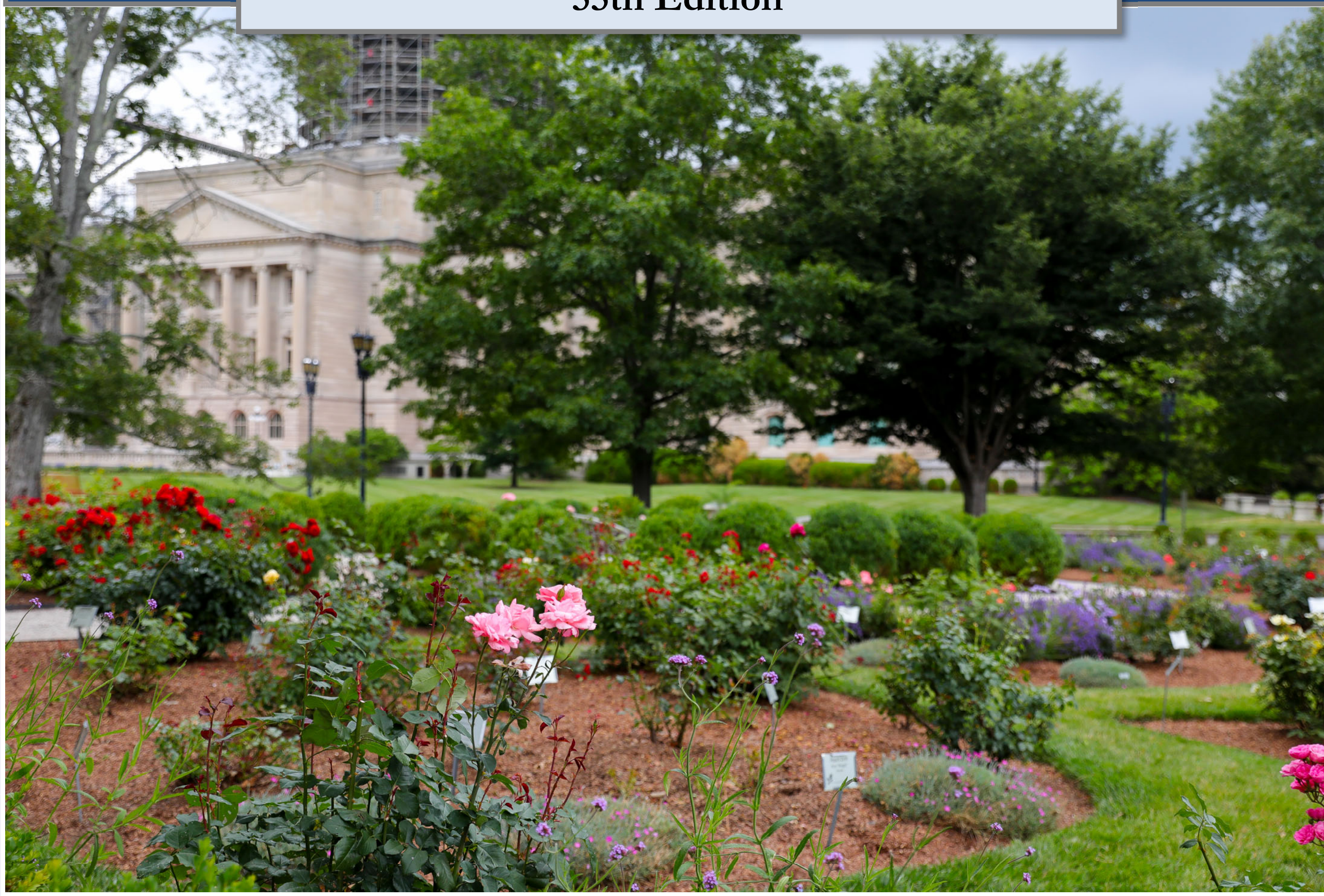
COMMONWEALTH OF KENTUCKY

KENTUCKY ASSET/LIABILITY COMMISSION

SEMI-ANNUAL REPORT

For the period ending June 30, 2024

55th 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™

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INTRODUCTION

The Kentucky Asset/Liability Commission ("ALCo" or the "Commission") presents its 55th 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 January 1, 2024 through June 30, 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 kept the federal funds rate at a target range of 5.25 percent to 5.50 percent throughout the first half of 2024.
- The unemployment rate rose to 4.1 percent in June 2024, up from 3.7 percent in December 2023.
- The annual rate of economic growth as measured by the gross domestic product ("GDP") declined in the first half of 2024. The seasonally adjusted rate for the first quarter was 1.4 percent and second quarter was 2.8 percent.
- Inflation continued to fall and ended the second quarter with the core consumer price index ("CPI") rate (ex-energy and food) at 3.3 percent.

On the state level

- General Fund receipts totaled $15.57 billion for Fiscal Year ("FY") 2024, an increase of $423.6 million over FY 2023 collections. General Fund revenues exceeded the original budgeted estimate by $1.4 billion which was enacted during the 2022 Regular Session.
- Road Fund receipts totaled $1.87 billion for FY 2024, an increase of $121.2 million over FY 2023 collections. Road Fund collections exceeded the original budgeted estimate by $195 million which was enacted during the 2022 Regular Session.
- Kentucky non-farm employment growth rates for the four quarters of FY 2024 were 2.2 percent, 1.6 percent, 1.0 percent, and 1.0 percent.
- Kentucky personal income growth rates for the four quarters of FY 2024 were 5.2 percent, 5.6 percent, 4.7 percent, and 5.4 percent.
- The FY 2024 budgeted General Fund deposit to the Budget Reserve Trust Fund was $2.02 billion, bringing the balance to $5.2 billion which equates to 29 percent of the FY 2024-2025 official revenue estimate.
- This is the fourth consecutive year that the revenue surplus has exceeded $1 billion and is a material credit improvement for the Commonwealth; however, large unfunded pension liabilities continue to put stress on the Commonwealth's credit rating.

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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

The first half of 2024 saw the Federal Open Market Committee ("FOMC") keep the federal funds rate stable as they waited to see what effect the recent rate hikes would have on the inflation rate and job market. As expected, the inflation rate did continue to creep downward towards the long-term goal of two percent. It remained elevated enough though that expectations for the first rate cut of the cycle kept being delayed as new data continued to roll in. The question now becomes can the FOMC achieve a so-called "soft-landing" by normalizing rates without causing a recession? Recent data points have complicated this narrative as the job market softens and GDP growth slows.

After reaching a range of 5.25 percent to 5.50 percent in July 2023, the federal funds rate has remained steady for the past year. The goal was to evaluate economic data as it came in to see if inflation could be reined in before proceeding further. The fear is that cutting rates too soon could reignite inflation that still hasn't quite reached the two percent objective, while leaving rates too high for too long could depress economic activity to the point that a recession is inevitable. FOMC members have repeatedly said that rate cuts will occur only when they are confident that economic conditions warrant them and there is little risk of excessive inflation returning in response. The FOMC has continued to let securities roll off the balance sheet as part of a quantitative tightening ("QT") strategy that began in 2022. While still significantly higher than where it was pre-2020, by the middle of 2024 the balance sheet had shrunk $1.7 trillion from the nearly $9 trillion high it carried before QT began.

Employment

Other than inflation prints, the top economic indicator the FOMC watches is the monthly job report. For several months, the labor market defied conventional thinking and remained strong during a period of high interest rates. Finally in 2024, the effect of those high rates began to show up in the data. The unemployment rate began the year at 3.7 percent and finished June at 4.1 percent. Job creation, after remaining robust for much of the past year, finally began to slow as the rolling three-month average dipped to 168,000 by the end of June. This is a significant slowdown from the January to March average of 267,000. Real income growth managed to outpace inflation but not by much, with year-over-year real earnings growth coming in at less than 1 percent for most of the first half. It appears that the signs of a slowing labor market the FOMC has been searching for is finally showing up in the data.

After peaking over 12 million in 2022, job openings declined to around 8.2 million by the end of June, a still strong number compared to

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the roughly 7 million openings that existed at the beginning of 2020. The Labor Force Participation Rate ("LFPR") appears to have stalled out after a strong recovery the past few years, ending June at 62.7 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

Feeling the sting of higher interest rates, inflation as measured by the headline CPI continued to slowly drift downward and ended June at 3 percent. After a couple years of extreme volatility, the inflation rate has been very stable for the past year and maintained an overall downward trend. 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. Unlike the CPI, the PCE has continued to see steady declines in the first six months of the year and ended June at 2.6 percent, finally approaching the stated long-run goal of 2 percent. Expectations for longer-run inflation continued to fall as price increases appear to have finally been tamed during this cycle.

Economic Growth

After surprisingly robust reports in the third and fourth quarter of 2023, real GDP growth moderated in the first half of 2024, posting gains of 1.4 percent and 2.8 percent. Personal consumption still led the way with business fixed investment also contributing positively. The biggest drag on the numbers were net exports which subtracted a significant total from each quarter's growth. The average of 2.1 percent growth for the first half of the year, while not outstanding, is healthy enough that overall economic growth remains a bright spot for policymakers.

