

NEW ISSUE
DTC Book-Entry Only
See "THE NOTES" herein

FITCH:AA-/F1+
MOODY'S: Aa3/VMIG1
S&P: AA-A-1+
(See "Ratings" herein)

In the opinion of Bond Counsel for the Notes, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX TREATMENT": (i) interest on the Series A Notes is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes; (ii) interest on the Series B Notes is excludable from gross income for Federal income tax purposes, except while held by a Substantial User or Related Person, as defined in the Code; and (iii) interest on the Series C Notes is not excludable from gross income for Federal income tax purposes. Interest on the Notes is also exempt from Kentucky income tax. The Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$110,000,000
KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 1998 AGENCY FUND SERIES

Dated: Date of Delivery

Final Maturity: June 30, 2002

Price of all Notes: 100%

The Kentucky Asset/Liability Commission (the "Commission") is issuing its Project Notes, 1998 Agency Fund Series (the "Notes") to provide interim financing for the Project (defined herein) in anticipation of bonds to be issued by the State Property and Buildings Commission (the "SPBC") and/or certain of the state agencies of the Commonwealth. The Notes are issuable as Series A Notes (which are tax-exempt), Series B Notes (which are tax-exempt, but subject to the alternative minimum tax) and as Series C Notes (which are taxable), and in subseries within each such Series, in a total amount not to exceed \$110,000,000. See "THE NOTES" herein.

The Notes may bear interest in any of four different interest rate modes: the Money Market Rate, the Daily Rate, the Weekly Rate or the Fixed Rate. The interest rate mode of the Notes may be converted to any of the other interest rate modes under the provisions described herein. The Notes will be subject to purchase and redemption under certain circumstances. See "THE NOTES" herein for a description of the interest rate modes and purchase and redemption provisions for the Notes. The remarketing agent for the Notes is Lehman Brothers, New York, New York (the "Remarketing Agent").

Principal of, interest on, and purchase price of the Notes are payable from an irrevocable direct pay letter of credit (the "Credit Facility") issued by

COMMERZBANK AKTIENGESELLSCHAFT
acting by and through its New York branch

as Credit Facility Provider (the "Credit Facility Provider"). The Credit Facility permits the Trustee to draw funds sufficient to pay the principal of, and interest on, the Notes when due and to purchase tendered Notes which are not remarketed, all as more fully described herein. The initial term of the Credit Facility expires on July 5, 2002. The Credit Facility may be replaced by another irrevocable letter of credit, a bond insurance policy or a surety bond, or a standby note purchase agreement or similar liquidity enhancement and support facility. See "THE CREDIT FACILITY" herein.

The Commission is obligated to reimburse the Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Letter of Credit and Reimbursement Agreement dated as of August 1, 1998 (the "Credit Facility Agreement"). The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to Financing/Lease Agreements among the Commission, the SPBC, the Commonwealth of Kentucky Finance and Administration Cabinet (the "Finance and Administration Cabinet" or the "Cabinet") and state agencies of the Commonwealth that are participating in the financing program (such participating state agencies are referred to as the "State Agencies"). The Kentucky General Assembly has appropriated to the State Agencies amounts projected to be sufficient to meet a portion of the interest requirements on the Notes through June 30, 2000, with the balance of the interest requirements on the Notes through June 30, 2000 being funded with proceeds of the Notes. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2000 or in future biennia or that the Governor, in the performance of his or her obligation to balance the Commonwealth of Kentucky's annual budget, will not reduce or eliminate such appropriations. **The Notes are special obligations of the Commission and are payable solely from the revenues and funds specifically pledged by the Commission for the payment of the principal of, premium, if any, and interest on the Notes.** See "SECURITY FOR THE NOTES" and "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENTS" herein.

The Notes are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Brown, Todd & Heyburn PLLC, Louisville, Kentucky, and for the Credit Facility Provider by its counsel, King & Spalding, New York, New York. It is expected that the Notes in definitive form will be available for delivery in New York, New York, on or about September 2, 1998.

Lehman Brothers

September 2, 1998

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the Notes by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale. The information set forth herein has been obtained from the Kentucky Asset/Liability Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Kentucky Asset/Liability Commission since the date hereof.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE NOTES IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE NOTES AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE KENTUCKY ASSET/LIABILITY COMMISSION AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE NOTES THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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EXHIBITS

- Exhibit A - Balance Sheet of Universities and Colleges as of June 30, 1997
- Exhibit B - Debt Information Pertaining to the Commonwealth of Kentucky
- Exhibit C - Form of Bond Counsel Opinion

KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

John McCarty, Secretary of the Finance and Administration Cabinet, Chairperson
Sarah Jane Schaaf, Secretary of the Revenue Cabinet
A.B. Chandler, III, Attorney General
John K. Hamilton, State Treasurer
Crit Luallen, State Budget Director

SECRETARY TO THE COMMISSION

Gordon L. Mullis, Jr. - Executive Director of the Office of
Financial Management and Economic Analysis

TRUSTEE

Bank One, Kentucky, NA
Lexington, Kentucky

CREDIT FACILITY PROVIDER

Commerzbank Aktiengesellschaft
acting by and through its New York branch

REMARKETING AGENT

Lehman Brothers

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITERS' COUNSEL

Brown, Todd & Heyburn PLLC
Louisville, Kentucky

CREDIT FACILITY PROVIDER'S COUNSEL

King & Spalding
New York, New York

SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Notes and does not purport to be comprehensive. Such information is qualified in its entirety by reference to the more detailed information and descriptions appearing elsewhere in this Official Statement and should be read together therewith. The terms used in this Summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. The offering of the Notes is made only by means of the entire Official Statement, including the Exhibits hereto. No person is authorized to make offers to sell, or solicit offers to buy, the Notes unless the entire Official Statement is delivered in connection therewith.

The Commission The Kentucky Asset/Liability Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.

The Offering The Commission is offering its \$110,000,000 Project Notes, 1998 Agency Fund Series (the "Notes"). The Notes are issuable as Series A Notes (defined herein), Series B Notes (defined herein) and as Series C Notes (defined herein), and in subseries of varying amounts within each Series, in a total amount not to exceed \$110,000,000, over a period of time beginning with the date of this Official Statement and ending on or before June 30, 2002. The final maturity of any Notes issued under the Indenture cannot extend beyond June 30, 2002.

Authority The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on August 6, 1998 (the "Resolution"), and the Trust Indenture dated as of August 1, 1998 (the "Indenture"), between the Commission and Bank One, Kentucky, NA, Lexington, Kentucky as trustee (the "Trustee").

Use of Proceeds The proceeds of the Notes will be used by the Commonwealth to (i) provide interim financing for the Project (defined herein) in anticipation of the issuance of Bonds to be issued by the State Property and Buildings Commission (the "SPBC") or by certain of the state agencies of the Commonwealth that are participating in the financing program (such participating state agencies are referred to as the "State Agencies"),

Security

(ii) pay a portion of the interest coming due on the Notes on or before June 30, 2000 and (iii) pay the costs of issuance of the Notes.

The primary source of moneys for payment of principal of and interest on the Notes is an irrevocable direct pay letter of credit (the "Credit Facility") to be issued by Commerzbank Aktiengesellschaft acting by and through its New York branch as Credit Facility Provider (the "Credit Facility Provider"). See "THE CREDIT FACILITY" herein. The Commission is obligated to reimburse the Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Letter of Credit and Reimbursement Agreement dated as of August 1, 1998 (the "Credit Facility Agreement") between the Commission and the Credit Facility Provider. The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to Financing/Lease Agreements entered into under the terms of the Indenture (the "Financing Agreements") among the Commission, the SPBC, the Commonwealth's Finance and Administration Cabinet (the "Finance and Administration Cabinet" or the "Cabinet") a State Agency. The Kentucky General Assembly has appropriated to the State Agencies, amounts projected to be sufficient to meet a portion of the interest requirements on the Notes through June 30, 2000, with the balance of the interest requirements on the Notes through June 30, 2000 being funded with proceeds of the Notes. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

Under the provisions of the Constitution of the Commonwealth, the State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. Notwithstanding the foregoing, the Financing Agreements will be automatically renewed unless written notice of the election by the State Agencies to not so renew is given to the Commission and the SPBC, if applicable, by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission may issue Additional Notes on a parity basis with the Notes under the

circumstances outlined in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENTS" herein.

THE NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED BY THE COMMISSION FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE NOTES.

Features

The Notes may bear interest in any of four different interest rate modes: the Money Market Rate (defined herein), the Daily Rate (defined herein), the Weekly Rate (defined herein) or the Fixed Rate (defined herein). The interest rate mode of the Notes may be converted to any of the other interest rate modes under the provisions described herein. See "THE NOTES" herein for a description of the interest rate provisions for the Notes. The initial remarketing agent for the Notes is Lehman Brothers, New York, New York (the "Remarketing Agent").

The Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Principal of, and interest on, the Notes is payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE NOTES - Book-Entry-Only System" herein.

Specific information (e.g., series designation, dated date, maturity date and interest rate) with respect to particular Notes issued under the Indenture and purchased by a Beneficial Owner (defined herein) will be set forth in a trade confirmation issued to the Beneficial Owner by the DTC Participant (defined herein) with which such Beneficial Owner has an account.

Purchase and Redemption

Notes bearing interest at the Money Market Rate, the Daily Rate and the Weekly Rate may be subject to mandatory purchase prior to maturity under some circumstances. Notes bearing interest at the Daily Rate and the Weekly Rate may be subject to optional tender and purchase under some circumstances, but Notes bearing interest at the Money Market Rate or the Fixed Rate will not be subject to

optional tender and purchase. See "THE NOTES - Purchase of Notes" herein. Notes bearing interest at the Money Market Rate will not be subject to optional redemption prior to maturity, but Notes bearing interest at the Daily Rate or Weekly Rate may, under some circumstances, be subject to optional redemption prior to maturity. Notes bearing interest at the Fixed Rate will only be subject to optional redemption under the circumstances as may be described in a supplement to this Official Statement. See "THE NOTES - Redemption" herein.

Tax Status

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series A Notes and Series B Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the Notes is also of the opinion that interest on the Series A Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" herein, and Exhibit C.

Continuing Disclosure

Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, generally prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually certain information, including notice of various events, if material. To enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

General

The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management and Economic Analysis.

Information

Information regarding the Notes is available by contacting the Office of Financial Management and Economic Analysis, 702 Capitol

Avenue, Suite 261, Frankfort, Kentucky 40601, (502) 564-2924, or, during the initial offering period, the Underwriters, Lehman Brothers, 3 World Financial Center, New York, New York 10285, (212) 526-2441.

OFFICIAL STATEMENT

\$110,000,000

KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 1998 AGENCY FUND SERIES

INTRODUCTION

This Official Statement (this "Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of \$110,000,000 aggregate principal amount of its Project Notes, 1998 Agency Fund Series (the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on August 6, 1998 (the "Resolution"), and the Trust Indenture dated as of August 1, 1998 (the "Indenture"), between the Commission and Bank One, Kentucky, NA, Lexington, Kentucky, as trustee (the "Trustee").

