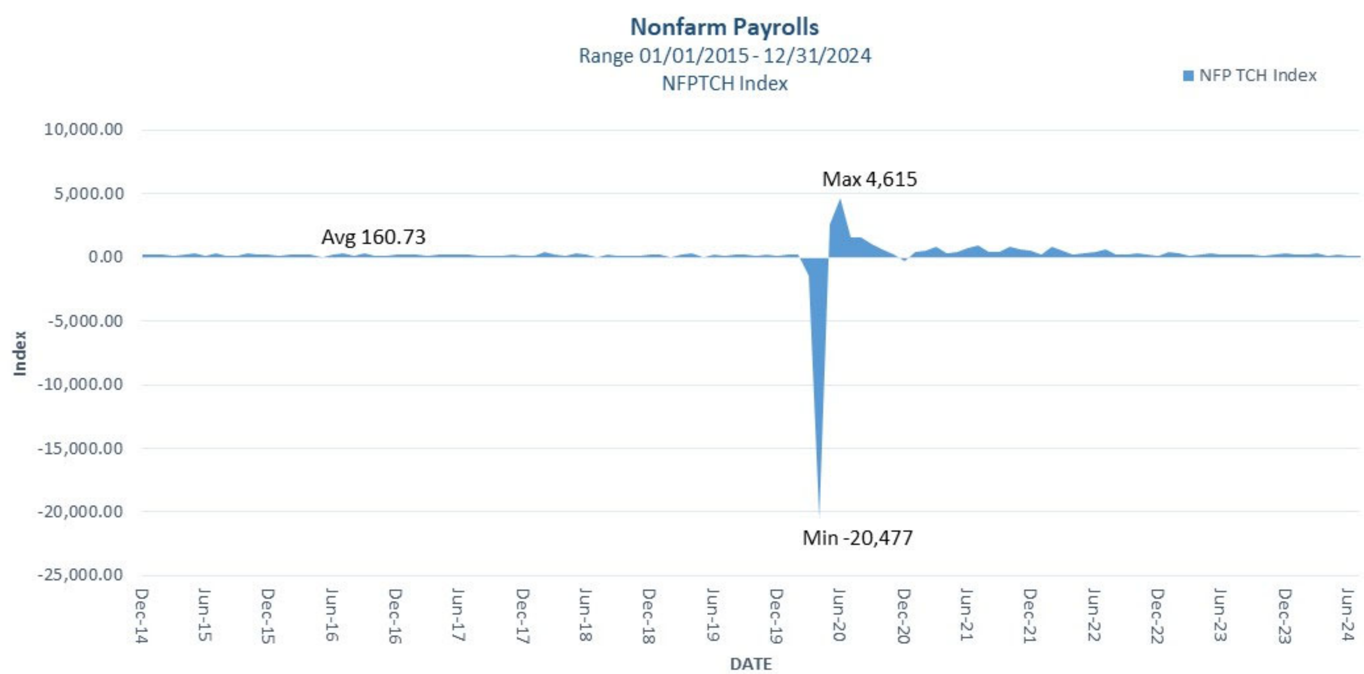




INVESTMENT MANAGEMENT

Federal funds Target Rate & NonFarm Payrolls



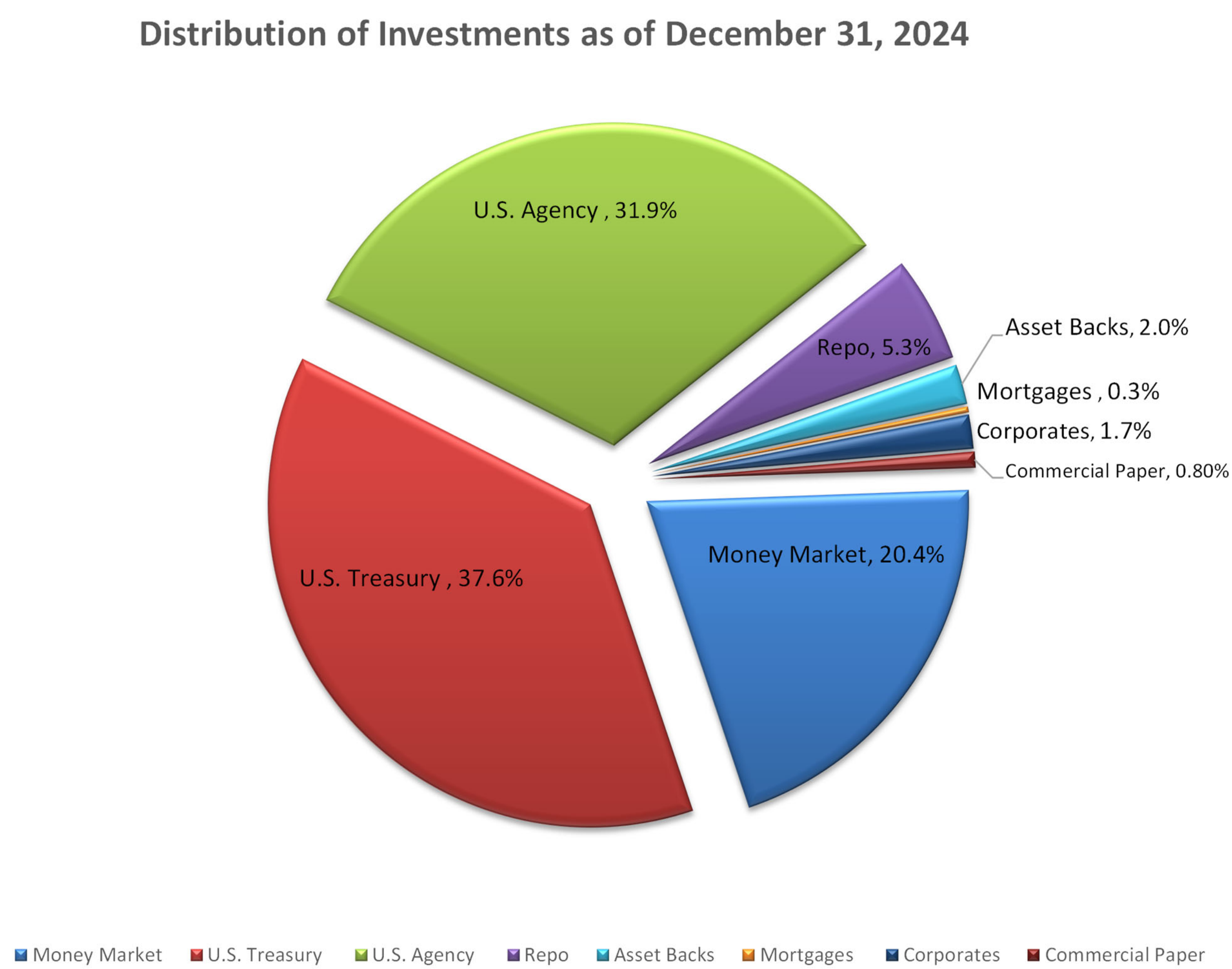


INVESTMENT MANAGEMENT

Portfolio Management

For six months ended December 31, 2024, the Commonwealth's investment portfolio was approximately $15.1 billion. The portfolio was invested in U.S. Treasury Securities (37.6%), U.S. Agency Securities (31.9%), Mortgage-Backed Securities (0.3%), Repurchase Agreements (5.3%), Corporate Securities (1.7%), Commercial Paper (0.8%), Asset-Backed Securities (2.0%), and Money Market Securities (20.4%). The portfolio had a market yield of 4.52% and an effective duration of 0.42 of a year.