Interest Rates

The federal funds rate stayed steady through the first half of the year at 5.25 percent to 5.50 percent, the level it has been at since July of last year. Leaving the rate unchanged for so long has allowed the FOMC to see what effect these rate hikes have had on the economic data. The bottom line is that the primary objective of the hiking cycle is being achieved and inflation continues to fall closer to the 2 percent target, lending credence to the idea that a rate cut could soon be around the corner. While it now seems certain that the first cut will happen in 2024, exact timing is still up in the air. The latest dot plot shows a lack of consensus on where the federal funds rate will be at when the year ends. Most market participants foresee at least 3-4 cuts by the end of 2024, with additional cuts occurring in 2025.

Yields on treasury securities and corporate bonds mostly rose in the first half of 2024 as inflation proved more stubborn than originally anticipated. Beginning the year around 4.3 percent, the 2-year treasury peaked at over 5 percent in late April as a higher for longer mindset took hold and the timing of the first rate cut kept getting pushed back. Yields moderated a bit after that and the two-year treasury ended June at 4.75 percent, a significant increase from 4.32 percent in January. Yields on the longer end dropped faster after that late April peak and the 10-year ended the first half at 4.4 percent. Until the first rate cut actually happens, the yield curve will remain inverted as it has since the middle of 2022.

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Equities

After strong gains in 2023, the stock market continued its bull run in the first half of 2024. The S&P 500, after gaining almost 25 percent last year, added an additional 14 percent gain from January through June. The tech-heavy NASDAQ index did even better with an 18 percent gain in the first half. This remarkable run has elevated price-to-earnings ratios to levels many analysts have called unsustainable, suggesting a pullback could occur in the second half of the year.

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 June 12, 2024, meeting participants submitted their projections of the most likely outcomes for GDP, the unemployment rate, and inflation for each year from 2024 to 2026 and over the long-run.

For 2024, the median forecast for GDP, unemployment rate and inflation is 2.1 percent, 4.0 percent and 2.6 percent, respectively. The expected Federal funds rate at the end of 2024 is 5.1 percent.

For 2025, the median forecast for GDP, unemployment rate and inflation is 2.0 percent, 4.2 percent and 2.3 percent, respectively. The expected Federal funds rate at the end of 2025 is 4.1 percent.

For 2026, the median forecast for GDP, unemployment rate and inflation is 2.0 percent, 4.1 percent and 2.0 percent, respectively. The expected Federal funds rate at the end of 2026 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 2.8 percent.

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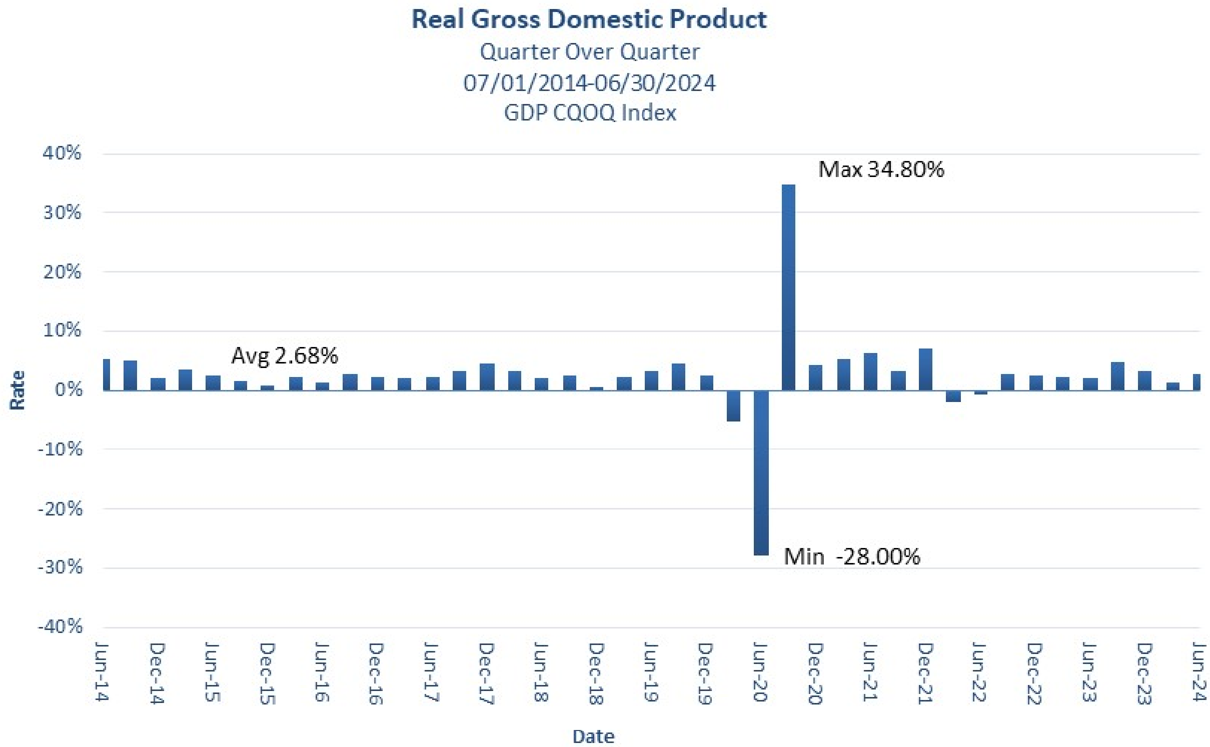
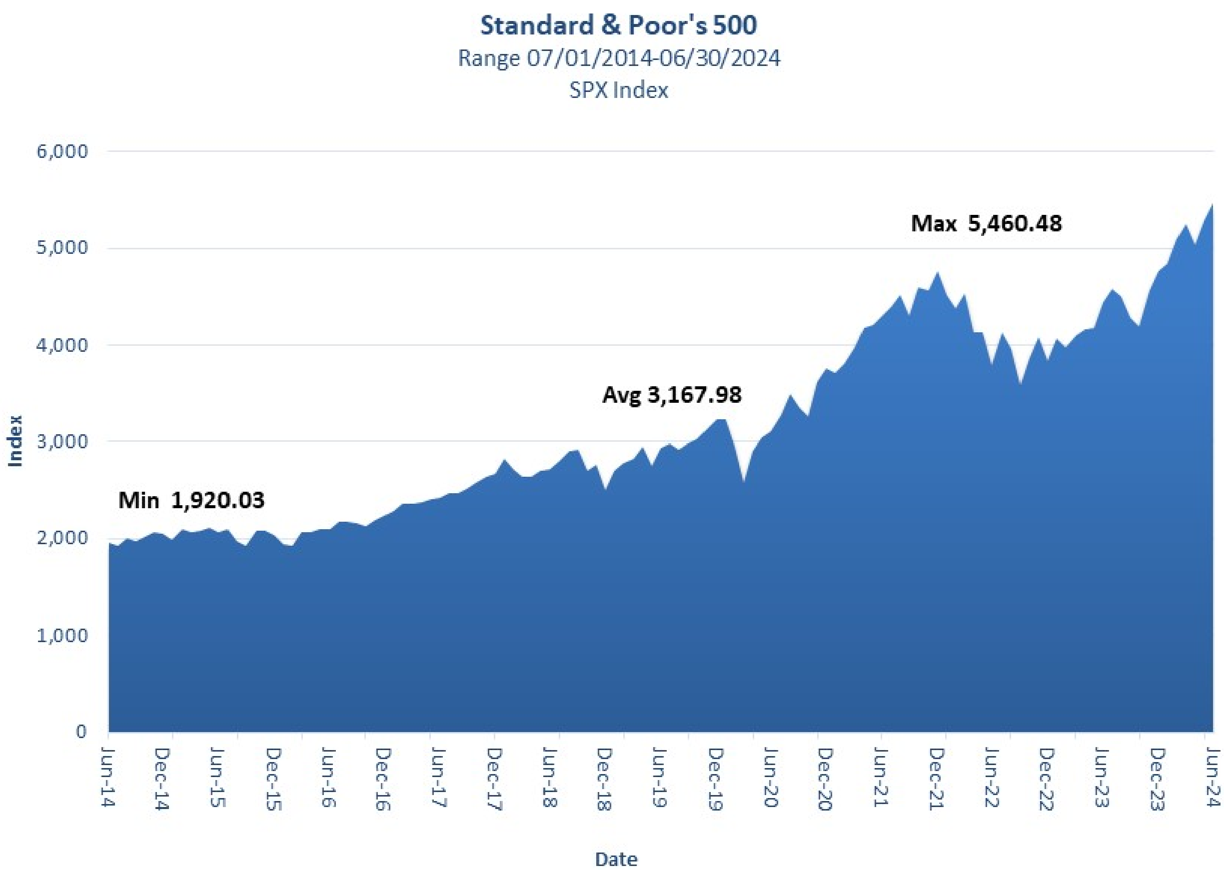
Real Gross Domestic Product & Standard & Poor's 500