The proceeds of the Notes will be used by certain of the state agencies of the Commonwealth of Kentucky (the "Commonwealth") that are participating in the financing program (such participating state agencies are referred to as the "State Agencies") to (i) provide interim financing for the Project (defined herein) in anticipation of Bonds to be issued by the State Property and Buildings Commission (the "SPBC") or by the State Agencies, (ii) pay a portion of the interest coming due on the Notes on or before June 30, 2000 and (iii) pay the costs of issuance of the Notes.

The Notes are payable as described under the caption "THE NOTES" herein. The Notes are secured by an irrevocable direct pay letter of credit (see "THE CREDIT FACILITY") and by the sources discussed under the caption "SECURITY FOR THE NOTES" herein.

The summaries and references to the Act, the Indenture, the Financing Agreements, the Credit Facility and the Notes included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management and Economic Analysis ("OFMEA"), 702 Capitol Avenue, Room 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of Lehman Brothers, 3 World Financial Center, New York, New York 10285, (212) 526-2441.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them under the caption "DEFINITIONS" herein, in the Indenture or in the Financing Agreements.

THE NOTES

General

The Notes will be offered incrementally in tranches of principal over a period of time beginning with the date of this Official Statement and ending on or before June 30, 2002, in a total amount not to exceed \$110,000,000. The size and series description of each offering will be determined by the expected expenditures toward the Project. The Notes are issuable as Series A Notes (defined below), Series B Notes (defined below) and as Series C Notes (defined below), and in subseries of varying amounts within each Series. "Series A Notes" are those Notes which are not Series B Notes or Series C Notes. "Series B Notes" are those Notes which are "private activity bonds" under Section 141 of the Code except Notes which are "qualified 501(c)(3) bonds" under Section 145 of the Code. "Series C Notes" are those Notes which bear interest that is not excludable from "gross income" under the Code.

The Notes may bear interest in any of the following interest rate modes: the Money Market Rate (defined below), the Daily Rate (defined below), the Weekly Rate (defined below), or the Fixed Rate (defined below) (each such interest rate mode, an "Interest Rate Mode"); provided that the Notes outstanding at any one time must bear interest in (i) a single Interest Rate Mode or (ii) if the Interest Rate Mode is the Fixed Rate, then one other additional Interest Rate Mode. Subject to the foregoing limitation, the applicable Interest Rate Mode with respect to outstanding Notes may be converted to another Interest Rate Mode. If an Interest Rate Mode with respect to the Notes is converted to another Interest Rate Mode, the Notes will be subject to mandatory tender for purchase as described under "THE NOTES - Purchase of Notes." Interest on the Notes shall be paid on each applicable Interest Payment Date (defined below). In no event shall the interest rate on the Notes exceed the Maximum Interest Rate of 12%.

As each tranche of Notes is issued under the Indenture, the Commission is required to execute a Certificate of Award (as defined herein) setting forth certain information regarding the Notes being issued. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENTS - Delivery of the Notes and Additional Notes" for a description of the information that must be contained in the Certificate of Award. A copy of the Certificate of Award with respect to any tranche of Notes may be obtained from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601, (502) 564-2924.

Interest Rate Modes

Money Market Rate Mode. Notes that bear interest in the Money Market Rate Mode ("Money Market Rate Mode") are those Notes that bear interest that is determined at the commencement of a period of not less than one day to not more than 180 days, that will be established by the Remarketing Agent (a "Money Market Period"). The interest rate for Notes in the Money Market Rate Mode and the Money Market Period will be determined by the

Remarketing Agent no later than 1:00 p.m. (New York City time), on the first day of the Money Market Period (an "Interest Rate Determination Date" with respect to Money Market Rate Notes). Notwithstanding the foregoing, any Series of Notes bearing interest at a Money Market Rate (defined below) purchased on behalf of the Commission and remaining unsold by the Remarketing Agent as of the close of business on the first day of a Money Market Period for such Series of Notes are required to have a Money Market Period of one day or, if that Money Market Period would not end on a day before a Business Day, a Money Market Period of the shortest possible duration greater than one day and ending on a day before a Business Day. The Remarketing Agent is required to make the Money Market Rate available by telephone to any Holder requesting such rate after 5 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Money Market Rate Mode.

The "Money Market Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Money Market Rate at a price equal to the principal amount of such Notes.

Interest on Notes that bear interest in the Money Market Rate Mode will be payable on the first Business Day after the end of the Money Market Period (an "Interest Payment Date" with respect to Money Market Rate Notes) unless the Money Market Period ends on a date that is later than the first Business Day of the next month, in which case interest will be payable on the first Business Day of each month and the first Business Day after the end of the Money Market Period. All computations of interest on any Notes that bear interest in the Money Market Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

Daily Rate Mode. Notes that bear interest in the Daily Rate Mode (the "Daily Rate Mode") are those Notes that bear interest that is adjusted on a daily basis. The interest rate for Notes in the Daily Rate Mode for a specific Daily Rate Period (defined below) will be established by the Remarketing Agent no later than 10:30 a.m. (New York City time) on each Interest Rate Determination Date (defined below) for so long as such Series of Notes are to bear interest in the Daily Rate Mode. The "Daily Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Daily Rate at a price equal to the principal amount of such Notes. The Remarketing Agent is required to make the Daily Rate available by telephone to any Holder requesting such rate after 11:30 a.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Daily Rate Mode.

The "Daily Rate Period" means the calendar day on which a Daily Rate is established. The Daily Rate for any non-Business Day shall be the Daily Rate for the last day on which the Daily Rate was set. The "Interest Rate Determination Date" means, with respect to Notes in the

Daily Rate Mode, the Business Day such Series of Notes commence to bear interest at the Daily Rate.

Interest on Notes in the Daily Rate Mode will be payable on the first Business Day of each month (an "Interest Payment Date" with respect to Daily Rate Notes). All computations of interest on any Notes that bear interest in the Daily Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

Weekly Rate Mode. Notes that bear interest in the Weekly Rate Mode (the "Weekly Rate Mode") are those Notes that bear interest that is adjusted on a weekly basis. The interest rate for Notes in the Weekly Rate Mode will be established by the Remarketing Agent no later than 4:30 p.m. (New York City time) on each Tuesday (or, if such Tuesday is not a Business Day, then the next preceding Business Day) (an "Interest Rate Determination Date" with respect to Weekly Rate Notes) for so long as such Series of Notes are to bear interest in the Weekly Rate Mode. Each Weekly Rate (defined below) will apply to (i) the period beginning on the Wednesday of the week in which such Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on such Series of Notes or (ii) the period beginning on the effective date of a change to a Weekly Rate and ending on the next Tuesday. The Remarketing Agent is required to make the Weekly Rate available by telephone to any Holder requesting such rate after 5 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Weekly Rate Mode.

The "Weekly Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Weekly Rate at a price equal to the principal amount of such Notes.

Interest on Notes in the Weekly Rate Mode will be payable on the first Business Day of each month (an "Interest Payment Date" with respect to Weekly Rate Notes). All computations of interest on any Notes in the Weekly Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

Fixed Rate Mode. Notes in the Fixed Rate Mode (the "Fixed Rate Mode") are those Notes that bear interest at a fixed interest rate. The interest rate for Notes in the Fixed Rate Mode for a specific Fixed Rate Period (defined below) will be established by the Remarketing Agent on the Interest Rate Determination Date (defined below) for so long as such Series of Notes are to bear interest in the Fixed Rate Mode. The "Fixed Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at a fixed rate to maturity at a price equal to the principal amount of such Notes. The Remarketing Agent is required to make the Fixed Rate available by telephone to any Holder requesting such

rate after 5 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Fixed Rate Mode.

The "Fixed Rate Period" means the period commencing on the Fixed Rate Commencement Date and ending on the maturity date for the Notes in the Fixed Rate Mode. "Fixed Rate Commencement Date" means the first Business Day of a month for any Series of Notes on which the interest rate is being converted to the Fixed Rate. The "Interest Rate Determination Date" means, with respect to Notes in the Fixed Rate Mode, the fifth Business Day preceding the Fixed Rate Commencement Date.

Interest on Notes in the Fixed Rate Mode will be payable at maturity or semiannually on dates set forth in the Certificate of Award (as defined herein) for such Series of Notes (an "Interest Payment Date" with respect to Fixed Rate Notes). All computations of interest on any Notes in the Fixed Rate Mode shall be based on a 360-day year of twelve 30-day months.

Once the Interest Rate Mode with respect to Notes has been converted to the Fixed Rate Mode, the Interest Rate Mode for such Notes cannot be converted to another Interest Rate Mode.

Interest Payment Dates. In addition to the Interest Payment Dates specified above, the final maturity date of the Notes, the date of redemption of any Notes and the date any Notes are converted from their existing Interest Rate Mode to a different Interest Rate Mode shall be an Interest Payment Date.

Failure to Determine Interest Rate

In the event (a) the Remarketing Agent has been removed or has resigned and no successor has been appointed or the Remarketing Agent has failed to announce the appropriate interest rate (or the Money Market Period, as appropriate) by the time required under the Indenture for whatever reason, or (b) the method of determining the interest rate(s) with respect to such Notes is held to be unenforceable by a court of law of competent jurisdiction, or (c) the appropriate interest rate cannot be determined for whatever reason, the interest rate or rates for the next succeeding Interest Rate Period will be as follows:

For Notes bearing interest at the Weekly Rate, (a) if Remarketing Agent does not determine an Interest Rate for one Weekly Rate Period, the interest rate borne by such Notes during the next preceding Weekly Rate Period or (b) if the next preceding Interest Rate Period is not a Weekly Rate Period or if Remarketing Agent does not determine an Interest Rate for two or more consecutive Weekly Rate Periods, that Interest Rate for each Weekly Rate Period will be equal to 65% of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "Aa" by Moody's or the equivalent of such rating by Moody's or "AA" by S&P or the equivalent of such rating by S&P as made available on a discount basis or otherwise by the Federal Reserve Bank of

New York on or before the day next preceding the first day of a Weekly Rate Period for which an Interest Rate has not been determined, but effective as of such first day.

For Notes bearing interest at the Daily Rate, (a) if Remarketing Agent does not determine an Interest Rate for one Daily Rate Period, the interest rate borne by such Notes during the next preceding Daily Rate Period or (b) if Remarketing Agent does not determine an Interest Rate for five or more consecutive Business Days, on the sixth Business Day and each day thereafter and until the Remarketing Agent resumes determining the Daily Rate, the Daily Rate will be equal to 60% of the 30-day dealer taxable commercial paper rate announced on such Business Day for the next preceding Business Day by the Federal Reserve Bank of New York.

For Notes bearing interest at the Money Market Rate, that annual rate of interest equal to 60% of the interest rate for 90-day United States Treasury Bills based on the average per annum discount rate of such Treasury Bills sold at the most recent Treasury auction within the preceding 30 days. If there has not been such an auction, the interest rate for Notes bearing interest at the Money Market Rate will be the same as the rate for such Notes during the preceding Money Market Period or, if there is no preceding Money Market Period, the next preceding Interest Rate Period.