The total portfolio is broken down into three investment pools. The pool balances as of December 31, 2024 were $6.7 billion (Short Term Pool), $3.0 billion (Limited Term Pool), and $5.3 billion (Intermediate Term Pool).

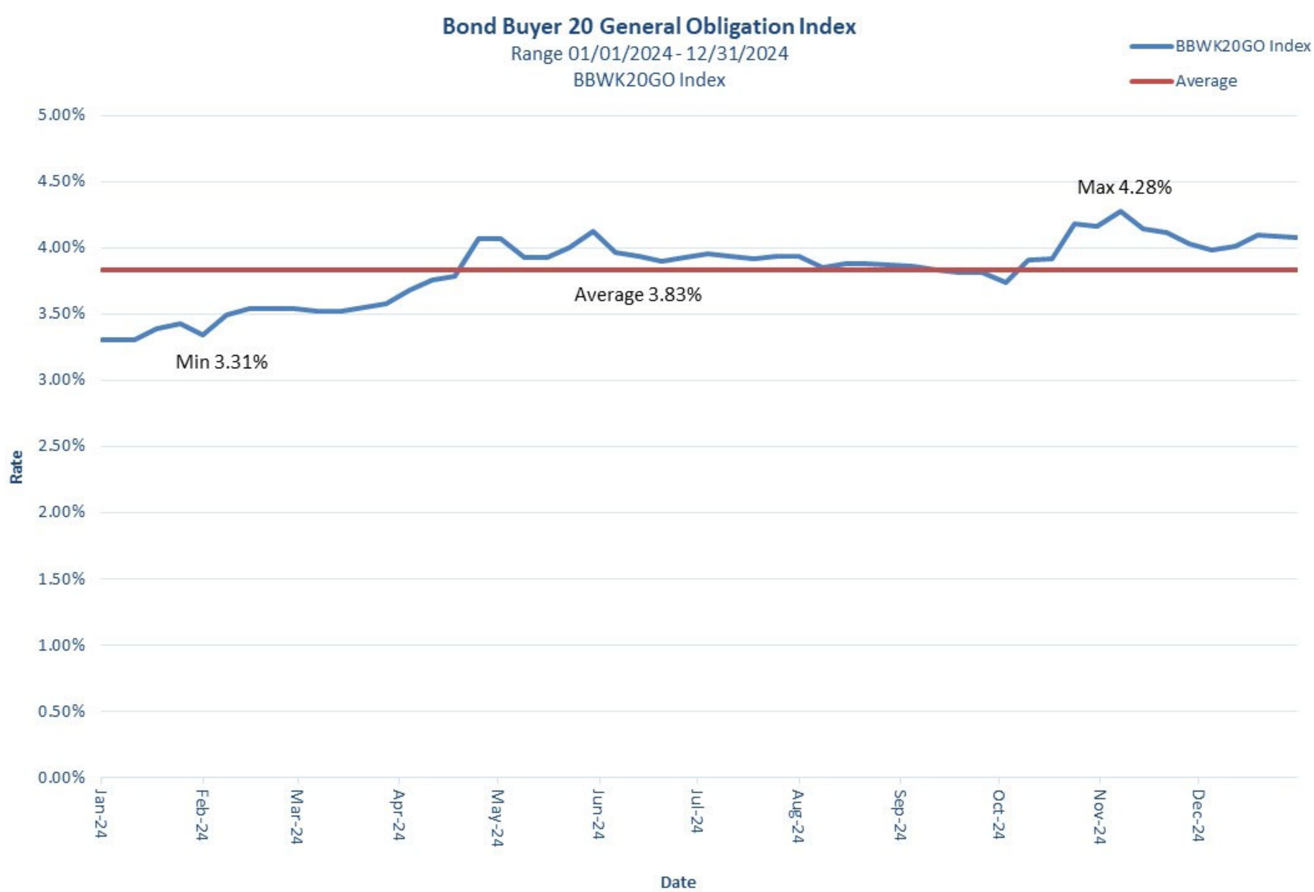


INVESTMENT MANAGEMENT

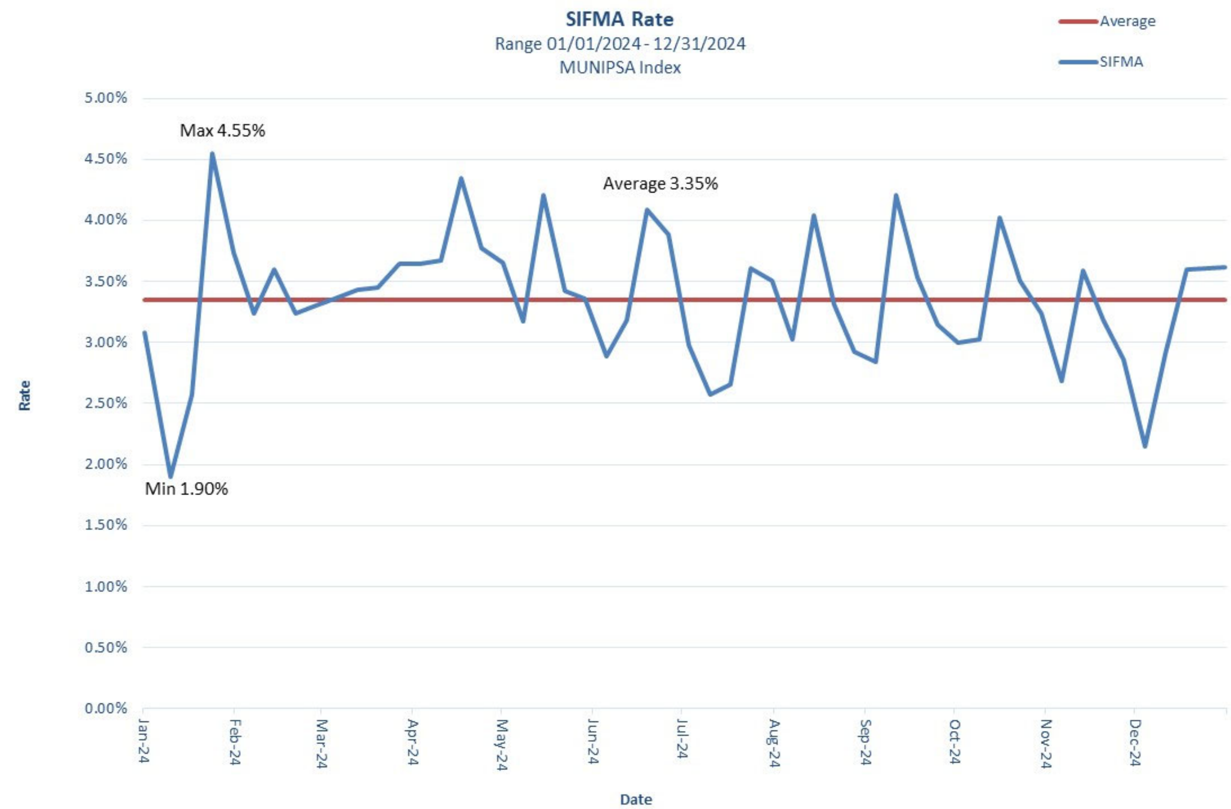
Tax-Exempt Interest Rates and Relationships