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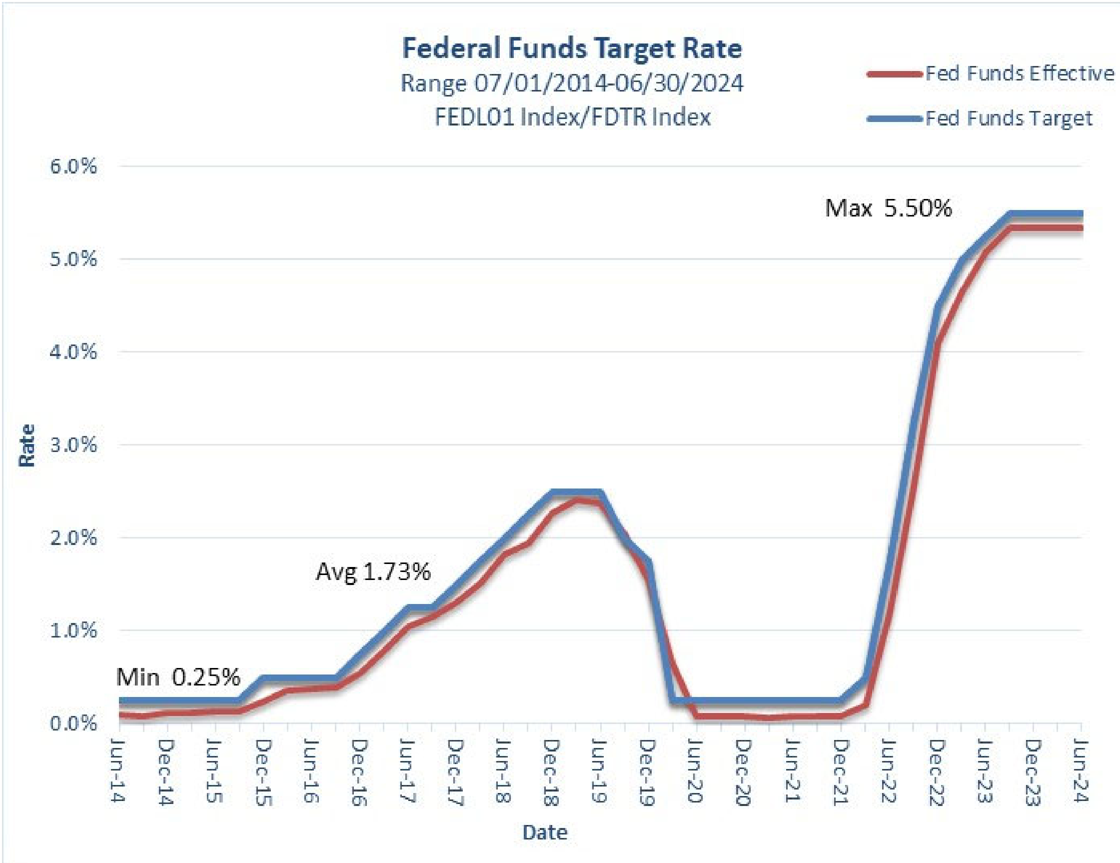
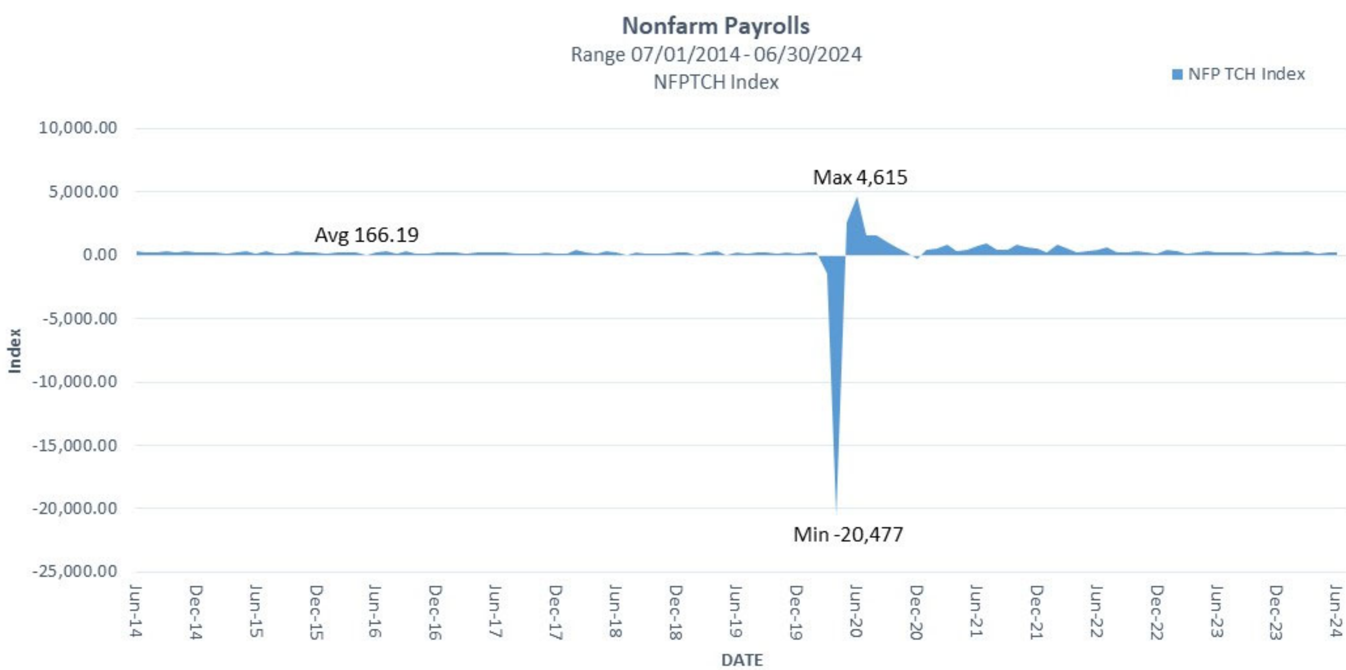
Federal funds Target Rate & NonFarm Payrolls





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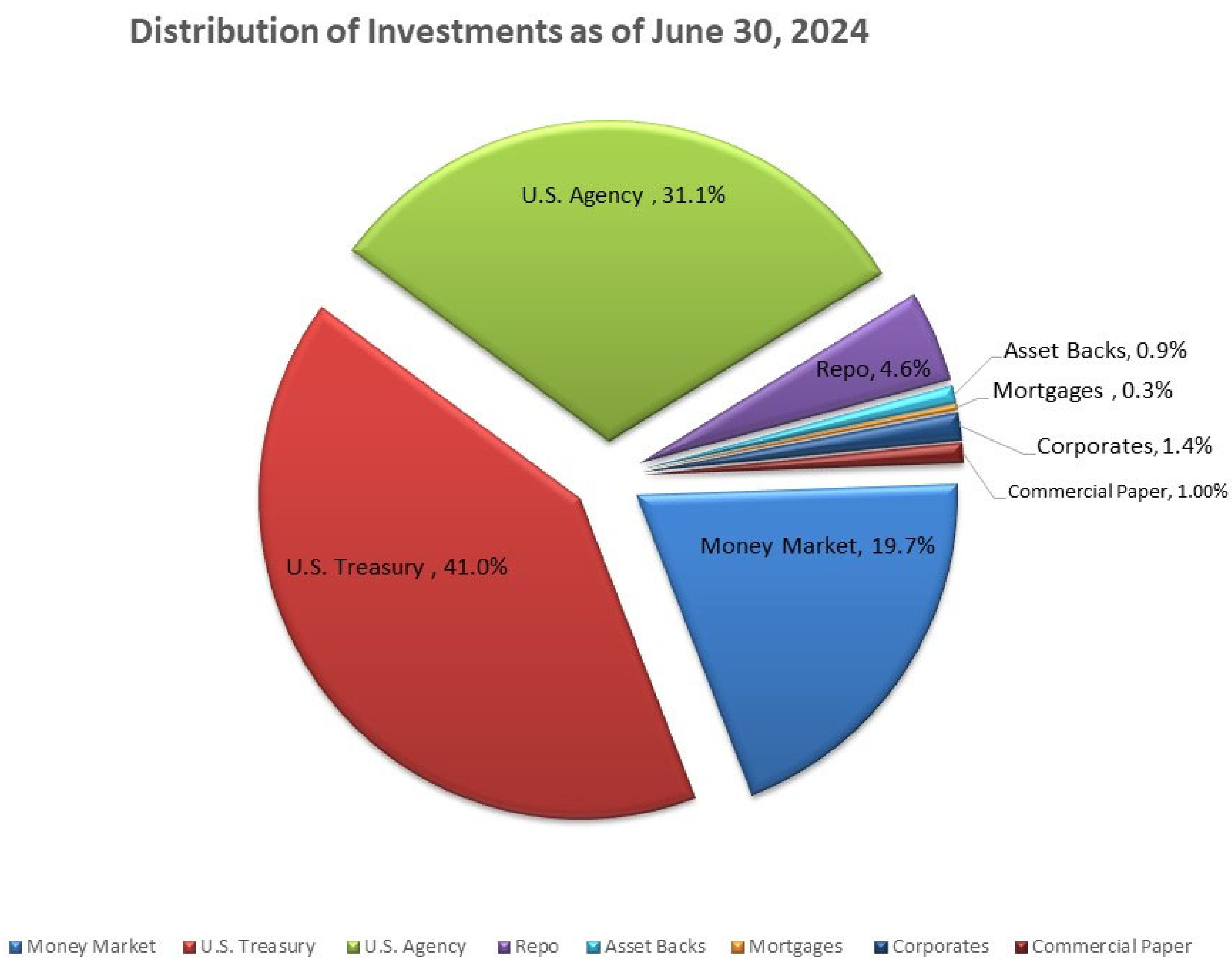
Portfolio Management