In the event the Remarketing Agent no longer establishes, or fails to establish when required, an Interest Rate Period for Notes bearing interest at the Money Market Rate, the Interest Rate Period and all succeeding Interest Rate Periods for such Notes shall be that Interest Rate Period which results in each succeeding Purchase Date for such Notes being the first Business Day of the next calendar month until such time as the Remarketing Agent again makes such determination establishes an Interest Rate Period for such Notes.

The alternate interest rates (or Money Market Periods) set forth above shall apply until such time as the Remarketing Agent again determines the applicable Interest Rate (or Money Market Period) or until there is delivered a Counsel's Opinion to the effect that the method of determining such rate or period is enforceable.

Notwithstanding the foregoing, Notes of any Series pledged to, or owned by a Liquidity Provider or Credit Facility Provider shall bear interest at the rate set forth in the agreement providing for the issuance of such Liquidity Facility or Credit Facility.

Conversion to Other Interest Rate Modes

The Commission, at its option, may cause the interest rate on any Series of Notes bearing interest in the Money Market Rate Mode, the Daily Rate Mode or the Weekly Rate Mode to be converted to a different Interest Rate Mode, upon compliance with the conditions set forth in the Indenture.

To effect a conversion of an Interest Rate Mode, the Commission is required to provide the Trustee and the Remarketing Agent with a written direction, not less than 20 days prior to an Interest Rate Adjustment Date (defined below), to convert the interest rate on such Series of Notes to an Interest Rate Mode other than the Interest Rate Mode then in effect. "Interest Rate Adjustment Date" means any date on which the interest rate on a Series of Notes may be adjusted, either as the result of the conversion of the interest rate on a Series of Notes to a different Interest Rate Mode, or by adjustment of the interest rate on a Series of Notes within the applicable Interest Rate Mode. An "Interest Rate Adjustment Date" shall be each Business Day with respect to a Series of Notes bearing interest at the Daily Rate; each Wednesday with respect to a Series of Notes bearing interest at the Weekly Rate; the Fixed Rate Commencement Date with respect to a Series of Notes to bear interest at the Fixed Rate and the first day of each Money Market Period with respect to any Series of Notes bearing interest at the Money Market Rate. Except when converting from the Weekly Rate Mode, no Interest Rate Adjustment Date will be earlier than the day after the end of the last Interest Rate Period for the Interest Rate Mode in effect on the date of such direction from the Commission, the end of such Interest Rate Period to be determined as if such direction had not been given.

The direction to convert the interest rate on a Series of Notes to a different Interest Rate Mode must be accompanied by (a) in the case of Series A Notes or Series B Notes, a Counsel's Opinion delivered to the Trustee and the Remarketing Agent stating that such conversion to the specified Interest Rate Mode will not adversely affect the exclusion of the interest on such Series of Notes from gross income for federal income tax purposes, (b) a written certificate of the Commission setting forth the applicable Interest Payment Dates for any Fixed Rate Notes and stating that the amount to be drawn under any Liquidity Facility or Credit Facility relating to such Notes is not less than the principal amount of the Notes outstanding, plus any amount equal to the Maximum Rate on such principal amount (based on a year of 360 days) for a period equal to the Applicable Interest Period (defined below), and that the Expiration Date is no earlier than 15 days after the end of the new Interest Rate Period. "Applicable Interest Period" means (i) for Notes bearing interest at the Daily Rate or the Weekly Rate, 49 days, (ii) for Notes bearing interest at the Money Market Rate, the number of days in such Money Market Period, plus 15 days and (iii) for Notes bearing interest at the Fixed Rate, 195 days. Notwithstanding the foregoing, no conversion will be effective (i) if the Commission makes an election on, or prior to, the day immediately succeeding any Interest Rate Determination Date not to proceed with the proposed conversion or (ii) if the Trustee has not received on the effective date of such conversion, a Counsel Opinion to the same effect as described in clause (a) of this paragraph above. In either such event, the Interest Rate Mode for the affected Series of Notes will remain as the Interest Rate Mode then in effect for such Series of Notes without regard to any proposed conversion. Such Series of Notes will continue to be subject to tender for purchase on the scheduled effective date of the proposed conversion without regard to the failure of such proposed conversion (see "THE NOTES - Purchase of Notes"). If the Trustee has sent any notice to Holders regarding the proposed conversion then in the event of a failure of such conversion, as specified above, the Trustee is required to promptly notify all Holders of such

failure, of the reason for such failure, and of the continuation of the Interest Rate Mode then in effect.

If the interest rate on a Series of Notes is converted to a different Interest Rate Mode, at least 15 days prior to the Interest Rate Adjustment Date, the Trustee is required to use its best efforts to notify the Holders of all outstanding Notes of such Series by Electronic Means, immediately confirmed by first class mail to all Holders, that upon such Interest Rate Adjustment Date the Notes of such Series shall be converted to a different Interest Rate Mode, which Interest Rate Mode shall be specified, and that all Notes of such Series are subject to mandatory tender pursuant to the provisions of the Indenture.

The interest rate on any Series of Notes bearing interest at a Fixed Rate may not be converted to another Interest Rate Mode.

Purchase of Notes

Tender and Purchase of Notes in Book-Entry-Only Form. The Notes are initially issued in book-entry-only form. For so long the book-entry-only system is in place, a Beneficial Owner (defined herein) shall give notice to elect to have its ownership interest in the Notes ("Beneficial Ownership Interests") tendered or purchased, through its DTC Participant (defined herein), to the Paying Agent, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant (defined herein) to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Paying Agent, as appropriate. The requirement for physical delivery of the Notes for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by DTC Participants on DTC's records. See "THE NOTES - Book-Entry-Only System" herein.

SO LONG AS THE NOTES ARE HELD BY DTC OR ITS NOMINEE, CEDE & CO., IN BOOK-ENTRY ONLY FORM, THE PAYING AGENT WILL RECOGNIZE AND TREAT DTC OR ITS NOMINEE, CEDE & CO., AS THE HOLDER OF THE NOTES FOR ALL PURPOSES UNDER THE INDENTURE (SEE "THE NOTES - BOOK-ENTRY ONLY SYSTEM" HEREIN). CONSEQUENTLY, EACH BENEFICIAL OWNER OF A BOND IS RESPONSIBLE FOR OBSERVING THE PROCEDURES OF THE DTC PARTICIPANT WHICH MAINTAINS A RECORD OF SUCH INTEREST IN THE NOTES IN ORDER TO PERMIT THE TIMELY OBSERVANCE OF THE TENDER PROCESS WITH RESPECT TO AN INTEREST IN THE NOTES OTHER THAN A BENEFICIAL OWNERSHIP INTEREST ABOVE. EACH BENEFICIAL OWNER IS RESPONSIBLE FOR OBSERVING THE PROCEDURES OF ITS DTC PARTICIPANT AND THE PAYING AGENT, AS SET FORTH IN THE INDENTURE, IN ORDER TO PERMIT THE TIMELY OBSERVANCE OF THE TENDER PROCESS WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS.

Mandatory Tender and Purchase of Notes in the Money Market Rate Mode on Interest Payment Date. All Notes in the Money Market Rate Mode are subject to mandatory

tender by the Holders thereof for purchase on the Interest Payment Date for such Notes (a "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is not required to give notice of such mandatory tender. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 11:00 a.m. (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

Mandatory Tender and Purchase of Notes Upon Conversion of Interest Rate Mode.

If at any time the Commission converts the Interest Rate Mode on a Series of Notes to a different Interest Rate Mode in accordance with the provisions of the Indenture described above (see "THE NOTES - Conversion to Other Interest Rate Modes"), all Notes of such Series shall be subject to mandatory tender by the Holders thereof for purchase on the Interest Rate Adjustment Date upon which such conversion is effective (a "Mandatory Purchase Date" with respect to such Notes), at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 15 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 11 a.m. (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

Mandatory Tender and Purchase of Notes in Regard to Replacement of Liquidity Facility or Credit Facility. In the event that a Liquidity Facility or Credit Facility is to be substituted for another Liquidity Facility or Credit Facility on a certain date (the "Substitution Date"), the Daily Rate Notes and Weekly Rate Notes of any Series secured by such Liquidity Facility or Credit Facility are subject to mandatory purchase on the date five Business Days prior to the Substitution Date (the "Substitution Tender Date" or the "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Substitution Tender Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 30 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 11 a.m. (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

No Optional Tender of Notes in the Money Market Rate Mode or the Fixed Rate Mode. The Holders of any Notes that bear interest in the Money Market Rate Mode or the Fixed Rate Mode shall not have the option to tender their Notes for purchase.

Optional Tender of Notes in the Daily Rate Mode. The Holders of Notes that bear interest in the Daily Rate Mode shall have the right to tender their Notes (or portions thereof) for purchase on any Business Day (a "Purchase Date" with respect to such Notes) at a price equal to the principal amount thereof plus accrued interest, upon irrevocable written or telephonic notice to the Remarketing Agent, promptly confirmed in writing to the Trustee not later than 10:30 a.m. (New York City time) on any Business Day (which may be the date the notice is delivered). The Holders of Notes in the Daily Rate Mode tendered for purchase are required to deliver such Notes (with all necessary endorsements) at or before 12:00 noon (New York City time) on the Purchase Date at the office of the Paying Agent. The Paying Agent is required to pay the purchase price of tendered Notes to the selling Holders thereof by wire transfer not later than the close of business on the date of surrender of such Notes to the Paying Agent properly endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent.

Optional Tender of Notes in the Weekly Rate Mode. The Holders of Notes that bear interest in the Weekly Rate Mode have the right to tender their Notes (or portions thereof) for purchase on any Business Day (a "Purchase Date" with respect to such Notes) at a price equal to the principal amount thereof plus accrued interest, upon irrevocable written or telephonic notice to the Remarketing Agent, promptly confirmed in writing to the Trustee not later than 5:00 p.m. (New York City time) on any Business Day which is at least seven days prior to the Purchase Date. The Holders of Notes in the Weekly Rate Mode tendered for purchase are required to deliver such Notes (with all necessary endorsements) at or before 10:00 a.m. (New York City time) on the Purchase Date at the office of the Paying Agent. The Paying Agent is required to pay the purchase price of tendered Notes to the selling Holders thereof by wire transfer not later than the close of business on the later of (i) the Purchase Date for such Notes or (ii) the date of surrender of such Notes to the Paying Agent properly endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent.