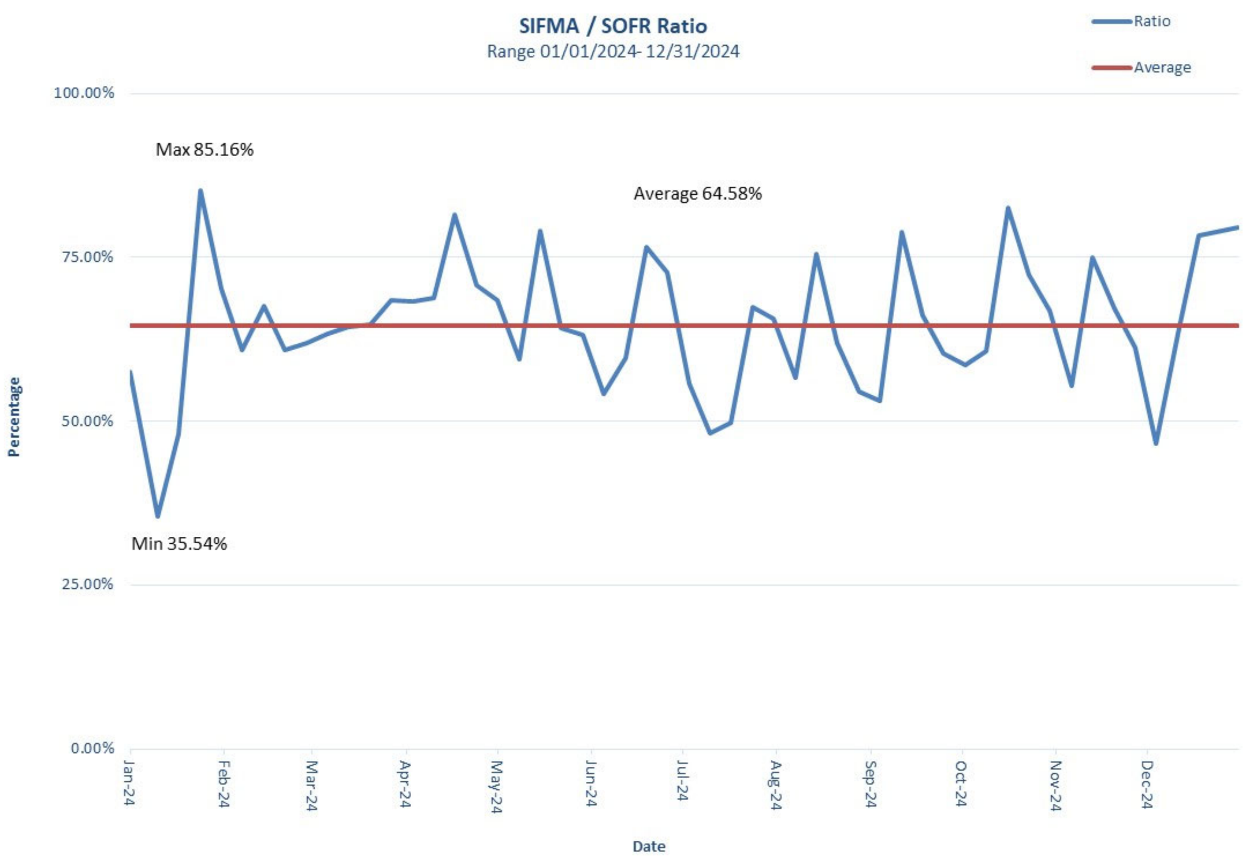
The Bond Buyer 20 General Obligation Index averaged 3.83 percent for Calendar Year 2024. The high was 4.28 percent in November 2024 and the low was 3.31 percent in January 2024.

The Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index averaged 3.35 percent for Calendar Year 2024. The high was 4.55 percent on January 24, 2024, and the low was 1.90 percent on January 10, 2024. The 30-day Secured Overnight Financing Rate ("SOFR") averaged 5.19 percent for Calendar Year 2024. The high was 5.35 percent in August 2024 and the low was 4.55 percent in December 2024. During the year, SIFMA traded at a high of 85.16 percent of the 30-day SOFR on January 24, 2024, at a low of 35.54 percent on January 10, 2024, and at an average of 64.58 percent for the Calendar Year



SIFMA & SIFMA/SOFR Ratio





CREDIT MANAGEMENT

Mid-Year Reflection

Credit

While the first half of 2024 saw improvement in reducing the inflation rate closer to the long-range objective of 2 percent, progress stalled in the second half of 2024 as the rate began to tick back upwards. The rate cut cycle began with a 50 basis point cut in September, followed by 25 basis point cuts in November and December. This left the federal funds rate at a range of 4.25 percent - 4.50 percent at the end of 2024. Producer prices followed a similar pattern as the headline inflation rate, as improvement in the first half was countered by a tick upwards in the second half. GDP growth was strong in the second half of the year, posting gains of 3.1 percent and 2.3 percent. Both personal income and consumer spending stabilized after sharp drops in the first half. Household debt continued a relentless rise across all categories, reaching a total of $18 trillion. Higher balances accompanied by continued high interest rates has unsurprisingly resulted in rise in delinquency rates to 3.6 percent across all categories, a significant increase from 3.2 percent at the end of June.