For six months ended June 30, 2024, the Commonwealth's investment portfolio was approximately $15.2 billion. The portfolio was invested in U.S. Treasury Securities (41.0%), U.S. Agency Securities (31.1%), Mortgage-Backed Securities (0.3%), Repurchase Agreements (4.6%), Corporate Securities (1.4%), Asset-Backed Securities (0.9%), Commercial Paper (1.0%), and Money Market Securities (19.7%). The portfolio had a market yield of 5.10 percent and an effective duration of 0.39 of a year.

The total portfolio is broken down into three investment pools. The pool balances as of June 30, 2024 were $7.8 billion (Short Term Pool), $2.9 billion (Limited Term Pool), and $4.4 billion (Intermediate Term Pool).



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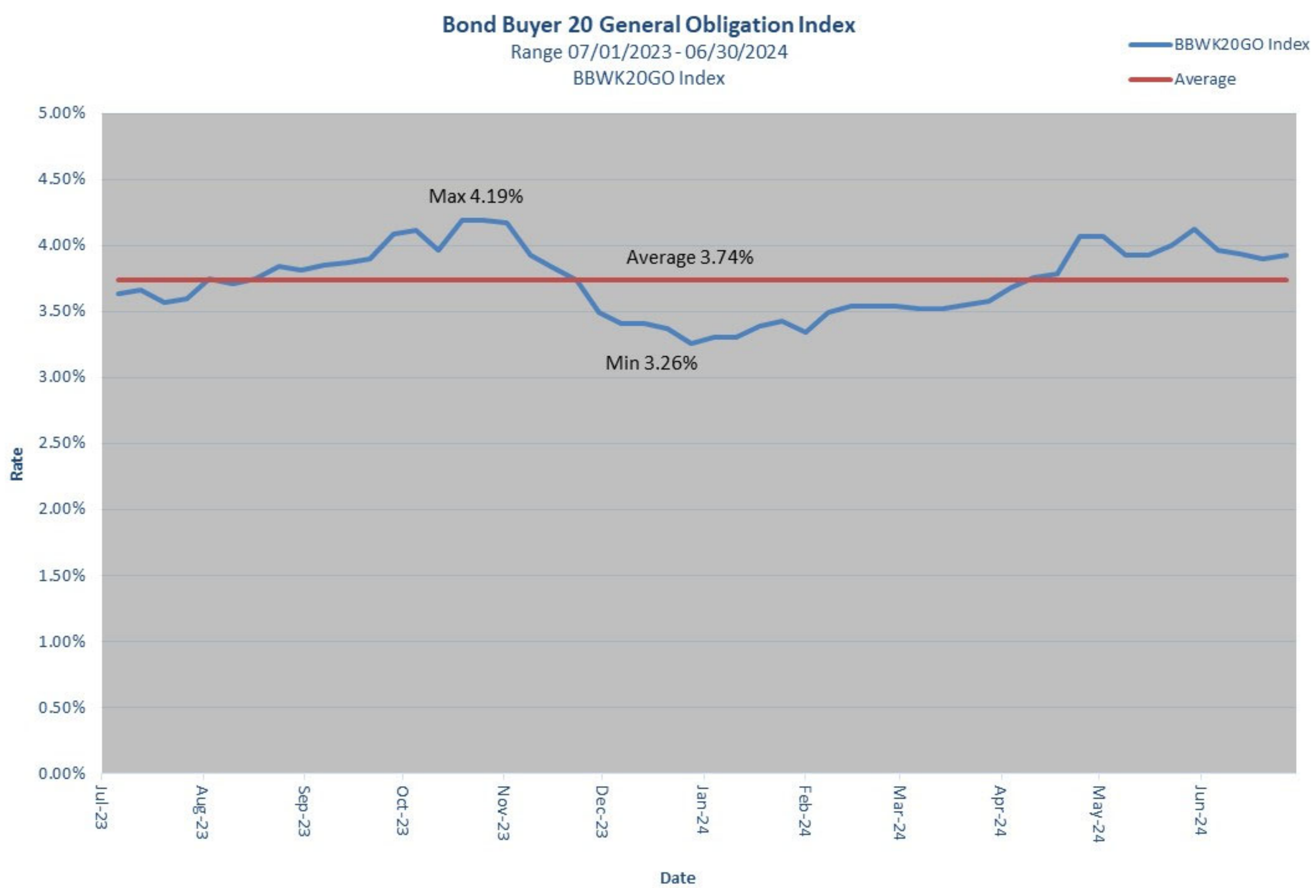
Tax-Exempt Interest Rates and Relationships

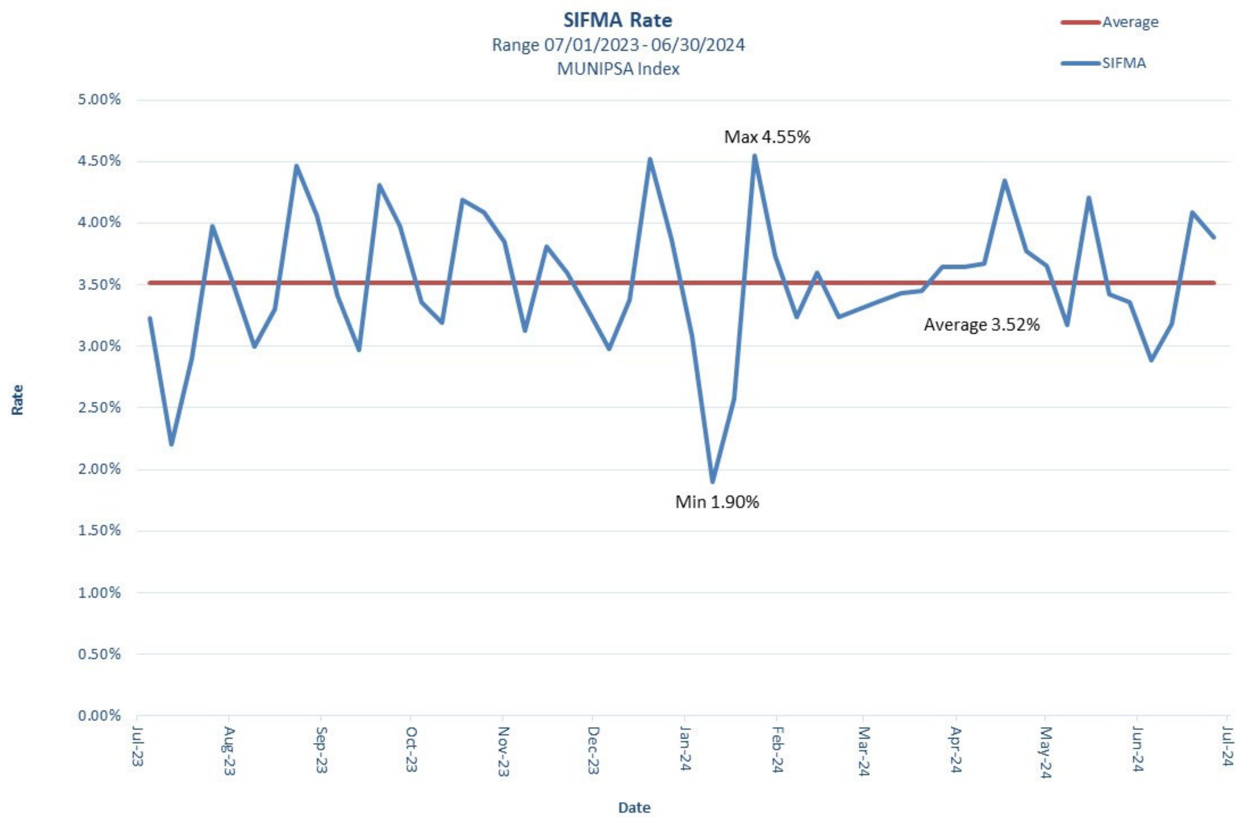
The Bond Buyer 20 General Obligation Index averaged 3.74 percent for FY 2024. The high was 4.19 percent in October 2023 and the low was 3.26 percent in December 2023.