Form of Notice of Tender with Respect to Optional Tender. Each notice of tender (a "Notice of Tender") given by a Holder with respect to an optional tender of Notes that is permitted under the Indenture must:

(1) state (i) the CUSIP number and principal amount of the Note to which the notice relates, (ii) the name, address and tax identification number of the Holder, (iii) that the Holder irrevocably demands purchase of such Note (or specified portion thereof) and (iv) the date on which such Note (or specified portion) is to be purchased (which date must be a Business Day); and

(2) automatically constitute (i) an irrevocable offer to sell the Note (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the

principal amount of such Note (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (ii) an irrevocable authorization and instruction to the Registrar to effect transfer of such Note (or portion thereof) upon payment of such price to the Paying Agent on the Purchase Date, (iii) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of such Note in whole or in part for other Notes in an equal aggregate principal amount so as to facilitate the sale of such Note (or portion thereof), and (iv) an acknowledgment that such Holder will have no further rights with respect to such Note (or portion thereof) upon payment of the purchase price thereof to the Paying Agent on the Purchase Date, except for the right of such owner to receive such Purchase Price upon surrender of such Note to the Paying Agent endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent and that after the Purchase Date such owner will hold such Note as agent for the Paying Agent.

(3) be given to the Paying Agent at the following address:

Bank One, Kentucky, NA
201 E. Main Street
Lexington, Kentucky 40507
Attn: Corporate Trust Department
Phone: (606) 231-2997
Fax: (606) 231-2349

and the Paying Agent shall provide such notice to the Remarketing Agent at the following address:

Lehman Brothers
3 World Financial Center
New York, New York 10285
Attn: Municipal Bond Department
Phone: (212) 528-1022
Fax: (212) 528-2129

as well as to as well as any Liquidity Provider and Credit Facility Provider at the address set forth for notices in the Liquidity Facility Agreement or the Credit Facility Agreement, as applicable.

The determination of the Paying Agent as to whether a Notice of Tender has been properly delivered will be conclusive and binding upon the Holder. Any Notes described in a Notice of Tender that are not timely delivered to the Paying Agent and for which there has been irrevocably deposited with the Trustee or the Paying Agent, an amount in the Purchase Account of the Note Payment Fund which is sufficient to pay the purchase price thereof ("Undelivered Notes") will be deemed to be purchased by the Paying Agent pursuant to the provisions of the Indenture, provided that Deposited Funds may be deposited by the Paying Agent or the Trustee

in a segregated account for such purpose. In the event of a failure by any Holder to deliver its Note or Notes on or prior to the Purchase Date, such Holder will not be entitled to any payment (including any interest to accrue subsequent to such Purchase Date) other than the Purchase Price for such Undelivered Notes.

Redemption of Notes

No Optional Redemption of Money Market Rate Notes or Fixed Rate Notes. Notes of any Series bearing interest at the Money Market Rate or Fixed Rate will not be subject to optional redemption prior to maturity.

Optional Redemption of Daily Rate Notes and Weekly Rate Notes. The Notes of any Series bearing interest at the Daily Rate or Weekly Rate may, at any time, be subject to redemption prior to maturity at the option of the Commission at any time at a redemption price equal to the principal amount thereof plus accrued interest thereon. The Notes of any Series bearing interest at the Fixed Rate are subject to redemption prior to maturity at the option of the Commission upon the terms and subject to the conditions set forth in the Certificate of Award relating to such Series of Notes and if no conditions are set forth in a Certificate of Award, such Notes shall not be subject to redemption prior to maturity. Redemption is further subject to compliance with the requirements of any agreement providing a Liquidity Facility or Credit Facility for such Notes. Written notice to the Trustee is required to be given an adequate number of days in advance of the applicable Redemption Date to permit the Trustee to comply with the Indenture's requirements regarding notice of redemption to be given to Holders. If less than all of a Series of Notes are to be redeemed, the particular Notes of such Series to be called for redemption will be selected by lot or by such other method as the Registrar deems fair and appropriate; provided redemptions shall be made so that only authorized denominations remain outstanding and that in all instances Notes pledged to, or owned by, a Liquidity Provider or Credit Facility Provider will be redeemed prior to any other Notes.

Notice with Respect to Optional Redemption of Daily Rate Notes and Weekly Rate Notes. When required to redeem Notes under any provision of the Trust Indenture or when directed to do so in writing by the Commission, the Paying Agent is required to cause notice of the redemption to be given not more than 45 days and not less than 30 days prior to the Redemption Date by mailing copies of such notice of redemption by first class mail to the Liquidity Provider (if any), the Credit Facility Provider (if any), the Trustee, the Remarketing Agent and all Holders of Notes to be redeemed at their registered addresses, but neither failure to mail any such notice nor any defect in the mailing thereof in respect of any Note will affect the validity of the redemption of any other Note with respect to which such notice was properly given. Any such notice shall identify the Notes to be redeemed (and, in the case of partial redemption of any Notes, the principal amounts thereof to be redeemed), shall specify the Redemption Date and the redemption price, and shall state that on the Redemption Date the Notes (or portions of Notes) called for redemption will be payable at the principal corporate trust office of the Paying Agent and that from that date interest on such Notes will cease to accrue.

Payment of the redemption price of all redemptions of Notes is to be made solely from Available Funds.

Remarketing of Notes

Notes will be remarketed by Lehman Brothers, as Remarketing Agent under the Indenture and pursuant to a Remarketing Agreement with the Commission. A successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement. Notes that are not remarketed by the Remarketing Agent will be purchased with the Credit Facility under the terms of the Credit Facility Agreement. The principal office of Lehman Brothers, is 3 World Financial Center, New York, New York 10285.

General Provisions

The Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Principal on the Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the Notes are payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE NOTES - Book-Entry-Only System."

Book-Entry-Only System

The Notes, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934, as amended.

DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "DTC Participants"), thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC Participants will be credited in the records of DTC with the amount of such DTC Participants' interests in the Notes. Beneficial ownership interests in the Notes in the amount of \$100,000 or any integral multiple of \$5,000 in excess thereof may be purchased by or through DTC Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive a

certificate representing his beneficial ownership interest. The ownership interest of each Beneficial Owner will be recorded through the records of the DTC Participant from which he purchased his Notes. Transfers of ownership interests in the Notes will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive a written confirmation of the ownership interest acquired by him in the Notes from a DTC Participant.

So long as Cede & Co. is registered owner of the Notes, as nominee of DTC, all references herein to the “Holder” or “Holders” of the Notes means Cede & Co. and shall not mean the Beneficial Owners of the Notes. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of redemption or other communications to DTC, which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant.

Payments of principal of and interest on the Notes will be paid by the Commission directly to DTC or its nominee, Cede & Co. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance can be given by the Commission that DTC and DTC Participants will make prompt transfer of payments to Beneficial Owners. The Commission is not responsible or liable for payment by DTC or DTC Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

For every transfer and exchange of the Notes, the Holders may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law, or the Commission may terminate its participation in the system of transfers through DTC at any time.

NEITHER THE COMMISSION, THE CREDIT FACILITY PROVIDER, THE PAYING AGENT, THE TRUSTEE NOR THE REMARKETING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE NOTES; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT TO THE PURCHASE PRICE OF TENDERED NOTES OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE NOTES; (4) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE

PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE NOTES; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a DTC Participant acquires an interest in the Notes, as nominee, may desire to make arrangements with such DTC to receive a credit balance in the records of such DTC Participant, to have all notices of redemption, elections to tender Notes or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such DTC, and to have notification made of all debt service payments.

Discontinuation of Book-Entry-Only System; Delivery of Replacement Notes and Payment

In the event that the book-entry-only system is discontinued, the Commission will execute and make available for delivery replacement Notes in the form of bearer certificates in denominations of \$100,000 each or any integral multiple of \$5,000 in excess thereof. In such event, the principal on the Notes will be payable in lawful money of the United States of America at the principal office of the Paying Agent upon presentation and surrender thereof. Interest on the Notes will be paid by check or draft mailed on each Interest Payment Date to the Holder as of the Record Date, at such address as shall be shown by the registration records of the Registrar or at such other address as is furnished to the Paying Agent in writing by such Holder. Notwithstanding the foregoing, payment of interest on the Notes, at the option of a Holder of at least \$1,000,000 in principal amount of Notes, may be by wire transfer to such Holder upon the written request of such Holder delivered to the Paying Agent at least three Business Days prior to the Record Date (as defined herein), to the bank account number specified by such Holder.

Authorization

The General Assembly of the Commonwealth of Kentucky (the "General Assembly") enacted the Act at its First Extraordinary Session of 1997 in May, 1997. The Act was codified at Section 56.860 *et seq.* of the Kentucky Revised Statutes. The Commission held its initial meeting on June 18, 1997. The Commission, at a meeting on August 6, 1998 adopted the Resolution, which (i) authorized the Indenture, (ii) authorized and approved the issuance of not to exceed \$110,000,000 in outstanding principal amount of Notes, subject to approval by a representative of OFMEA acting as authorized officer of the Commission (the "Authorized Officer") and (iii) directed the preparation and distribution of this Official Statement. Issuance and delivery of each subseries of Notes will be further authorized by a Certificate of Award issued under the Indenture.

THE CREDIT FACILITY

The following is a discussion of certain provisions of the Credit Facility and of the Credit Facility Agreement. This discussion is not intended to be a full summary or restatement of such documents. Copies of such documents are on file at the offices of the Commission and at the

principal corporate trust office of the Trustee. Certain information concerning the Credit Facility Provider is set forth below.

The Credit Facility

The Commission has requested the Credit Facility Provider to issue the Credit Facility to the Paying Agent pursuant to the Credit Facility Agreement. Commerzbank Aktiengesellschaft acting by and through its New York branch ("Commerzbank" or the "Credit Facility Provider") has agreed to issue the Credit Facility in the initial stated amount of \$26,901,900 (the "Stated Amount") in connection with the initial tranche of the Notes being issued under the Indenture. Pursuant to the Credit Facility Agreement, the Credit Facility can be amended from time to time, as tranches of Notes are issued, to increase the Stated Amount of the Credit Facility. Pursuant to the terms of the Indenture, a Certificate of Award must be executed by the Commission as each tranche of Notes is issued, which Certificate of Award must contain, among other things, a representation by the Commission that the amounts that may be drawn as principal under the Credit Facility and the amounts that may be drawn as interest under the Credit Facility are no less than the aggregate principal amount of all Notes Outstanding which are secured by the Credit Facility plus interest on such Notes at the Maximum Interest Rate for a period that is fifteen (15) days longer than the period interest will accrue on such Notes but not be payable.

The Credit Facility entitles the Trustee to make draws thereunder up to an amount sufficient to pay principal of the Notes and interest thereon. Upon receipt from the Trustee of a demand in the prescribed form, the Credit Facility Provider will honor such demand on sight. The demands will be in the form of a Redemption Drawing, Liquidity Drawing (as such terms are defined in the Credit Facility) or drawing in respect of interest payment on the Notes. The obligation of the Credit Facility Provider to make payment under the Credit Facility will terminate upon the earliest of (i) July 5, 2002 (as extended from time to time, the "Stated Expiration Date"), or (ii) the date which is fifteen (15) days following receipt by the Trustee of written notice from the Credit Facility Provider of the occurrence of an event of default under the Credit Facility Agreement. The Credit Facility may be extended at the election of the Credit Facility Provider (which it is under no obligation to so elect) beyond the Stated Expiration Date or an Alternate Credit Facility may provide for an expiration date extending past the Stated Expiration Date, although no assurance can be given that either of these events will occur.