Following the same trend as consumers, non-financial corporations continue to load up on debt despite high borrowing rates, reaching a total of $21.6 trillion in the second half of 2024. This borrowing binge wasn't enough to counter strong economic growth in the third and fourth quarters however, with the ratio of corporate debt to GDP actually declining in the second half of the year. Corporate debt issuance declined slightly from a red-hot first half with investment grade still leading the way. Higher borrowing rates continued to bite with corporate bankruptcies totaling 694 for the calendar year, the highest since 2010. After a brief spike in August, spreads on investment grade bonds slipped in the later months and ended the year at a three-year low. The Senior Loan Officer Opinion Survey on Bank Lending Practices reported that lending standards generally tightened for businesses while demand increased. For loans to households, the survey reported that both standards and demands largely remained flat.

Credit Process

Our credit strategy invests in creditworthy corporate issuers having a long-term rating of A3/A-/A- or better as rated by Moody's, S&P, or Fitch, where the lowest rating of the three is used to determine credit rating compliance. The strategy focuses on adding value through a disciplined approach in the credit selection process. With independent research and prudent diversification with respect to 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 main tool for default monitoring. 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 as a high-level summary of their credit health using an explicit mapping from default likelihood to default risk.

CREDIT MANAGEMENT

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 top-down and bottom-up approach for investing. The top-down approach refers to understanding the current (and future) business cycle or the "big picture" of the economy and financial world in order to identify attractive industries. Once industries are identified, a bottom-up approach is utilized where Portfolio Managers focus on specific company fundamentals, picking the strongest companies within a sector.

Fundamental analysis is then performed by looking at competitive position, market share, operating history/trends, management strategy/ execution, and financial statement ratio analysis.

Approved List

Once analysis has been completed, the State Investment Commission approves the list on a quarterly basis. During the first half of 2024, no names were removed from the Corporate Credits Approved list. The Corporate Credits Approved list as of December 2024 is located in Appendix A.

DEBT MANAGEMENT

Authorized but Unissued Debt Summary

The current State Budget includes authorized debt service for over $6.98 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 over a number of future bond transactions. The speed at which this financing takes place is dependent upon factors managed by and between the project sponsors, the Office of the State Budget Director and the Office of Financial Management.

As of December 31, 2024, the balance of prior bond authorizations of the General Assembly dating from 2010 through 2024 subject to moral obligation or state intercept totals $6,988.51 million. Of these prior authorizations, $4,985.08 million is General Fund supported, $1,690.93 million is Agency Fund supported, $12.50 million is supported by Road Fund appropriations and $300.00 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds.

The following table summarizes, in aggregate, the information in connection with authorized but unissued debt of the Commission as described in this section.

Summary of Authorized but Unissued Debt by Fund Type As of December 31, 2024:

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Fund (millions)	TOTAL (millions)
2010	$ 16.99	$ 17.50	-		$ 34.49
2012	1.68	-	$ 12.50		14.18
2014	5.19	-	-		5.19
2016	16.06	-	-		16.06
2018	184.35	-	-		184.35
2019	27.62	-	-		27.62
2020-2021	321.90	26.11	-		348.01
2022-2024	1,614.25	147.80	-	$ 150.00	1,912.05
2024-2026	3,034.20	1,499.52	-	150.00	4,683.72
Bond Pool Proceeds	(237.16)	-	-	-	(237.16)
TOTAL	$ 4,985.08	$ 1,690.93	$ 12.50	$ 300.00	$ 6,988.51

Looking Forward

The Commission continues to monitor the municipal bond interest rate market and uses this information together with other relevant market data to evaluate whether or not the interim or variable rate financing program would provide an economic advantage in conjunction with the fixed rate bonds.

DEBT MANAGEMENT

Ratings Update

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

During the reporting period, the Commonwealth received issuer level rating upgrades from Moody's Ratings. The remaining ratings below were either affirmed or remained unchanged from the previous reporting period.

The Ratings Picture at December 31, 2024:

	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+	-

*All outstanding bonds do not necessarily receive a rating from every rating agency

DEBT MANAGEMENT

Cash Management Strategies

All cash management strategies are market and interest rate dependent. 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 which is experiencing a short-term cash flow shortfall. Historically, funds are loaned to the short-term fund (General Fund).

As of December 31, 2024 the total available liquid resources available to the General Fund was $15.060 billion.

Bond Anticipation Notes (“BANs”)

A short-term interest-bearing security issued in advance of a larger, future bond issue. Bond anticipation notes are smaller short-term bonds that are issued to generate funds for upcoming projects.

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 the commission 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) or 161.553(2)

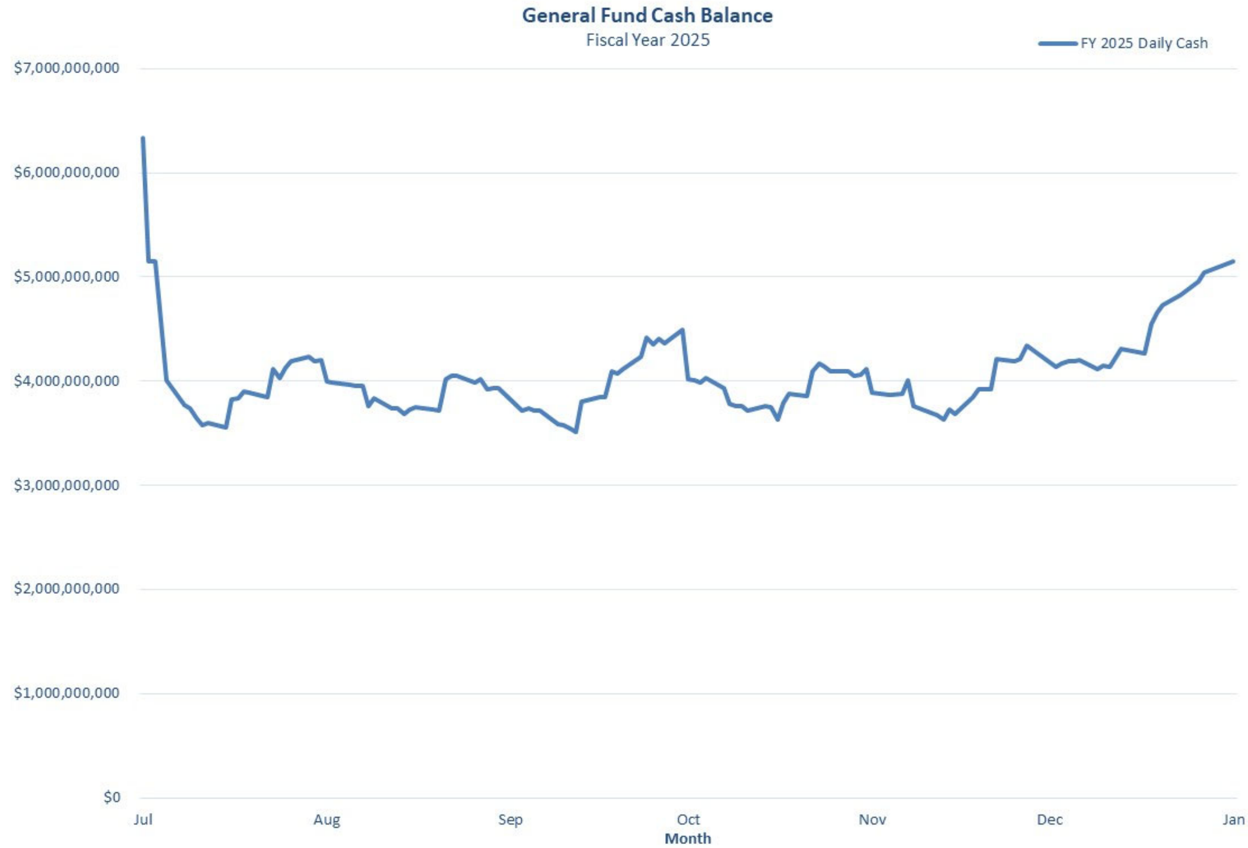
"Project notes" means notes issued under the provisions of KRS 56.860 to 56.869 by the commission with a final maturity of not more than twenty (20) years for the purpose of funding authorized projects, which may include bond anticipation notes.