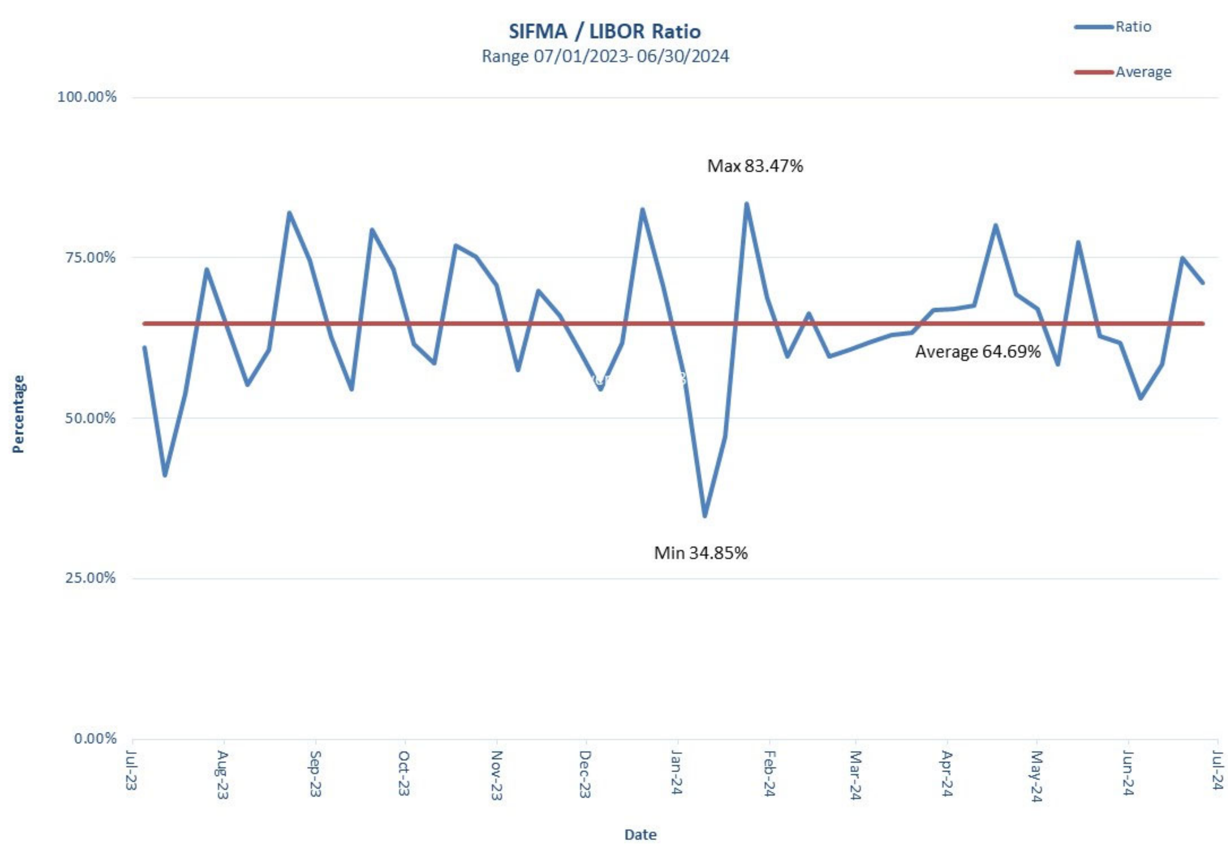
The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index averaged 3.52 percent for FY 2024. The high was 4.55 percent on January 24, 2024, and the low was 1.90 percent on January 10, 2024. The 30-day USD London Interbank Offered Rate (LIBOR*) averaged 5.44 percent for FY 2024. The high was 5.47 percent in December 2023 and the low was 5.29 percent in July 2023. During the year, SIFMA traded at a high of 83.47 percent of the 30-day LIBOR on January 24, 2024, at a low of 34.85 percent on January 10 2024, and at an average of 64.69 percent for the Fiscal Year.

*The 1-, 3- and 6- month synthetic US dollar LIBOR settings are expected to cease after publication on September 30, 2024. This will be the last publication with LIBOR rates reported.



SIFMA & SIFMA/LIBOR Ratio





CREDIT MANAGEMENT

Mid-Year Reflection

Credit

The first half of 2024 saw further progress in reducing the inflation rate closer to the long-range objective of 2 percent. The headline inflation rate ended June at 3.0 percent, the lowest point in the previous twelve months. Despite previous speculation the first rate cut would happen early in 2024, the Federal Reserve chose to keep the federal funds rate stable through the first half of the year. Producer price increases rose during the first half and ended June at 2.6 percent, helping to dispel the notion that inflation had been finally tamed. After a strong finish to the year in 2023, GDP growth slowed in the first half to post gains of 1.4 percent and 2.8 percent. Consumer spending has weakened as real personal income growth dipped during the first half. Perhaps the most worrying sign for the economy is the continued rise of household debt across all categories. As personal income levels slipped, delinquencies of all types have increased, particularly in the auto and credit card sectors. Higher interest rates on record high balances have created a credit crunch that consumers are struggling to manage as economic growth slows.

As total debt continued to increase across all categories and sectors, non-financial corporations were no exception as high borrowing rates failed to prevent total debt from rising to $21.5 trillion in the first half. Moderate GDP growth ensured that the ratio of corporate debt to GDP remained steady. Corporate debt issuance in the first half of the year jumped dramatically, and while the majority was investment grade, there was also a noticeable uptick in high-yield debt issuance as well. Higher borrowing rates continued to bite as corporate bankruptcies rose again, reaching the highest six-month total since 2010. Spreads on investment grade bonds dipped in the middle of the first half and ended June at the tightest point since the first quarter of 2022. The Senior Loan Officer Opinion Survey on Bank Lending Practices, or SLOOS, reported that credit standards either tightened or stayed the same for most categories of consumer and business loans in the first half. Demand for all types of business or consumer loans either stayed the same or weakened.

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 June 2024 is located in Appendix A.

DEBT MANAGEMENT

Authorized but Unissued Debt Summary

The current State Budget includes authorized debt service for over $7.86 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 June 30, 2024, the balance of prior bond authorizations of the General Assembly dating from 2010 through 2024 subject to moral obligation or state intercept totals $7,863.60 million. Of these prior authorizations, $5,807.23 million is General Fund supported, $1,743.87 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 June 30, 2024:

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Fund (millions)	TOTAL (millions)
2010	$ 22.05	$ 17.50	-		$ 39.55
2012	1.72	-	$ 12.50		14.22
2014	5.27	-	-		5.27
2016	16.49	-	-		16.49
2018	156.54	-	-		156.54
2019	33.22	-	-		33.22
2020-2021	346.50	36.65	-		383.15
2022-2024	2,014.46	190.20	-	$ 150.00	2,354.66
2024-2026	3,346.93	1,499.52	-	150.00	4,996.45
Bond Pool Proceeds	(135.95)	-	-	-	(135.95)
TOTAL	$ 5,807.23	$ 1,743.87	$ 12.50	$ 300.00	$ 7,863.60

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.

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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 remaining ratings below were either affirmed or remained unchanged from the previous reporting period.

The Ratings Picture at June 30, 2024:

	Moody's	S & P	Fitch	Kroll
General Obligation Issuer Rating (GO)	Aa3	A+	AA	AA-
General Fund Appropriation Rating (GF)*	A1	A	AA-	A+
Road Fund Appropriation Rating (RF)*	Aa3	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 June 30, 2024 the total available liquid resources available to the General Fund was $15.192 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

Variable Rate Demand Obligation and Fixed Rate Notes ("VRDO" and "FRNs")

Interest rate payments on the borrowed funds are adjusted at specific intervals. Generally, SIFMA is used as an index to set the interest rate plus or minus a set percentage and spread to index.

No VRDO or FRNs 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.