Reimbursement

The Commission has agreed to reimburse or cause to be reimbursed, the Credit Facility Provider for Reimbursement Obligations (as defined in the Credit Facility Agreement), in such manner and at such times as is set forth in the Credit Facility Agreement, and to pay interest on Reimbursement Obligations at such rates and at such times as set forth in the Credit Facility Agreement.

Events of Default Under the Credit Facility Agreement

Once the Credit Facility has been issued, no Event of Default under the Credit Facility Agreement shall be construed to relieve the Credit Facility Provider of its obligation to pay a drawing under the Credit Facility in accordance with the terms of the Credit Facility. However, an Event of Default entitles the Credit Facility Provider to exercise remedies discussed below under "Remedies", including delivering notice of the occurrence of such Event of Default to the Trustee, thereby causing the Credit Facility to terminate fifteen (15) days following the Trustee's receipt of such notice. Each of the following events is an "Event of Default" under the Credit Facility Agreement:

(a) The Commission shall fail to pay when due any amount payable under the Credit Facility Agreement;

(b) The Commission shall default in the performance of any of the covenants set forth in Article V of the Credit Facility Agreement;

(c) The Commission shall default in the performance of any other material term, covenant or agreement set forth in the Credit Facility Agreement and such failure shall continue for a period of 30 days;

(d) Any representation, warranty, certification or statement made by the Commission (or incorporated by reference) in the Credit Facility Agreement or by the Commission, or any State Agency or the Cabinet in any Related Document or in any certificate, financial statement or other document delivered pursuant to the Credit Facility Agreement or any Related Document shall prove to have been incorrect in any material respect when made;

(e) Any State Agency shall (i) fail to pay when due any amount payable under the related Financing Agreement, or (ii) fail to perform or observe any material term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to such Financing Agreement when required to be performed or observed; or (iii) have any amounts due under the related Financing Agreement declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment or optional prepayment), prior to the stated maturity thereof;

(f) The Commonwealth or any agency, department or division of the Commonwealth, including, without limitation, any State Agency, the Commission or the Cabinet shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or after the time of execution of the Credit Facility Agreement in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of its or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they

become due, or shall declare a moratorium, or shall take any action to authorize any of the foregoing;

(g) A case or other proceeding shall be commenced against the Commonwealth or any agency, department or division of the Commonwealth, including, without limitation, any State Agency, the Commission or the Cabinet seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, or other similar law now or after the time of execution of the Credit Facility Agreement in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, any such involuntary case shall remain undismitted and unstayed for a period of 60 days; or an order for relief shall be entered against the Commonwealth, including without limitation, any State Agency, the Commission or the Cabinet under the federal bankruptcy laws as now or after the execution of the Credit Facility Agreement in effect;

(h) Any material provision of the Credit Facility Agreement or any Related Document shall cease for any reason whatsoever to be a valid and binding agreement of the Commission, any State Agency or the Cabinet, or the Commission, any State Agency or the Cabinet shall contest the validity or enforceability (other than with respect to indemnification provisions to the extent that the enforceability of such provisions may be limited by securities laws or public policy) thereof;

(i) Any pledge or security interest created under the Credit Facility Agreement or the Indenture to secure any amounts due under the Credit Facility Agreement shall fail to be fully enforceable;

(j) Any Rating Agency shall have downgraded the obligations of any State Agency to below Investment Grade, or suspended or withdrawn its rating on such debt; or

(k) An event of default shall occur under any of the Related Documents.

Remedies

Upon the occurrence of any Event of Default, the Credit Facility Provider may exercise any one or more of the following remedies: (a) by written notice to the Commission require that the Commission immediately prepay to the Credit Facility Provider in immediately available funds an amount equal to the Available Amount (such amounts to be held by the Credit Facility Provider as collateral security for the Reimbursement Obligations), provided, however, that in the case of an Event of Default described in paragraph (f) or (g) above, such prepayment obligations shall automatically become immediately due and payable without any notice (unless the coming due of such obligations is waived by the Credit Facility Provider in writing); (b) by written notice to the Commission, declare all Reimbursement Obligations in addition to those in clause (a) to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the

Commission, provided that upon the occurrence of an Event of Default under paragraph (f) or (g) above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the Credit Facility Provider in writing); (c) give written notice of the occurrence of an Event of Default to the Trustee, directing the Trustee to accelerate the Notes thereby causing the Credit Facility to expire fifteen (15) days following the receipt of such notice; (d) give written notice of the occurrence of an Event of Default and prohibit the issuance of additional Notes under the Indenture; (e) pursue any rights and remedies it may have under the Indenture, the Financing Agreements and other related documents; or (f) pursue any other action available at law or in equity.

Alternate Liquidity or Credit Facility

The Commission may, not less than 45 days prior to any Expiration Date, at the Commission's option, provide for the delivery to the Trustee of an Alternate Liquidity Facility or Alternate Credit Facility having an expiration date that is no earlier than five (5) days succeeding the Final Maturity Date. Prior to the replacement of the Liquidity Facility or Credit Facility with an Alternate Liquidity Facility or Alternate Credit Facility, the following conditions are required to be met: (i) the Trustee must have received from the Commission written notice of such replacement, including notice of the form of Alternate Liquidity Facility or Alternate Credit Facility and the issuer thereof, with the right to approve such form, not less than 45 days prior to the Expiration Date; (ii) the Trustee must have received the following not less than 45 days prior to the Expiration Date (A) an opinion of counsel for the issuer of the Alternate Liquidity Facility or Alternate Credit Facility that it constitutes a legal, valid and binding obligation of the issuer in accordance with its terms and that payments thereunder will not constitute voidable preferences, and (B) an opinion of Counsel that such replacement will not cause interest on the Series A Notes or Series B Notes to become subject to federal income tax; (iii) at least 45 days prior to the Expiration Date notice of the replacement of the Liquidity Facility or Credit Facility with an Alternate Liquidity Facility or Alternate Credit Facility must be provided by the Trustee to the Rating Agency, if any, then rating the related Notes and the holders; and (iv) on the Substitution Tender Date or the Expiration Date, the Trustee must have received a confirmation from the Rating Agency, if any, then rating the related Notes that the rating on such Notes immediately following delivery of the Alternate Liquidity Facility or Alternate Credit Facility will not be reduced or withdrawn as a result of the delivery of the Alternate Liquidity Facility or Alternate Credit Facility. The Trustee is obligated to notify DTC of the delivery of any Alternate Credit Facility or Alternate Liquidity Facility.

Information on the Credit Facility Provider

Commerzbank Aktiengesellschaft is the third largest publicly-held banking institution in terms of assets in Germany. Commerzbank and its consolidated subsidiaries are engaged in a broad range of commercial and investment banking services and related activities in Germany and around the world. Commerzbank functions as a full service commercial and investment bank. In certain specialized areas, such as mortgage lending, leasing, asset management, fund

management, real estate activities and equity participations, Commerzbank provides services through its subsidiaries. As of December 31, 1997, Commerzbank had total assets of U.S. \$287 billion (U.S. \$1 = DM 1.7987 closing price as of December 31, 1997. Bloomberg). Commerzbank's capital stock is publicly held by more than 190,000 shareholders and is quoted on all eight German stock exchanges as well as on the stock exchanges of Amsterdam, Antwerp, Barcelona, Basel, Berne, Brussels, Geneva, Lausanne, London, Luxembourg, Madrid, Milan, Paris, Tokyo, Vienna and Zurich. There is also a sponsored-ADR program in the USA.

In Germany, Commerzbank operates 940 branches that provide banking services to three million private customers. Abroad, Commerzbank maintains nearly 80 offices in 35 countries. Commerzbank is directly represented in all major financial and industrial centers with its own subsidiaries, branches or representative offices and employs approximately 1,600 staff abroad. It also has numerous holdings in leading local and regional financial institutions.

Commerzbank conducts extensive banking business in the United States, concentrating primarily in corporate lending, letter of credit and bankers acceptance facilities, participations in syndicated loan transactions, and treasury operations including foreign exchange transactions. Commerzbank has branches in New York, Chicago, and Los Angeles and has an agency office in Atlanta.

For further information on the Commerzbank Group, a copy of Commerzbank's annual report can be obtained by contacting Karin Rapaglia at 2 World Financial Center, New York, New York 10281, (212) 266-7200.

Under the banking laws of the Federal Republic of Germany, all German banks are subject to supervision by the Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen), the Federal Securities Trading Supervisory Commission (Bundesaufsichtsamt für den Wertpapierhandel), and by the German Central Bank (Deutsche Bundesbank). The Federal Banking Supervisory Office has the power, inter alia, to issue and revoke licenses, to issue regulations on capital and liquidity requirements, to demand the removal of members of the bank's management, to inspect books and records, to designate the contents required in reports on financial matters by banks and to take action where deposits are considered to be at risk. Bank lending activities in the Federal Republic of Germany are regulated closely under the German Banking Law (Kreditwesengesetz) (the "Banking Law"), as amended most recently on October 24, 1994. The Banking Law and directives of the European Union, of which Germany is a member, contain provisions on solvency, long-term lending and investments. The Banking Law also contains limits on large loans to individual borrowers. Compliance with and enforcement of these regulations are supervised through extensive reporting requirements. In addition, Commerzbank is subject to extensive regulation by the countries in which it operates.

The New York branch of Commerzbank is licensed by the Superintendent of Banks of the State of New York (the "Superintendent"), is subject to the banking laws of the State of New York and is examined by the New York State Banking Department. Commerzbank's branches in Chicago and Los Angeles are subject to similar regulation by the states in which they operate. In

addition to being subject to state laws and regulations, Commerzbank is also subject to federal regulation under the International Banking Act and, through the International Banking Act, the Bank Holding Company Act.

SECURITY FOR THE NOTES

General

The primary source of moneys for payment of principal of and interest on the Notes is the Credit Facility to be issued by the Credit Facility Provider. See "THE CREDIT FACILITY" hereinabove.

The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to Financing/Lease Agreements entered into under the terms of the Indenture (the "Financing Agreements") among the Commission, the SPBC, the Finance and Administration Cabinet (the "Finance and Administration Cabinet" or the "Cabinet") and the State Agencies. The General Assembly has appropriated to the State Agencies amounts projected to be sufficient to meet a portion of the interest requirements on the Notes (and/or the reimbursement obligations of the Commission to the Credit Facility Provider) through June 30, 2000, with the balance of the interest requirements on the Notes through June 30, 2000 being funded with proceeds of the Notes. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary sessions of the General Assembly. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

In addition, the SPBC and certain of the State Agencies have agreed, as provided in the Financing Agreements, to issue Bonds at such times and in such amounts as may be required to retire the Notes at or prior to maturity, subject to the limitations of the Act and the Budget Act.

Under the provisions of the Constitution of the Commonwealth, the State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. Notwithstanding the foregoing, the Financing Agreements will be automatically renewed unless written notice of the election by the State Agencies to not so renew is given to the Commission and the SPBC by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein.

THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS

SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE NOTES.