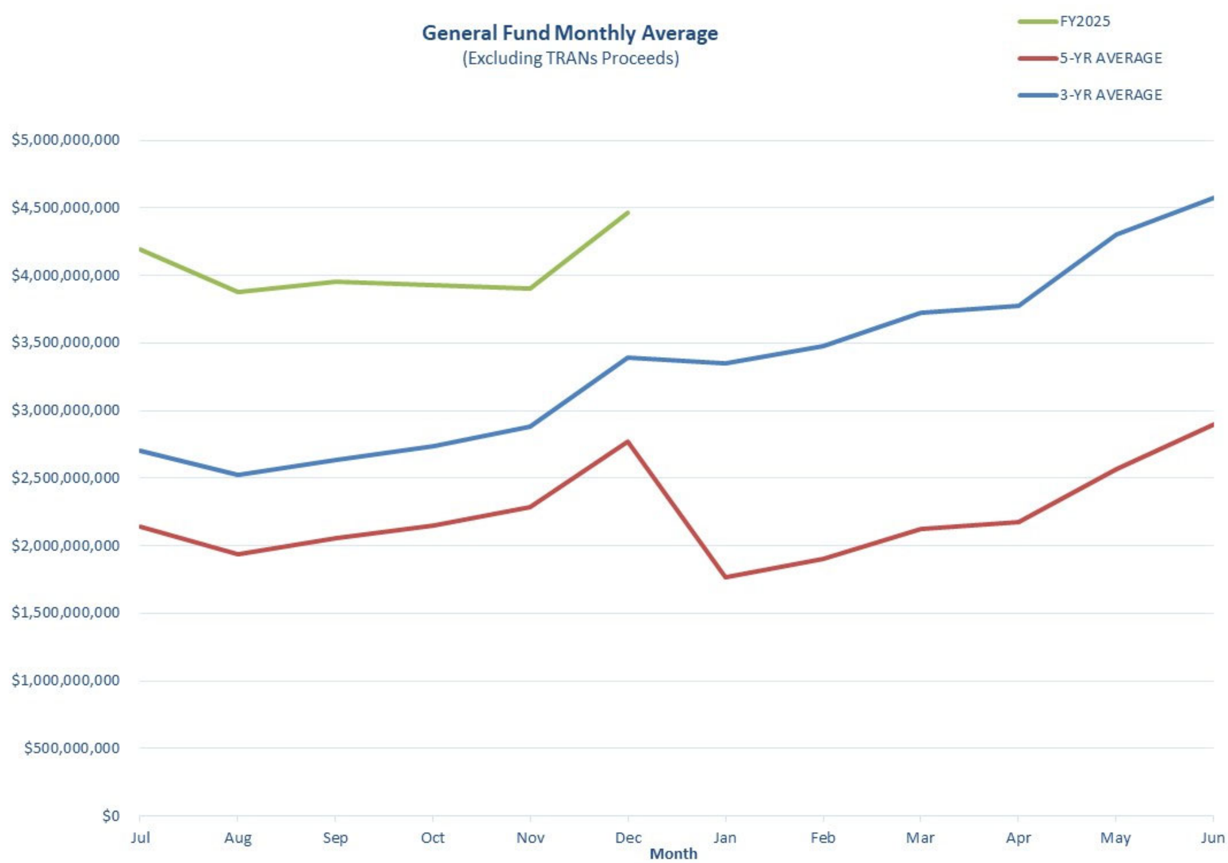
No Notes were issued during the reporting period

Synthetic Fixed Rate

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

DEBT MANAGEMENT





DEBT MANAGEMENT

ALCo Financial Agreements

As of May 3, 2021, ALCo retired all remaining outstanding financial agreements.

Asset/Liability Model

General Fund

The total State Property and Buildings Commission ("SPBC") debt portfolio as of December 31, 2024 had $3.209 billion of bonds outstanding with a weighted average coupon of 4.78 percent and a weighted average life of 7.8 years. The average coupon reflects continued investor preference for tax-exempt callable premium bonds in the current market at a yield lower than par or discount coupon bonds. The $1.832 billion callable portion had a weighted average coupon of 4.81 percent. The SPBC debt structure has 42.13 percent of principal maturing in 5-years and 66.57 percent of principal maturing in 10-years which is primarily influenced by the reduced amount of long-term new money permanent financings within the last several years.

The General Fund had a maximum balance of $6.331 billion on July 1, 2024, and a low of $3.509 billion on September 12, 2024. The average and median balances were $4.041 billion and $3.989 billion, respectively. Return on investable balances is impacted by investment earnings, fees and mark-to-market rules on the underlying investments.