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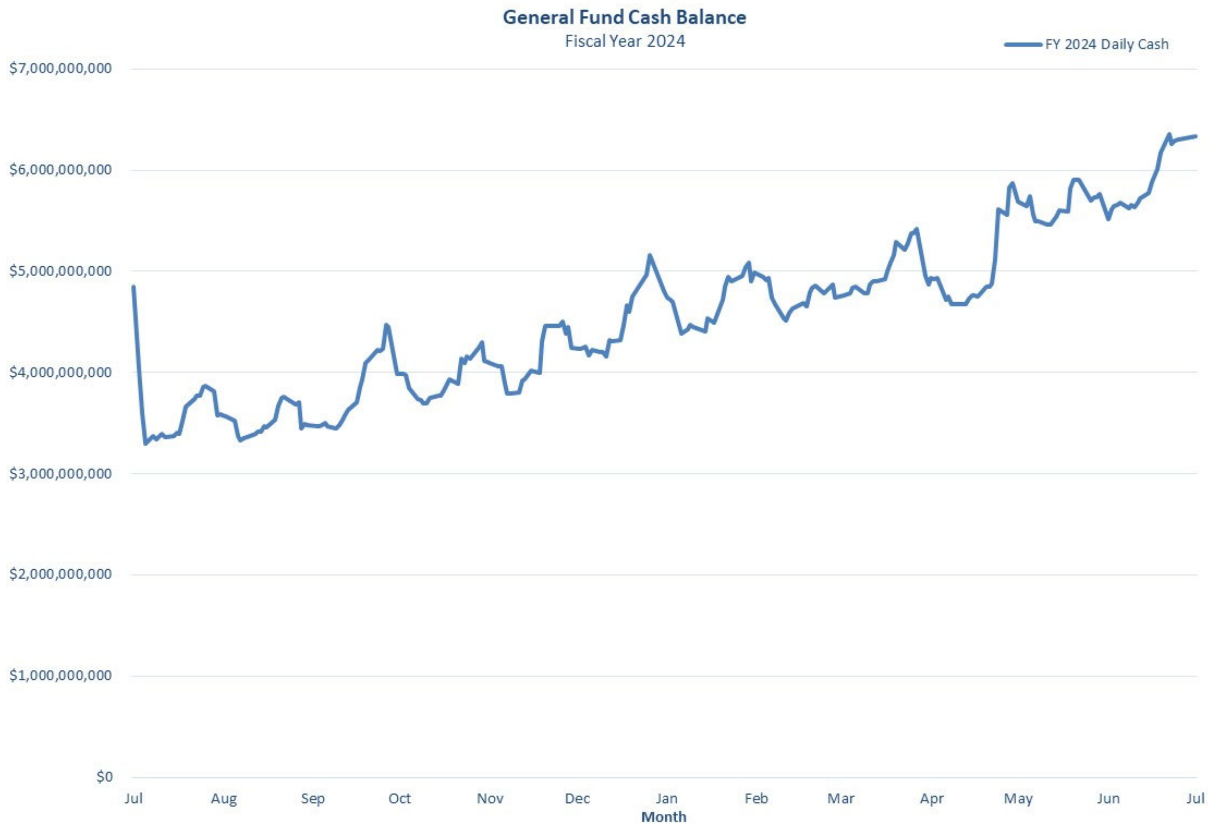

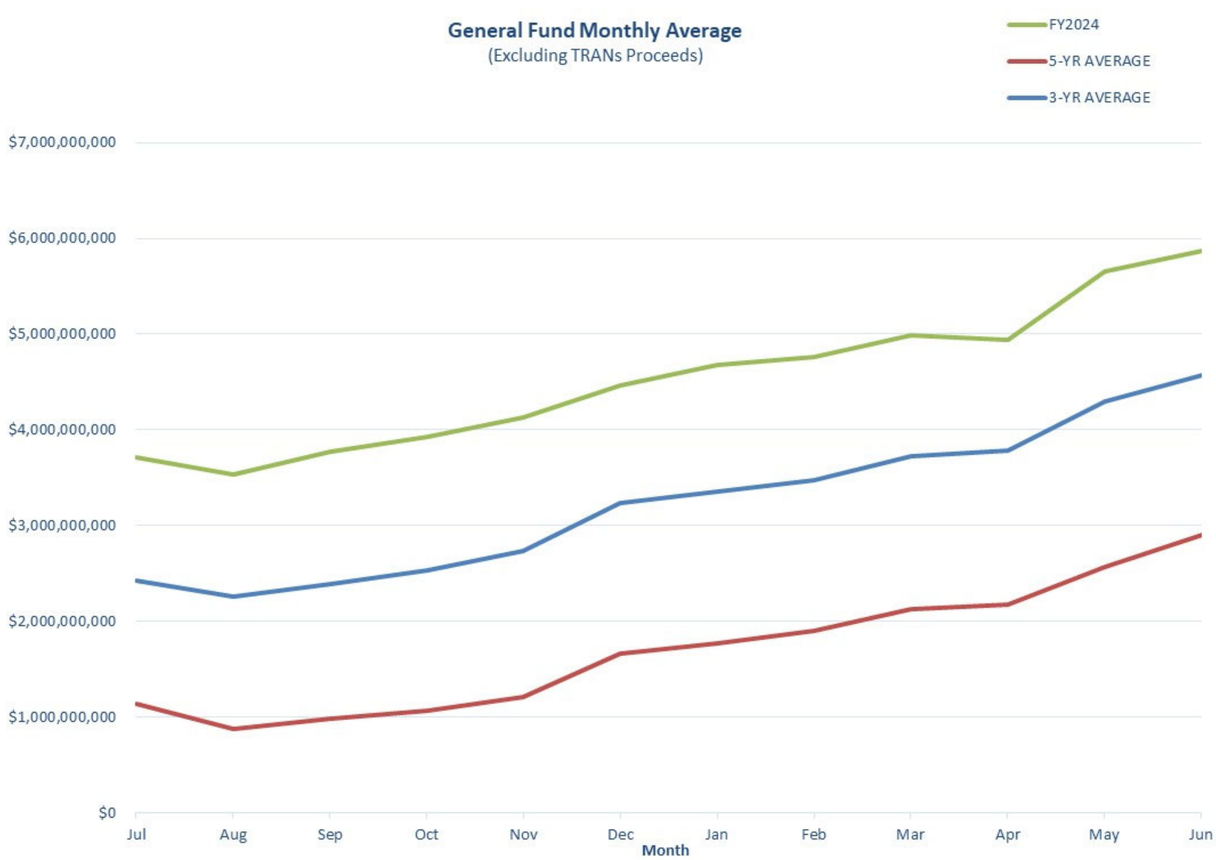

DEBT MANAGEMENT

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 June 30, 2024 had $2.805 billion of bonds outstanding with a weighted average coupon of 4.38 percent and a weighted average life of 6.08 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 $1.459 billion callable portion had a weighted average coupon of 4.42 percent. The SPBC debt structure has 44.45 percent of principal maturing in 5-years and 70.61 percent of principal maturing in 10-years.

The General Fund had a maximum balance of $6.356 billion on June 24, 2024, and a low of $3.298 billion on July 7, 2023. The average and median balances were $4.528 billion and $4.509 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 was $532.35 million for FY 2024. In addition to the Commonwealth General Fund debt service, General Fund debt service of $9.810 million was 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 $11.277 million was 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 129

On March 26, 2024, SPBC closed $10,575,000 of Agency Fund Revenue Refunding Bonds, Project No. 129 on behalf of the Kentucky River Authority ("KRA"). The bonds refunded the outstanding SPBC Agency Fund Revenue Bonds, Project No. 105, which were originally issued for the purpose of renovating Locks 1 and 2, construction of Dam 8, and the construction and renovation of additional public projects.

The SPBC Project No. 129 transaction achieved an All-In True Interest Cost of 2.891% and provided KRA a net present value savings of $1,002,977.

The bonds were sold on a tax-exempt basis via competitive sale with Hilltop Securities Inc. serving as financial advisor and Kutak Rock LLP as bond counsel. The transaction received an A1 rating from Moody's Investors Service, Inc.

SPBC 130

On May 1, 2024, SPBC closed $228,950,000 Revenue Bonds, Project No. 130 Series A ("Series A"), $412,965,000 Revenue Refunding Bonds, Project No. 130 Series B ("Series B") and $42,670,000 Revenue Refunding Bonds, Series C ("Series C") for a total General Fund offering of $684,585,000.