PLAN OF FINANCE

The proceeds of the Notes will be used by the Commission to (i) pay the cost of constructing, acquiring, installing and equipping the Project in an amount of up to \$98,100,000, (ii) pay a portion of the interest coming due on the Notes on or before June 30, 2000 and (iii) pay the costs of issuance of the Notes.

THE PROJECT

The Project is composed of various authorized projects (collectively, the "Project") that will be used by the State Agencies. Listed below are the respective State Agencies participating in the financing program and the respective authorized projects which collectively constitute the Project.

<u>STATE AGENCY</u> ¹	<u>PROJECT DESCRIPTION</u> ²	<u>ISSUER OF BONDS</u> ³	<u>AMOUNT</u> ⁴
UK	Commonwealth Stadium Expansion	SPBC	\$24,000,000
EKU	Law Enforcement Training Complex	SPBC	20,000,000

¹The participating State Agencies are as follows: University of Kentucky ("UK"); Eastern Kentucky University ("EKU"); Kentucky River Authority ("KRA"); Kentucky Higher Education Assistance Authority ("KHEAA"); and, in the agency bond pool, any one or more of the Commonwealth's universities and other postsecondary education institutions ("MULTIPLE AGENCIES").

²The projects are listed in the anticipated order in which the projects are to be funded through the issuance of Notes, which are to be issued in tranches over a two year period beginning with the issuance of the first tranche of Notes. The ultimate order of the funding of the projects and the issuance of related tranches of Notes may vary from that shown here.

³This column shows the anticipated issuer of Bonds that will be used to retire Notes that are issued to provide moneys to fund a particular project. The anticipated issuers are the State Property and Buildings Commission ("SPBC") and the postsecondary educational institutions described herein.

⁴Estimated amounts.

KRA	Kentucky River - Water Release System and Locks/Dams Acquisition	SPBC	4,000,000
KHEAA	New Headquarters	SPBC	9,000,000
UK	Center for Rural Health	SPBC	6,100,000
MULTIPLE AGENCIES	Agency Bond Pool	STATE AGENCY	35,000,000
	TOTAL		\$98,100,000

University of Kentucky -- Commonwealth Stadium Expansion

This project involves the expansion of the University of Kentucky's Commonwealth Stadium to a capacity of approximately 67,500 seats, providing an additional 16,000 permanent seats and related amenities to serve stadium patrons. Approximately \$24,000,000 in proceeds of the Notes is expected to be used to fund the costs of this project. The SPBC is expected to issue SPBC Bonds to retire the Notes issued to finance this project. Upon issuance of SPBC Bonds, the SPBC will own the project and lease it to the University of Kentucky under a Financing Agreement.

Eastern Kentucky University-- Law Enforcement Training Complex

This project involves the construction of a basic training complex for the Department of Criminal Justice Training on the campus of Eastern Kentucky University. This facility will contain all of the classrooms, support and supply activities and gymnasium for the basic training and housing for both basic and in-service students. Approximately \$20,000,000 in proceeds of the Notes is expected to be used to fund the costs of this project. The SPBC is expected to issue SPBC Bonds to retire the Notes issued to finance this project. Upon issuance of SPBC Bonds, the SPBC will own the project and lease it to Eastern Kentucky University under a Financing Agreement.

Kentucky River Authority - Water Release System and Locks/Dams Acquisition

This project involves the construction of new water release systems and renovations and modifications to the lock systems at Dams 5 through 9 on the Kentucky River to enable use of these facilities for low-level downstream water releases in times of drought. Approximately \$4,000,000 in proceeds of the Notes is expected to be used to fund the costs of this project. The SPBC is expected to issue SPBC Bonds to retire the Notes issued to finance this project. Upon issuance of SPBC Bonds, the SPBC will own the project and lease it to the Kentucky River Authority under a Financing Agreement.

Kentucky Higher Education Assistance Authority - Construction of New Headquarters

This project involves the construction of a 75,000 square foot office building by KHEAA. Approximately \$9,000,000 in proceeds of the Notes is expected to be used to fund the costs of this project. The SPBC is expected to issue SPBC Bonds to retire the Notes issued to finance this project. Upon issuance of SPBC Bonds, the SPBC will own the project and lease it to KHEAA under a Financing Agreement.

University of Kentucky -- Center for Rural Health

This project involves the construction of an academic and clinical services building for the University of Kentucky Center of Excellence in Rural Health and the allied health programs of the Hazard Community College, a Kentucky Community and Technical College System institution located in Hazard, Kentucky. The new facility will provide space to support programs in rural health services research, graduate education in nursing and physical therapy, a baccalaureate program in clinical laboratory sciences, cross training for allied health professionals, medical residency training in family practice, and radiography and clinical lab technology. In addition, the new facility will provide continuing education and technical assistance programs to Kentucky's rural counties. Approximately \$6,100,000 in proceeds of the Notes is expected to be used to fund the costs of this project. The SPBC is expected to issue SPBC Bonds to retire the Notes issued to finance this project. Upon issuance of SPBC Bonds, the SPBC will own the project and lease it to the University of Kentucky under a Financing Agreement.

Agency Bond Pool

This Agency Bond Pool involves individual projects of postsecondary educational institutions of the Commonwealth to be identified by the Council on Postsecondary Education (the "CPE") from a list of eligible agency bond projects submitted by the respective educational institutions to the CPE for approval. Projects approved by the CPE with the concurrence of the Secretary of the Finance and Administration Cabinet for the 1998-2000 biennium will be eligible to be funded through the issuance of the Notes. Approximately \$35,000,000 in proceeds of the Notes is expected to be used to fund the costs of these projects. The postsecondary educational institutions that benefit from these projects are expected to issue bonds in an amount at least equal to the principal amount of Notes issued to finance such projects, in order to retire such Notes. Such bonds may be issued pursuant to consolidated educational buildings revenue bond indentures or housing and dining revenue bond indentures to which the respective postsecondary educational institutions are a party.

THE KENTUCKY ASSET/LIABILITY COMMISSION

General Information

The Act created the Kentucky Asset/Liability Commission, which is composed of five members, each serving in an ex officio capacity. The members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairperson; the Attorney General; the State Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. The Secretary to the Commission is the Executive Director of OFMEA.

The current members of the Commission are as follows:

John McCarty	Secretary of the Finance and Administration Cabinet, Chairperson
Sarah Jane Schaaf	Secretary of the Revenue Cabinet
A. B. Chandler, III	Attorney General
John K. Hamilton	State Treasurer
Crit Luallen	State Budget Director

The Commission was created by the General Assembly to develop policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and interest-sensitive liabilities. The Commission is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue anticipation notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency. The 1998 Agency Fund Series Notes are the fourth issue of obligations to be issued by the Commission.

Other Personnel of the Commission

Gordon L. Mullis, Jr., is the Secretary of the Commission. Mr Mullis is also the Executive Director of OFMEA. From October 1991 to August 1993 Mr. Mullis served as the Deputy Executive Director of Kentucky Educational Television ("KET"). Mr. Mullis was responsible for the administration and support, budgeting, personnel and operations and technology at KET. Mr. Mullis has 24 years of experience in state government. Prior to joining KET, Mr. Mullis was the Deputy Executive Director of OFMEA. Mr. Mullis has a Masters of Business Administration and a Bachelor of Psychology from the University of Kentucky.

F. Thomas Howard, is the Deputy Executive Director of OFMEA and has served in that capacity since April 1993. Previously, Mr. Howard served for over two years as the state's investment portfolio manager. Since 1983, Mr. Howard has had extensive experience in money management for individuals and institutions, both public and private. Mr. Howard holds a

Bachelor of Business Administration with a concentration in Finance from the University of Kentucky.

Brett L. Antle, is a Certified Public Accountant and a financial analyst for OFMEA. Mr. Antle has served in this capacity since November 1996. Previously, Mr. Antle served as an accounting supervisor in the Commonwealth's Office of the Controller, and has a total of seven years of financial management experience in state government. Mr. Antle holds a Bachelor of Science Degree in Accounting from the University of Kentucky.

THE STATE AGENCIES

Financial Information Regarding the State Agencies

The State Agencies that enter into Financing Agreements will have available to them as sources of payment of their Debt Service Obligation (as defined herein) under the Financing Agreements appropriations that have been specifically appropriated by the General Assembly for payments in connection with the Project and other revenues derived from receipts of such State Agencies. Such appropriations and receipts are Agency Fund ("Agency Fund") appropriations, and not General Fund ("General Fund") appropriations of the Commonwealth. Information on the Agency Fund balances of the State Agencies and on the outstanding revenue obligations of the State Agencies, as audited by the independent Office of the Auditor of Public Accounts, is presented in *The Kentucky Comprehensive Annual Financial Report* published annually by the Commonwealth. The Agency Fund balances of the State Agencies that are postsecondary educational institutions as of June 30, 1997 (pages 162 and 163 of *The Kentucky Comprehensive Annual Financial Report* for the Fiscal Year ended June 30, 1997) are set forth in Exhibit A to this Official Statement. The outstanding revenue obligations of the State Agencies as of June 30, 1997 (pages 378 and 379 of *The Kentucky Comprehensive Annual Financial Report* for the Fiscal Year ended June 30, 1997) are set forth on the last two pages of Exhibit B to this Official Statement. Further information on the outstanding revenue obligations of the State Agencies as well as more detailed financial information on such State Agencies may be obtained from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

Postsecondary Educational Institution State Agencies

Certain of the postsecondary educational institution State Agencies described below have projects that are scheduled to be funded through issuance of the Notes (e.g. University of Kentucky, with respect to its Commonwealth Stadium expansion project and Center for Rural Health, and Eastern Kentucky University with respect to its Law Enforcement Training Complex project). Additionally, any of the postsecondary educational institution State Agencies described below may apply to have projects approved by the CPE and to have Notes issued under the Agency Bond Pool authorization for such projects.

Eastern Kentucky University. Eastern Kentucky University located in Richmond, Kentucky was established by the 1906 General Assembly. The university's three primary responsibilities are: (1) to provide instruction in the arts and sciences, business, professional education, and technical subjects; (2) to provide service to the community and region through the faculty serving as consultants in their fields of

specialization and engaging in research dealing with problems of society; and (3) to engage in research to advance knowledge in the subject matter areas with which the various colleges of the university are concerned. These purposes of the university are accomplished by the College of Arts and Humanities; College of Business; College of Education; College of Applied Arts and Technology; College of Health, Physical Education, Recreation and Athletics; College of Allied Health and Nursing; College of Law Enforcement; College of Natural and Mathematical Sciences; and Colleges of Social and Behavioral Sciences; and the Graduate School.

In keeping with its statutory mandates, its Council on Postsecondary Education Mission Statement, and in harmony with the Strategic Plan for Higher Education in Kentucky, the Eastern Kentucky University Board of Regents has adopted a Strategic Plan that clearly defines the institutional mission, goals and strategic directions for the future.

Each college, department and support units of the University have developed unit goals and objectives that support the institutional aims and has translated these goals and objectives into operational plans. In the final analysis, these plans have a direct relationship to the primary purposes of the institution.