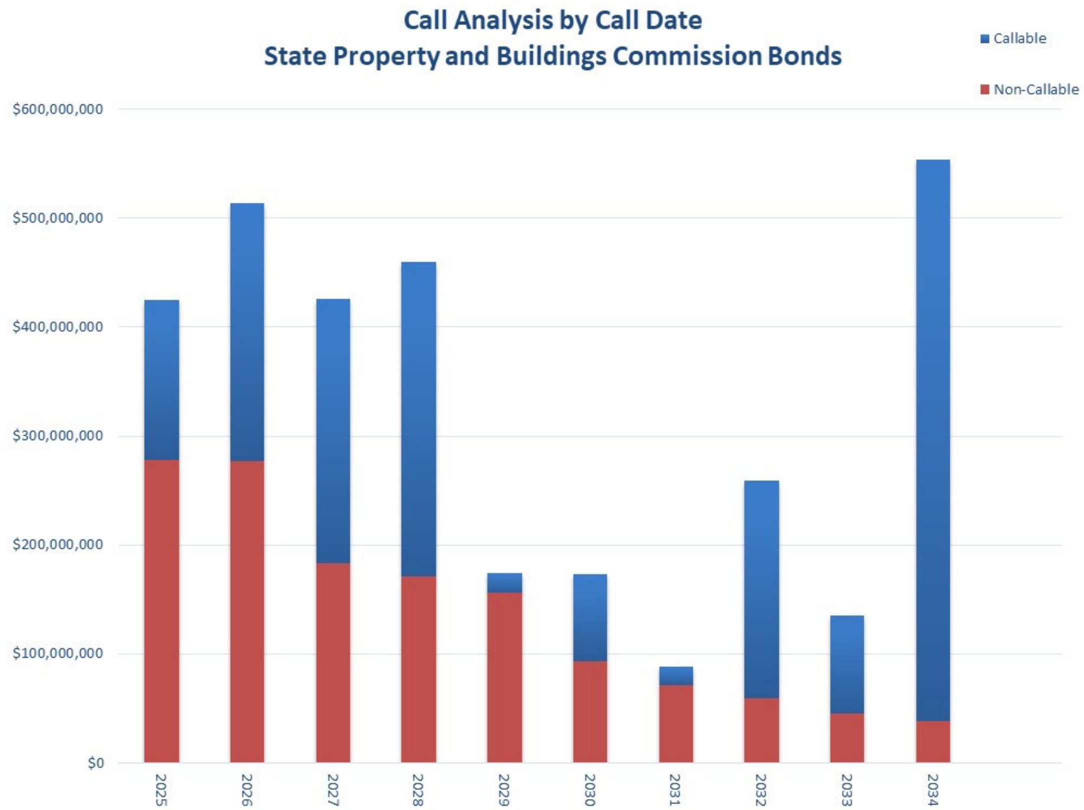
From a liability management perspective, total Commonwealth General Fund debt service, net of credits, is expected to be $451.787 million for FY 2025. In addition to the Commonwealth General Fund debt service, General Fund debt service of $13.721 million will be provided for an Eastern State Hospital financing that was first issued through the Lexington-Fayette Urban County Government in 2011. Also, General Fund debt service of $10.389 million will be 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.

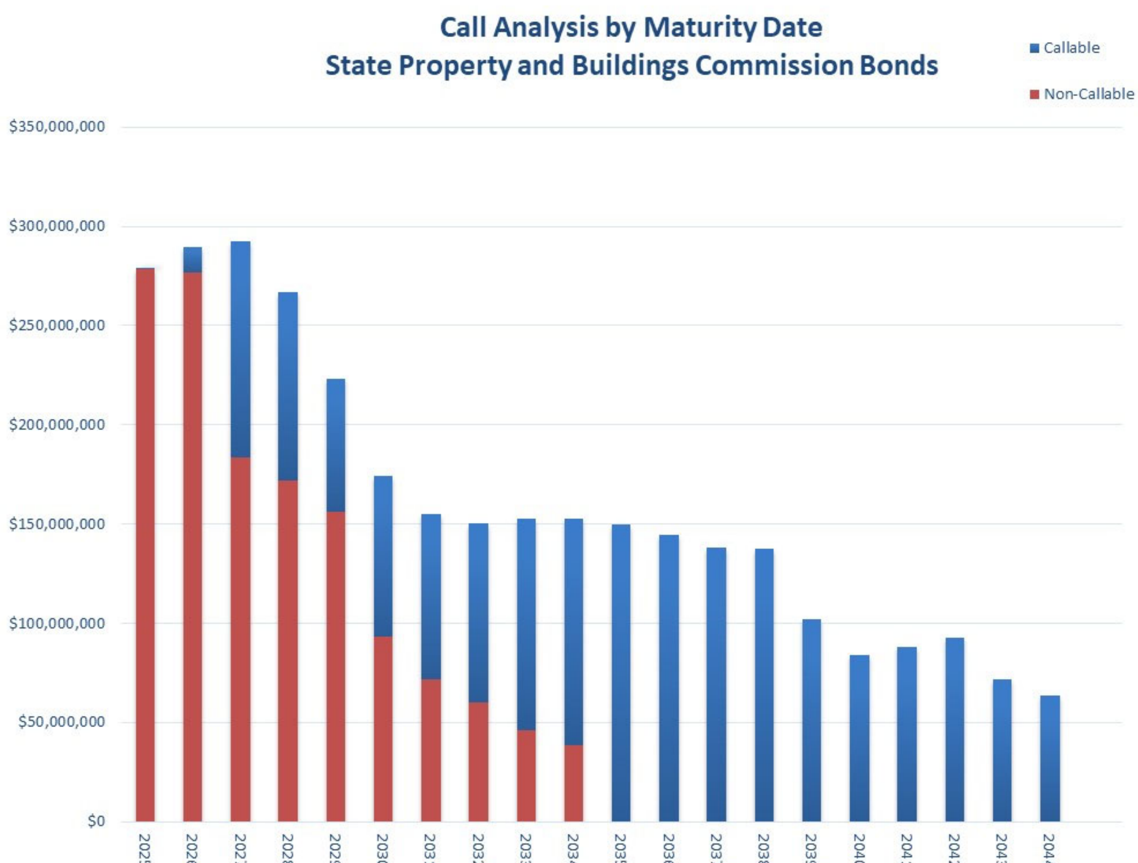
SPBC 131

On October 24, 2024, SPBC closed $600,000,000 par of General Fund Revenue Bonds, Project No. 131, in a single series. The transaction provided permanent financing for approximately $675 million of General Fund supported capital projects authorized over multiple sessions of the General Assembly.

The SPBC Project No. 131 transaction achieved an All-In True Interest Cost of 3.6056 percent. The bonds were sold on a tax-exempt basis via negotiated sale with BofA Securities, Inc. serving as underwriter and Kutak Rock LLP as bond counsel. The bonds received ratings of Aa3/AA- from Moody's Investors Service, Inc. and Fitch Ratings, respectively.

DEBT MANAGEMENT





DEBT MANAGEMENT

Looking Forward

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

Road Fund

The net Road Fund average daily cash balance for the first half of FY 2025 was $299 million compared to $278 million for the first half of FY 2024. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 0.85 years as of December 31, 2024. The Road Fund earned $8.84 million on a cash basis for the first half of FY 2025 versus $6.91 million for the first half of FY 2024. The Road Fund earnings increased year over year because of higher short term rates. The continued relatively low level of investable balances at certain times during the fiscal year limits the investment opportunities.

As of December 31, 2024, the Turnpike Authority of Kentucky (TAK) had $659.1 million of bonds outstanding with a weighted average coupon of 4.49% and an average life of 4.31 years.