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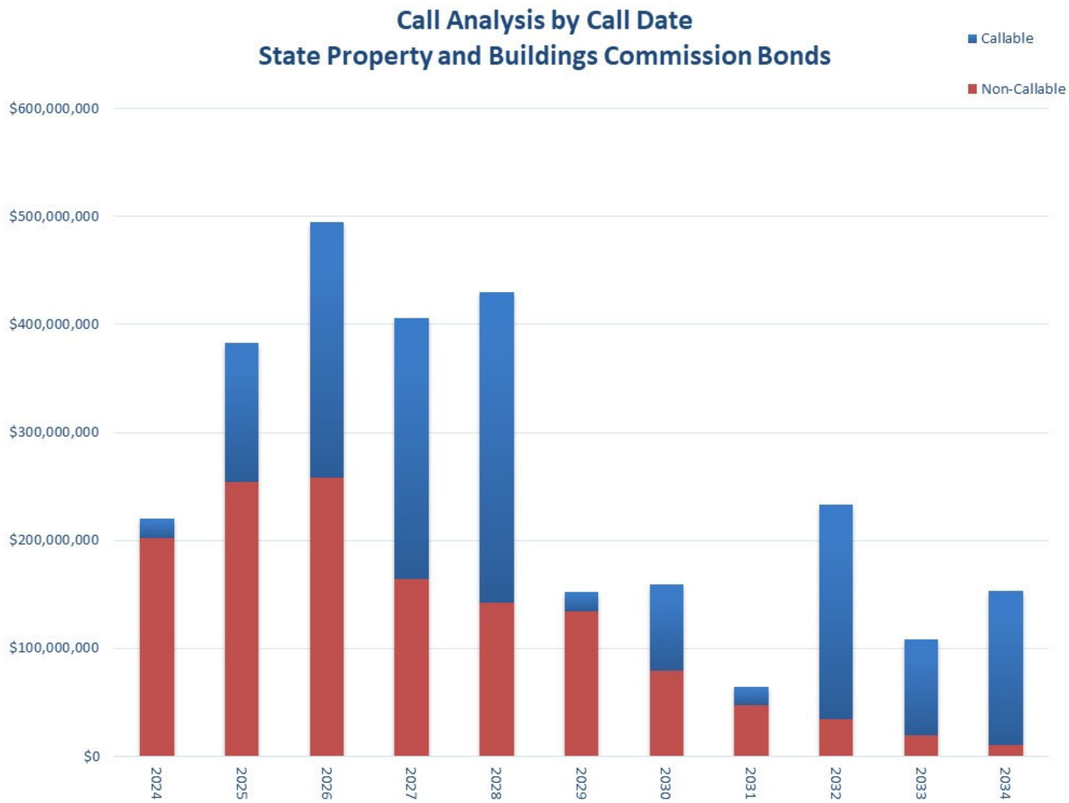
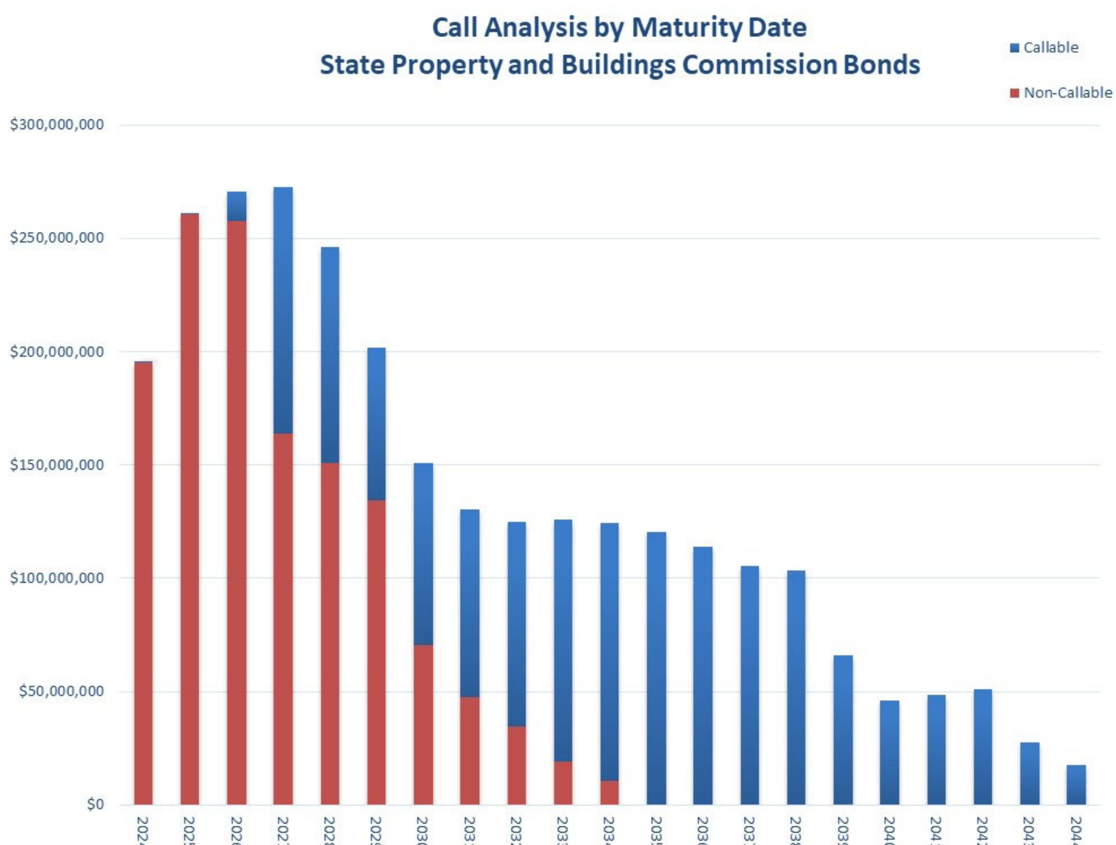
Series A provided permanent financing for $250 million of General Fund supported capital projects authorized over multiple budget sessions of the General Assembly and achieved an All-In True Interest Cost of 3.8709 percent. Series B refunded all outstanding Build America Bonds of the SPBC which achieved an All-In True Interest Cost of 3.2730% and a net present value savings of $2.745 million or 0.6410 percent of refunded par. Series C refunded certain outstanding SPBC bonds through a tender and exchange which achieved an All-In True Interest Cost of 3.3268% and a net present value savings of $2.863 million or 5.6484 percent of refunded par.

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 A1/AA- from Moody's Investor 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 FY 2024 was $324 million compared to $445 million for FY 2023. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 0.96 years as of June 30, 2024. The Road Fund earned $14.6 million on a cash basis for FY 2024 versus $6.3 million for FY 2023.

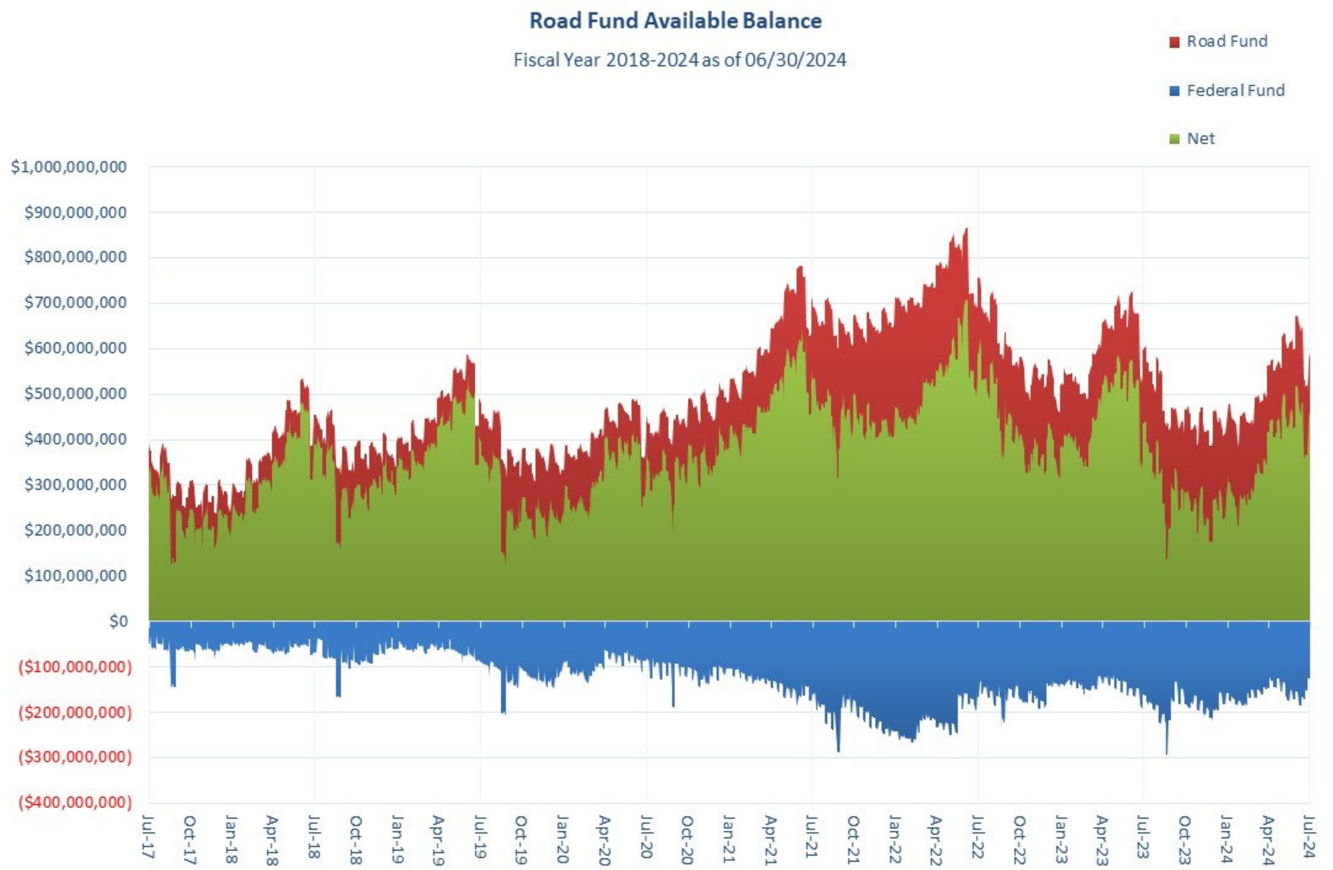
As of June 30, 2024, the Turnpike Authority of Kentucky ("TAK") had $664 million of bonds outstanding with a weighted average coupon of 4.61% and an average life of 4.8 years.