Kentucky Community and Technical College System. The Kentucky Community and Technical College System ("KCTCS") was created by House Bill 1, the Kentucky Postsecondary Education Improvement Act of 1997, of the First Extraordinary Session of 1997 of the Kentucky General Assembly. The KCTCS includes the Commonwealth's 25 postsecondary technical education institutions and 13 community colleges. Prior to House Bill 1, the Community College System was governed and administered by the University of Kentucky (UK) and the Technical Institutions were governed and administered by the Cabinet for Workforce Development. The effective date of delegation of governance of the Community College System from UK to the KCTCS was January 14, 1998. The effective date of transfer of governance of the technical institutions from the Workforce Development Cabinet to the KCTCS was July 1, 1998. The KCTCS provides postsecondary education and training at the diploma, associate degree, technical degree and certificate levels. Students can transfer credits easily from one institution to another within the system.

KCTCS gives access to two-year general studies programs for students who plan to transfer to a university or technical career program. Remedial adult education and continuing education credits can also be achieved through the system.

KCTCS also provides short-term customized training for business and industry, adult basic education and remedial education, and other services associated with comprehensive community and technical colleges.

Kentucky State University. Kentucky State College was established in 1886 by an Act of the Kentucky General Assembly. With the passage of the 1890 Morrill Act by the U. S. Congress, the college became a land-grant institution. A tripartite mission was instituted: teaching, research, and public service.

The 1972 General Assembly elevated the college to university status, effective July 1, 1973. Since that time, the General Assembly has amended KRS 164.290 to further read: "It is the intent of the general assembly that Kentucky State University shall serve as a four-year residential institution

emphasizing a program of liberal studies appropriate to its size and resources." Kentucky State University (KSU) is a multipurpose institution with state and land-grant standing. The university is authorized to provide both undergraduate and graduate programs of instruction and is accredited by regional and national accreditation agencies.

Student enrollment has stabilized at approximately 2,600. The student body is fully integrated, serving both residential and commuting students representing the ethnic and geographic diversity of the Commonwealth.

Morehead State University. Morehead State University's (MoSU) roots extend back to its days as a private normal school in the late 1800s. In 1922, the institution became a state normal school to meet expanded higher education needs for teacher training in Kentucky. After several name changes and an expanded perspective on higher education, MoSU was granted university status in 1966 to provide undergraduate and selected masters and specialist programs for the citizens of northern and eastern Kentucky. MoSU has grown both in size and in the quality of its instructional, research, and public service programs and activities.

MoSU has operationalized its mission through the adoption of seven statements of ideals which accent the intellectual, creative, ethical, and technical development of students; the discovery and integration of knowledge; the development of leadership qualities; the utilization of past achievements and values to respond to the challenges of the future; and a commitment to excellence and integrity.

The university's four divisions: Academic Affairs, Student Life, Administrative and Fiscal Services, and University Advancement work in harmony to implement strategies to fulfill the institution's ongoing strategic goals for quality education. The university's accreditation was reaffirmed in 1990 by the Southern Association of Colleges and Schools and programs in veterinary technology, social work, radiologic technology, teacher education, nursing and music are accredited through individual professional agencies.

The MoSU campus is located in the Appalachian foothills with main campus facilities in the city of Morehead and an agricultural center in Rowan County. Art and music facilities provide cultural programs and activities for the campus, community, and surrounding area. A modern student athletic center provides health, physical education, and recreation opportunities for students, employees, and members of the community. Over 47 percent of the university's students live in 13 residence halls and the university provides extensive student development programs to meet the needs of a holistic education for all students.

Murray State University. Murray State University (MuSU) was created by the Kentucky General Assembly in 1922 as Murray State Normal School. The university's role has expanded since its founding, as indicated by changes in its name: Murray State Teacher's College (1930), Murray State College (1948), and Murray State University (1966). The MuSU tradition of quality education through close interaction between students and faculty has been maintained as the institution has enlarged its mission at the direction of the Board of Regents and the General Assembly. Today MuSU serves western Kentucky as an educational and cultural center whose achievements continue to improve the quality of life of citizens in its region.

To carry out its mission of instruction, research, and service most effectively, MuSU has established an ongoing strategic planning process to evaluate all institutional policies and activities. A

new strategic plan approved by the Board of Regents in November 1990 sets four major goals for the university in the areas of demonstrated baccalaureate excellence, effective regional service, fiscal accountability, and personnel involvement and support. A comprehensive program of assessment of institutional effectiveness supports the achievement of the plan.

The central focus of the university's educational mission is its degree programs at the associate, baccalaureate, master's and specialist levels; its non-degree professional and technical programs; and its joint doctoral programs with the University of Kentucky and the University of Louisville. MuSU's commitment to quality is evident in each of these programs.

Fifty-seven degree programs have achieved accreditation from 14 national professional organizations. Degrees are conferred through the six colleges: Business and Public Affairs, Education, Fine Arts and Communication, Humanistic Studies, Industry and Technology, and Science.

MuSU also serves the western Kentucky region through the Breathitt Veterinary Center, the West Kentucky Small Business Development Center, the National Aeronautics and Space Administration (NASA) Teacher Resource Center, the National Scouting Museum, Wrather West Kentucky Museum, and WKMS-FM.

Northern Kentucky University. Northern Kentucky University (NKU) is a comprehensive institution of higher education located in a large metropolitan area. NKU, therefore, recognizes an obligation to serve as a multipurpose, metropolitan institution. In order to meet the needs of the eight-county northern Kentucky region, the university provides programs at the associate, bachelor's, master's, and first-professional degree levels. The university started in 1948 as an extension center of the University of Kentucky (UK) and later as part of the University of Kentucky's Community College System, and became an autonomous senior institution in 1968 by an act of the Kentucky General Assembly.

A Board of Regents was appointed, and subsequently, the Board of Trustees of the University of Kentucky turned over the Covington facilities and assets of Northern Community College to Northern Kentucky State College. These facilities, along with the community college faculty and students, formed the nucleus of Northern.

Limited space at the Covington campus and a rapidly growing enrollment necessitated the move to a new campus, built in Highland Heights. Beginning in the fall semester 1972, most baccalaureate classes were moved to the Highland Heights campus, with the first bachelor's degrees awarded in the spring of 1973.

In 1976, Northern Kentucky State College was changed to Northern Kentucky University by KRS 164.290. The programs of study offered by the university are those of a multipurpose state institution. There are 68 undergraduate degree programs offered in the arts and sciences, in business, and in professional study areas. Master's degrees in education, business administration, public administration, nursing and a joint JD/MBA degree are offered as well as a juris doctor degree. The NKU Graduate Center, created in response to NKU's special mission of exploring experimental methods of delivering education, offers degree programs in community nutrition (with Eastern Kentucky University), library science (with UK), nursing (with UK), and social work (with UK).

University of Kentucky. The University of Kentucky was established in 1865 and is located in Lexington. The University of Kentucky University System serves as the principal graduate degree granting institution in the Commonwealth's system of higher education for statewide instruction, research and public service programs in all fields without geographic limitation.

These primary functions, (1) instruction - the dissemination of knowledge, (2) research - the creation of knowledge, (3) public service - the application of knowledge, and the scope of programs conducted in each functional area are defined by statute. KRS 164.125 authorizes the University of Kentucky to offer baccalaureate, professional, master's, specialist, doctoral and postdoctoral programs and to conduct joint doctoral programs in cooperation with other institutions. It designates the University of Kentucky as the Commonwealth's principal institution to conduct statewide research and service programs.

As one of the Commonwealth's land-grant institutions, the University is recognized for its federal and state charge as a public service agency for agriculture. There are innumerable other components in the public service program, many of which are mandated by Kentucky's statutory provisions or otherwise supported directly by the Commonwealth. Through its public service programs, the University disseminates new knowledge for the welfare and benefit of the citizens of the Commonwealth.

The University of Kentucky is organized into sixteen colleges and graduate schools plus extension programs, and also operates the Lexington Community College.

University of Louisville. The University of Louisville is a metropolitan university which has had close historical and legal ties with the City of Louisville and Jefferson County, Kentucky. The University was founded in 1798 as Jefferson Seminary, later known as Louisville College, and in 1846 became the University of Louisville by legislative charter. The University became a member of Kentucky's public higher education system on July 1, 1970, and amended its charter to reflect its status as a state institution. The University is located on three campuses in Jefferson County, Kentucky which, combined, cover over 667 acres of land.

The University of Louisville has established as independent components the following divisions: the College of Arts and Sciences, the Graduate School, the School of Dentistry, the Speed Scientific School, the Division of Transitional Studies, the School of Music, the School of Nursing, the College of Business and Public Administration, Continuing Studies, the School of Medicine, the School of Law, the School of Education, the Kent School of Social Work and the School of Allied Health Sciences.

The mission statement of the University of Louisville provides that the University shall serve as Kentucky's urban/metropolitan university and shall serve the specific educational, intellectual, cultural, services and research needs of the greater Louisville region. The University has a special obligation to serve the needs of a diverse population, including many ethnic minorities, placebound, part-time and nontraditional students.

Western Kentucky University. Western Kentucky University, which was established in 1906 by the General Assembly, offers a broad spectrum of instruction, scholarly activity and professional service within an academic climate encouraging intellectual excellence.

Western Kentucky University, by authorization of the Council on Postsecondary Education, provides instruction at the associate, baccalaureate and graduate levels in the liberal arts and sciences, traditional pre-professional programs and emerging career areas and professional fields including agriculture, business, communications, education, health and technology. The University supports diverse scholarship, including basic and applied research and creative activity, in order to expand knowledge, improve instruction and serve its varied clientele. The University directly supports its constituents with professional and technical expertise, cultural enrichment and educational assistance.

The University is committed to increase access for both traditional and nontraditional students and to improve educational attainment at all levels. This commitment is renewed through the expansion of the Western Kentucky University Community College.

The University is divided into colleges and other support units to facilitate the offering of these programs and services. The major instructional colleges/divisions include the Bowling Green College of Business Administration; College of Education and Behavioral Sciences; Ogden College of Science, Technology and Health; Potter College of Arts, Humanities and Social Sciences; Community College and Continuing Education; and Graduate Studies.

Kentucky Higher Education Assistance Authority

The Kentucky Higher Education Assistance Authority (“KHEAA”) is a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky established in 1966 to serve the public purpose of improving opportunities for higher education.

KHEAA accomplishes its public purpose by administering the Federal Family Education Loan Programs in Kentucky and Alabama. In addition to its student loan guarantee functions, KHEAA administers the need-based College Access Program and Kentucky Tuition Grant Programs, the state merit-based scholarship program, the Kentucky Teacher and Osteopathic Medicine Scholarship Programs, and the state work-study program. Such programs are substantially funded by the Commonwealth of Kentucky and supplemented by Federal Funds. Effective May 10, 1990, responsibilities for the Kentucky Educational Savings Plan Trust (Trust) were transferred to KHEAA. The Trust offers opportunities for families to save for future college costs. KHEAA also develops and broadly distributes multiple publications containing college cost and financial aid information and performs outreach functions throughout Kentucky.