Road Fund debt service expected to be paid in FY 2025 is $135.58 million, resulting in a net interest margin (investment income earned year-to-date less debt service paid) of negative $126.74 million. The negative amount stems from the level of investable balances in addition to the limited callability of fixed rate obligations on the liability side.

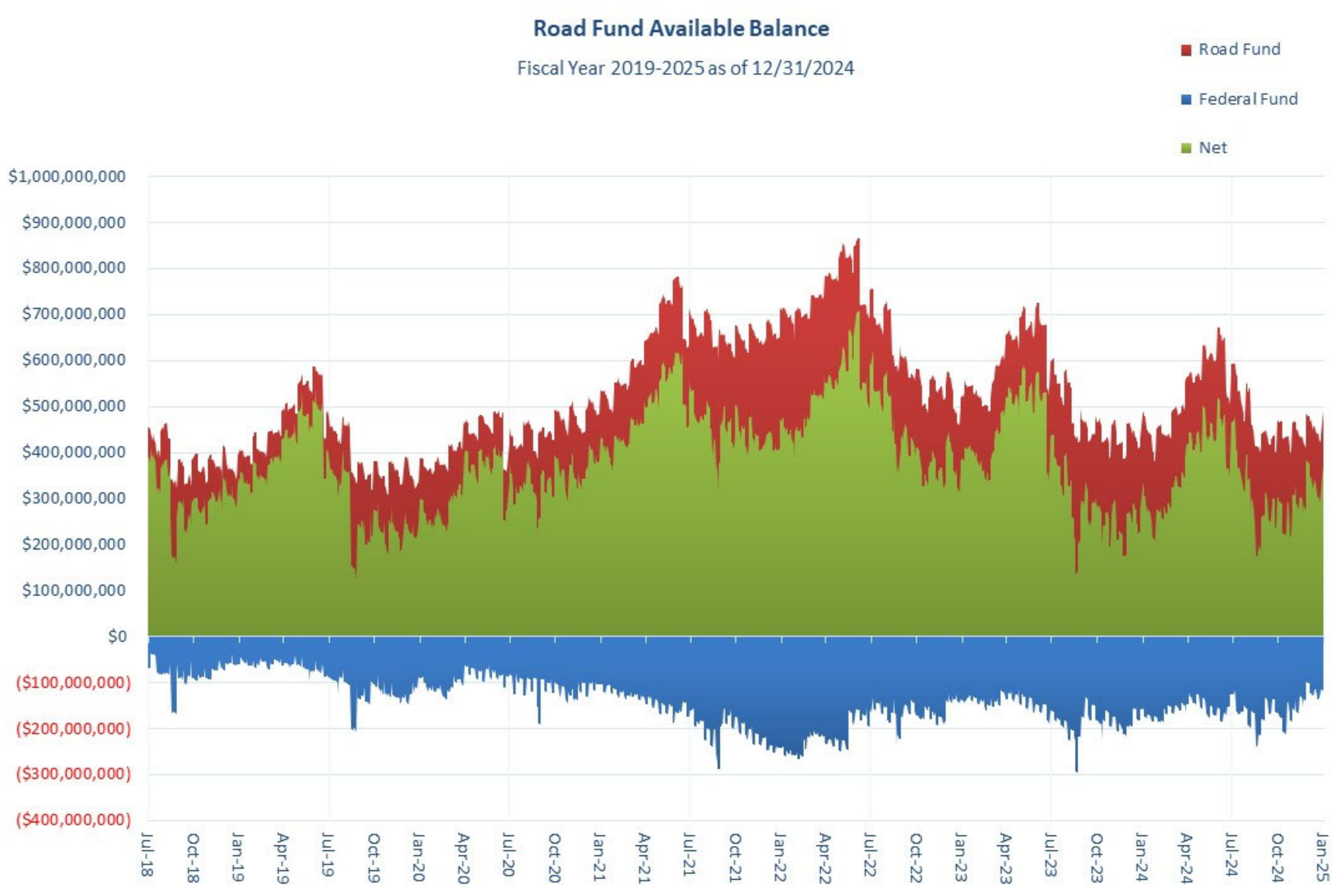
TAK 2024 Series A

On June 5, TAK priced $108,985,000 par of Economic Development Road Revenue Refunding Bonds (Revitalization Projects) 2024 Series A. The proceeds of the Series A bonds refunded $113,920,000 par of certain outstanding Build America Bonds to reduce risk of future sequestration or subsidy elimination, for net present value savings of $870,452 (or 0.7641%), and achieved an All-In True Interest Cost of 3.3629 percent.

The transaction which sold on a negotiated basis closed on July 9 with J.P. Morgan acting as senior manager and Dinsmore & Shohl serving as bond counsel. Stites & Harbison was underwriter's counsel.

The bonds received ratings of Aa3 from Moody's Investors Service Inc. and AA- from Kroll Bond Rating Agency, LLC.

DEBT MANAGEMENT



SUMMARY

During the reporting period for the 56th semi-annual report, the FOMC cut the federal funds rate by 50 basis points in September and 25 basis points in both November and December, lowering the federal funds rate to 4.25 percent – 4.50 percent. The decision to cut rates was based on the belief the battle against inflation had been won and price increases would continue to trend towards the long-term 2 percent goal; however, the inflation rate has remained stubbornly above 3 percent. Yields on treasury securities and corporate bonds declined in 2024 leading to the disappearance of the yield curve inversion. The cost of capital across the Commonwealth remained high but provided debt issuers numerous opportunities for investment income from banking deposits. As a result of record cash balances, the state has maximized the benefit of the spread difference between tax-exempt borrowing and taxable investment to achieve record investment returns.

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. As always, ALCo continues to analyze potential opportunities for savings and to evaluate new financing structures, which offer the Commonwealth the ability to diversify risk within its portfolio while taking advantage of market demand for various new or unique products. The Commission continues to monitor the municipal bond interest rate market and uses this information together with other relevant market data to evaluate whether or not the interim financing program would provide an economic advantage in conjunction with the fixed-rate bonds.

The balance of prior bond authorizations of the General Assembly from 2010 – 2024 totals over $6.98 billion with existing debt for SPBC of $3.21 billion, SFCC $896.03 million, ALCo GARVEEs $203.91 million, ALCo bonds $29.44 million and Turnpike bonds $659.14 million. All bonds are monitored for potential refunded savings.