Road Fund debt service paid in FY 2024 was $134.9 million, resulting in a net interest margin (investment income earned year-to-date less debt service paid) of negative $120.3 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.

ALCo 2024 GARVEEs

On May 8, 2024, ALCo priced a $107,040,000 bond transaction which currently refunded $108,350,000 of outstanding Kentucky ALCo, Project Notes 2014 Federal Highway Trust Fund Series A. The transaction achieved an All-In True Interest Cost of 3.467% and a net present value savings of $2,358,269.74 (2.177% savings of refunded par). The bonds were issued tax-exempt via negotiated sale with J.P. Morgan Securities, LLC serving as Financial Advisor and Dinsmore & Shohl LLP serving as Bond Counsel. The bonds achieved a rating of AA from S&P. The transaction closed on June 4, 2024.

DEBT MANAGEMENT



SUMMARY

During the reporting period for the 55th semi-annual report, the FOMC kept the federal funds rate stable after reaching a range of 5.25 percent to 5.50 percent in July 2023. The primary objective of the hiking cycle was achieved as inflation continues to fall closer to the two percent target. Yields on treasury securities and corporate bonds continued to rise in the first half of 2024 and the 2-year and 10-year treasury curve remained inverted. This contributed to a higher cost of capital across the Commonwealth 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 \$7.86 billion with existing debt for SPBC of \$2.81 billion, SFCC \$895.67 million, ALCo GARVEEs \$203.91 million, ALCo bonds \$49.44 million and Turnpike bonds \$664.08 million. The bonds are monitored for potential refunding savings on an advance refunding basis as well as taxable refunding bonds.

APPENDIX

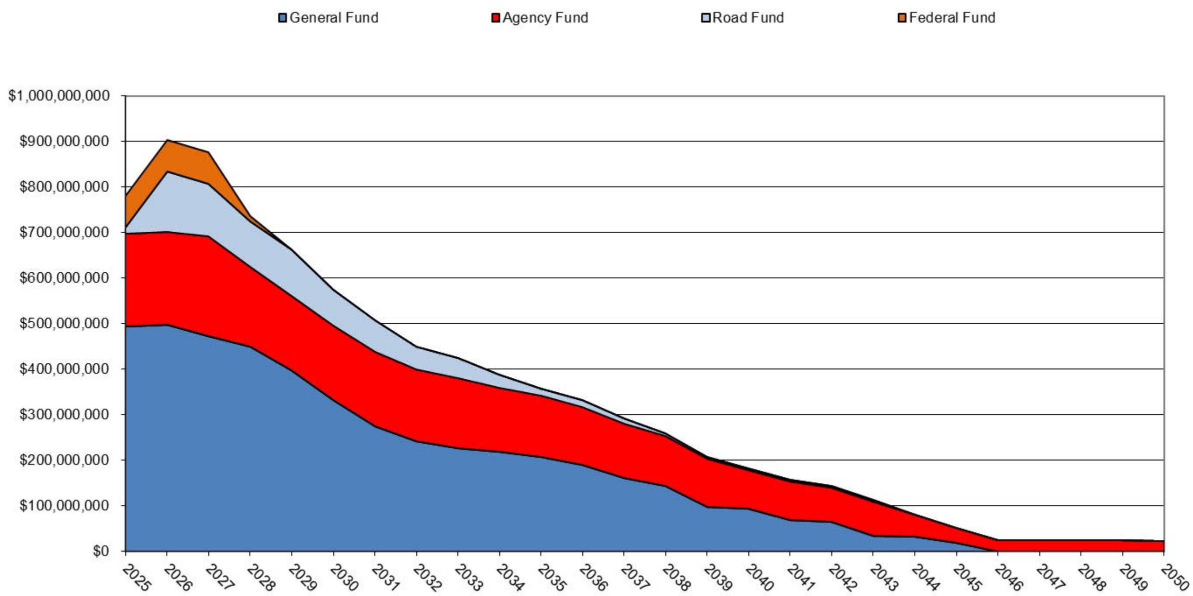
APPENDIX A

Corporate Credits Approved For Purchase
6/18/2024

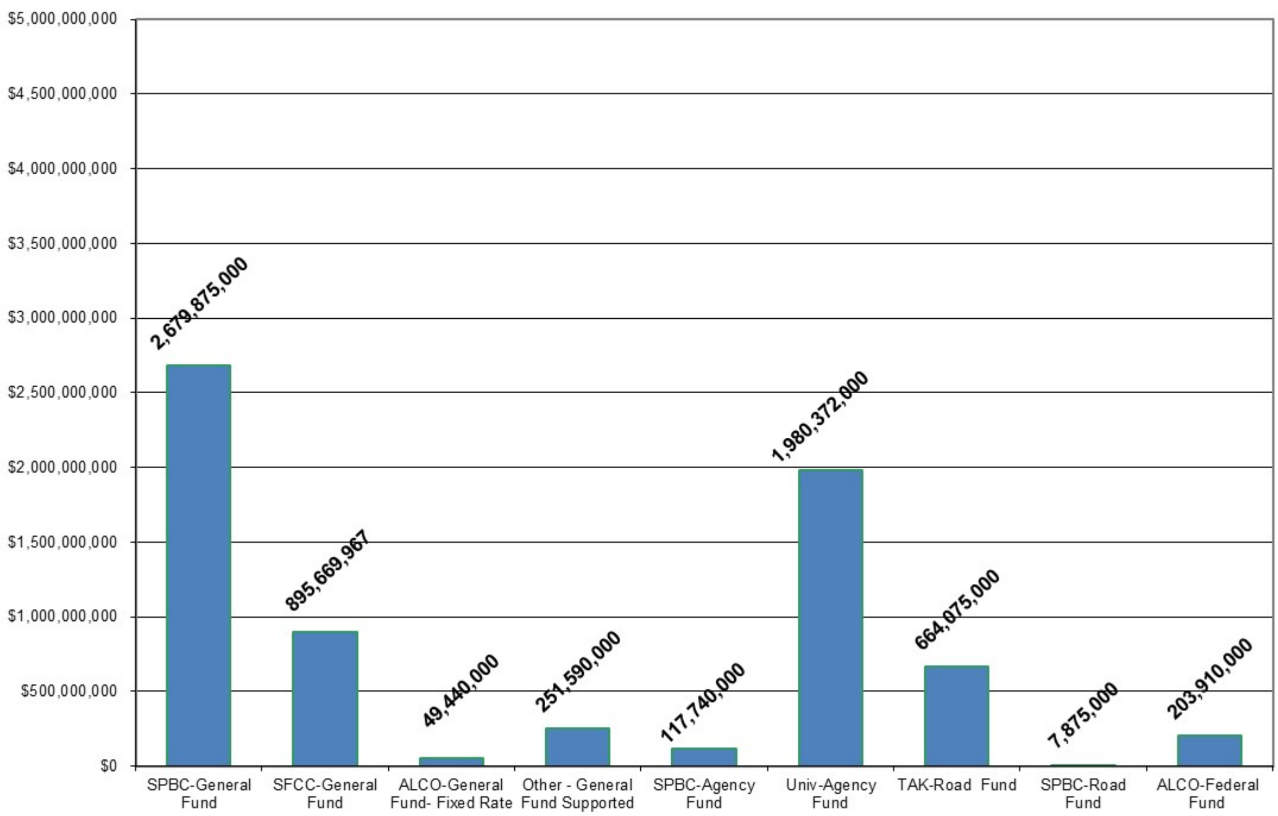
Company Name	Repurchase Agreements	Commercial Paper	Bonds
Apple Inc		Yes	Yes
Bank of America	Yes	No	No
Bank of Montreal	Yes	Yes	Yes
Bank of Nova Scotia	Yes	Yes	Yes
Bank of Tokyo-Mitsubishi UFJ		Yes	Yes
Berkshire Hathaway Inc		Yes	Yes
BNP Paribas Securities Corp	Yes	Yes	Yes
BNY Mellon NA		Yes	Yes
Canadian 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

Appropriation Supported Debt Service
by Fund Source as of 6/30/2024



Appropriation Debt Principal Outstanding
by Fund Source as of 6/30/2024



*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 06/30/2024

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	$49,440,000
	FUND TOTAL	**$113,940,000**			**$49,440,000**
Federal Hwy Trust Fund Project Notes					
2015 1st Series		$106,850,000	10/2015	9/2027	$42,030,000
2023 Refunding Notes FHTF		$54,840,000	6/2023	9/2025	$54,840,000
2024 Refunding Notes FHTF		$107,040,000	6/2024	9/2026	$107,040,000
	FUND TOTAL	**$268,730,000**			**$203,910,000**
ALCo NOTES TOTAL		**$382,670,000**			**$253,350,000**

REPORT PREPARED BY:

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Creating Financial Value for the Commonwealth

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