APPENDIX

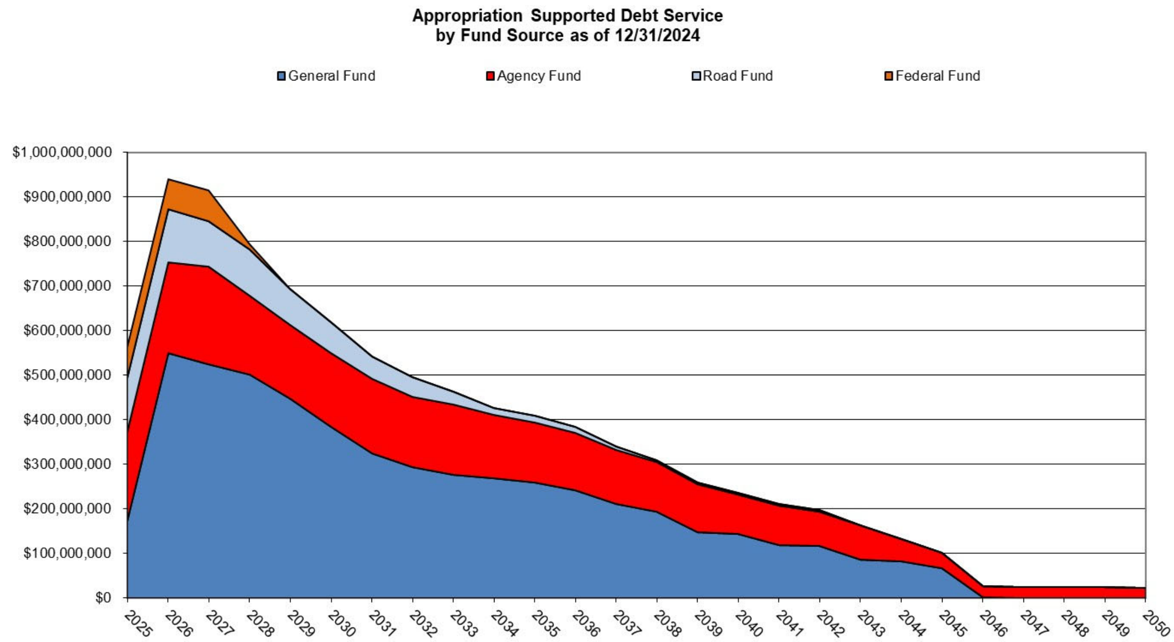
APPENDIX A

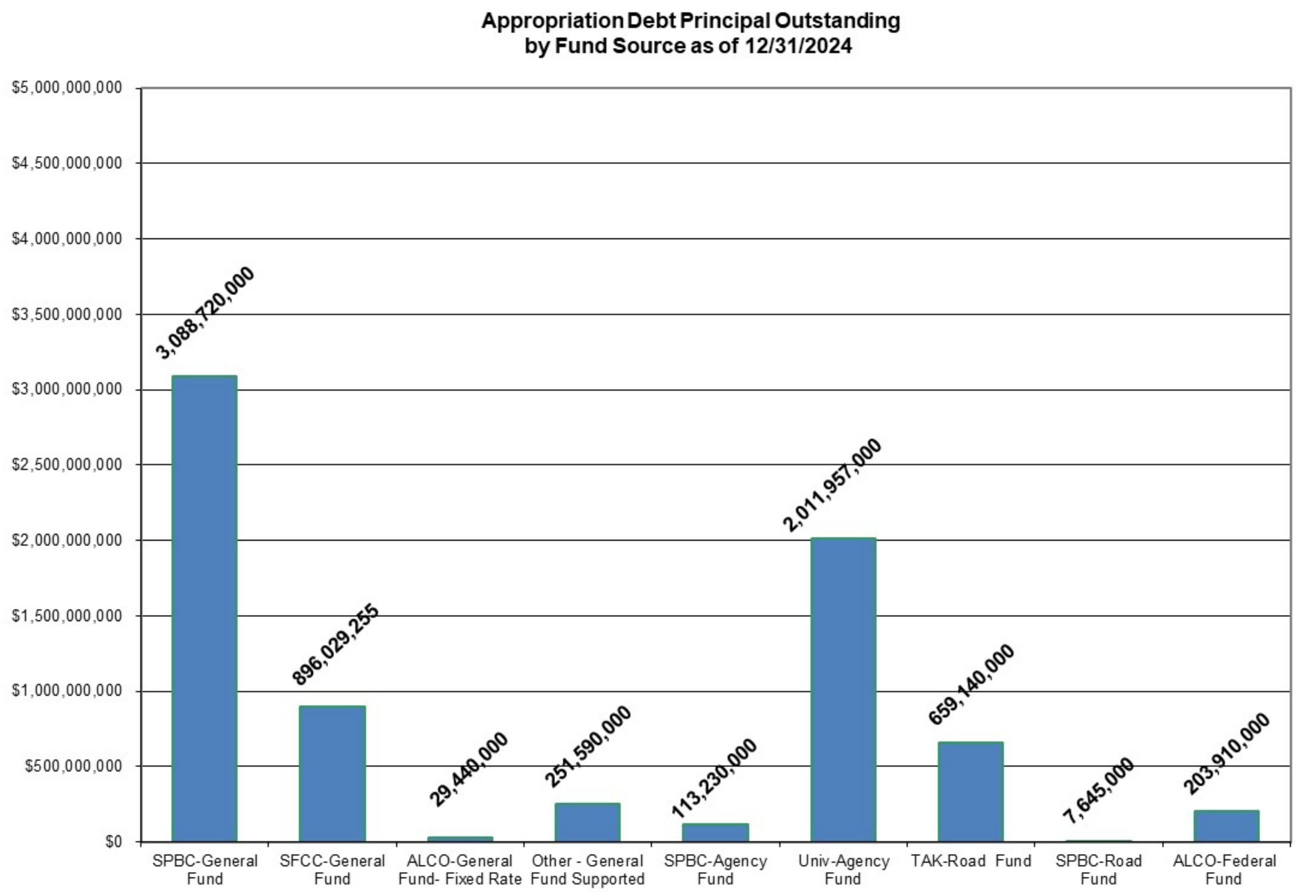
Corporate Credits Approved For Purchase

12/5/2024

Company Name	Repurchase Agreements	Commercial Paper	Bonds
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
Cooperatieve 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
Swedbank AB		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





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

APPENDIX C

COMMONWEALTH OF KENTUCKY
ASSET/LIABILITY COMMISSION
SCHEDULE OF NOTES OUTSTANDING
AS OF 12/31/2024

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	$29,440,000
	FUND TOTAL	**$113,940,000**			**$29,440,000**
Federal Hwy Trust Fund Project Notes					
2015 1st Series		$106,850,000	10/2015	9/2027	$32,230,000
2023 Refunding Notes FHTF		$54,840,000	6/2023	9/2025	$28,095,000
2024 Refunding Notes FHTF		$107,040,000	6/2024	9/2026	$81,625,000
	FUND TOTAL	**$268,730,000**			**$141,950,000**
ALCo NOTES TOTAL		**$382,670,000**			**$171,390,000**

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

TEAM KENTUCKY