KHEAA is governed by its Board of Directors which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of seven voting members appointed by the Governor of the Commonwealth for terms of four years each and the Executive Director of the Council on Postsecondary Education of the Commonwealth and the Secretary of the Finance and Administration Cabinet of the Commonwealth, each of whom serve as non-voting, *ex officio* members.

The Executive Director of KHEAA is Paul P. Borden; the Chief Operating Officer is Londa L. Wolanin. KHEAA's office is located at 1050 U.S. 127 South, Frankfort, Kentucky 40601, telephone number (502) 696-7200.

Kentucky River Authority

The Kentucky River Authority was first established by the Kentucky General Assembly in 1986 to take over operation of the Kentucky River Locks and Dams 5 through 14 from the United States Army Corps of Engineers. Following the drought of 1988, the Authority was given a mission to protect and improve the waters of the Kentucky River through environmental management of the entire watershed. It is the first effort by the Commonwealth of Kentucky to protect a great water resource through watershed management. Watershed management recognizes that a river is more than the water flowing in the main channel. Human activities through the drainage area of the river affect the amount and quality of water that flows through the main channel.

The Authority is charged with developing comprehensive plans for the management of the Kentucky River Basin, including long range water supply, drought response and ground water protection plans. It is to adopt regulations to improve and coordinate water resource activities within the basin among state agencies. The Authority may adopt water quality standards for the basin that are more stringent than those applied to the rest of the state. It is also charged with developing recreational areas within the basin.

The Authority is currently working with the United States Army Corps of Engineers to transfer Locks 5 through 14 to the Commonwealth. At that point, the Commonwealth will assume responsibility for their long term operation and maintenance. It is working with local governments and citizen groups to convert the appropriate adjacent lock master properties into recreational areas.

The Authority is supported by water-user fees collected from entities which withdraw water from the basin, the exception being those entities using water for agricultural purposes. These fees are then passed on to the citizens in the basin who purchase water.

THE STATE PROPERTY AND BUILDINGS COMMISSION

The SPBC is composed of the Governor (who is the Chairman), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director), the Secretary of the Cabinet for Economic Development and the Secretary of the Revenue Cabinet. OFMEA, which is in the Finance and Administration Cabinet serves as staff to SPBC. SPBC is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Finance and Administration Cabinet, to acquire real estate and to construct and equip building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes SPBC, on application of any state agency of the Commonwealth, to issue bonds in SPBC's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the lease of the project financed to such state agency. SPBC is authorized to execute lease agreements with those State Agencies requesting SPBC to issue bonds. Such leases may provide

for the payment of lease-rentals to SPBC to make principal and interest payments on the bonds issued in the name of SPBC.

The SPBC and the State Agencies, in the Financing Agreements, have agreed to issue bonds to permanently finance the Project, the proceeds of which will be used to retire the Notes, to pay any costs of the Project not already paid for through the issuance of the Notes and to pay costs of issuance.

THE FINANCE AND ADMINISTRATION CABINET

The Finance and Administration Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth.

The functions of the Cabinet include, *inter alia*, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of the Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) maintenance and operation of public buildings, except those provided for the exclusive use of one agency; (5) provision of administrative services of a financial nature to other agencies of Commonwealth government; (6) estimation and analysis of state revenue; (7) investment and management of all Commonwealth funds; and (8) issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

THE COMMONWEALTH

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

The Commonwealth's economy in many ways resembles a scaled-down version of the U.S. economy in its diversity. The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified modern economy including manufacturing of industrial machinery, automobiles and automobile parts, consumer appliances, and nondurable goods such as apparel. In addition, Kentucky's nonmanufacturing industries have grown considerably in recent years, with strong gains in air transportation, health and business services, and retail trade. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

Financial Information Regarding the Commonwealth

Information regarding debt issuing authorities of the Commonwealth is included in Exhibit B hereto.

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. *The Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, General Fund Condition-Budgetary Basis, General Governmental Functions-GAAP Basis, Debt Administration, Cash Management, Risk Management and Funds. In addition, the Notes to Combined Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Available from NRMSIRs and the Commonwealth

The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1997 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

- (i) Bloomberg LP
100 Business Park Drive
Skillman, New Jersey 08558
Internet: *munis@bloomberg.com*
Tel: (609) 279-3200
Fax: (609) 279-5962

- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Internet: *nrmsir@dpcdata.com*
Tel: (201) 346-0701
Fax: (201) 947-0107

- (iii) Kenny Information Systems
Attn: Kenny Repository Systems Inc.
96 Broadway, 16th Floor
New York, New York 10006
Internet: <http://www.bluelist.com>
Tel: (212) 770-4595
Fax: (201) 797-7994

- (iv) Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Internet: disclosure@muller.com
Tel: (212) 807-5001
Fax: (212) 989-2078

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1997 also may be obtained from the NRMSIRs or from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1997 may be found on the Internet at <http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm>.

Ongoing financial disclosure regarding the Commonwealth and the State Agencies will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs.

Investment Policy

The Commonwealth of Kentucky's investments are governed by Kentucky Revised Statute 42.500 et seq. and Kentucky Administrative Regulations Title 200 Chapter 14. The State Investment Commission (the "Investment Commission"), which is comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Community Independent Banker's Association and the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Investment Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management and Economic Analysis.

The Commonwealth maintains an average operating portfolio of approximately \$3.2 billion in cash and securities. The composition of investments as of June 30, 1998 was as follows: U.S. treasury securities (20%); securities issued by agencies, corporations and instrumentalities of the United States Government (33%); U.S. agency mortgage backed securities and collateralized mortgage obligations (8%); repurchase agreements collateralized by

the aforementioned (23%); municipal securities (2%); and corporate and asset backed securities, including money market securities (14%). The portfolio has a current yield of 5.99% and a modified duration of 1.07 years. The Commonwealth's investments are marked to market daily.

The Commonwealth's investments have been categorized into four distinct classifications or investment pools, the Short-term, Intermediate-term, Long-term, and the Capital Construction Bond Proceeds Pool. In September 1997 the U.S. Treasury and Agency Pool was renamed the Capital Construction Bond Proceeds Pool to more adequately describe its function, and the University Pool and the Trust and Other Pool were merged with the then existing Long-term Pool to form the Intermediate-term Pool. The Intermediate-term Pool includes State Agency and Component Unit investments. A new Long-term Pool was then established for the investment of a portion of the state's Budget Reserve Trust Fund and other state funds that have a longer investment horizon. The purpose of these pools is to provide economies of scale that enhance yield, ease administration, and increase accountability and control.

The Commonwealth of Kentucky engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, fixed receiver interest rate swaps and more recently the purchase of Mortgage Backed Securities and Collateralized Mortgage Obligations.

The Commonwealth has used over-the-counter treasury options since the mid-1980's to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of both put and call options on a covered basis; covered basis is defined as holding either cash or securities sufficient to meet the obligation should it be exercised. The Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a Securities Lending Program since the mid-1980's. This program is structured as a paired tri-party repurchase transaction with an approved custodian bank and a primary dealer acting as principal. The state reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. Currently, the Commonwealth receives a guaranteed rate of 9.5 basis points of the average market value of securities in the program.

The Investment Commission also engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific

period of time. Currently, the Commonwealth has one \$50 million notional amount fixed rate receiver swap transaction outstanding, which has a stated final maturity of July 9, 1999.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

On February 10, 1998, new administrative regulations governing the purchase of these new securities became effective. The new asset classes will be limited to twenty-five percent (25%) of the assets of any investment pool. Corporate securities, inclusive of Commercial Paper, Bankers' Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five (5) years or less. Asset Backed Securities are limited to a stated final maturity of ten (10) years or less and must have a weighted-average-life of not more than four (4) years. The administrative regulations also detail the requirements for the investment of funds in United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO). MBS and CMO are limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS are limited to a stated final maturity of ten (10) years or less with a weighted-average-life of four (4) years or less. CMO must have a weighted-average-life of four (4) years or less.

Year 2000 Compliance

The Commonwealth of Kentucky has been aware since early 1994 of the technology problems associated with the year 2000. The Commonwealth has assessed the state's mission critical systems, most of which reside on the mainframe computer. These systems have been planned for year 2000 compliance by July 1, 1999. As of July 31, 1998, sixty percent of these systems had been renovated and placed back into production. The General Assembly, during the 1998 Regular Session, appropriated \$6,700,000 to a year 2000 "contingency fund." Portions of this fund will be used to contract for third party validation and verification of selected mission critical systems residing on the mainframe computer. The Commonwealth is obtaining a contract for specialized consultants to examine the methodology, procedures, work plans and status of the year 2000 compliance project. The consultants will make recommendations and aid in any alterations of the plans to ensure that the best practices are in place for compliance.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENTS

Summarized below are certain provisions of the Indenture and Financing Agreements. This summary does not purport to be complete, and is qualified by reference to Indenture and Financing Agreements.

Definitions

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the Financing Agreements, which are not otherwise defined herein. Reference is hereby made to the Indenture and the Financing Agreements for a complete recital of the terms defined therein.

"Act" means Section 56.860 *et seq.* of the Kentucky Revised Statutes, as amended.

"Additional Rent" means additional rent as set forth in the Financing Agreements.

"Additional Payments" means the Additional Payments payable under the Financing Agreements.

"Alternate Credit Facility" means any Credit Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution of a Credit Facility, which Credit Facility shall be the same in all material respects (except as to expiration date) as the Credit Facility it is replacing.

"Alternate Liquidity Facility" means any Liquidity Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution for a Liquidity Facility. Extensions of the term of a Liquidity Facility then in effect shall not be deemed an Alternate Liquidity Facility.

"Authorized Officer" means the Executive Director of the Office of Financial Management and Economic Analysis and any other officer, member or employee of the Office of Financial Management and Economic Analysis authorized by a certificate of the Executive Officer to perform the act or sign the document in question, and if there is no such authorization, means the Executive Officer.

"Available Amount" means available amount as set forth in the Credit Facility.

"Available Funds" means (i) moneys derived from drawings under a Credit Facility and Liquidity Facility and deposited in the accounts established under the Indenture as provided in the Indenture, (ii) moneys received by the Trustee and held in Funds and Accounts created under the Indenture for a period of at least one hundred twenty-four (124) days and not commingled with any moneys so held for less than said period and during and prior to which period no

petition in bankruptcy was filed by or against the State or the Commission under the United States Bankruptcy Code, (iii) proceeds of the remarketing of the Notes, (iv) proceeds from the sale of the Bonds, (v) moneys with respect to which the Trustee shall have received an opinion of counsel experienced in matters pertaining to the United States Bankruptcy Code, that the contemplated use of such moneys would not constitute a transfer of property voidable under Section 544 or 547 of the United States Bankruptcy Code, should the State, the Commission or a State Agency become a debtor under such Code or (vi) investment income derived from the investment of moneys described in clause (i) through (v).

"Bonds" means bonds authenticated and delivered by the SPBC or a State Agency to provide permanent financing for the Project for which Notes were issued and delivered, the proceeds of which will be used to pay the principal of or interest on the Notes or a portion thereof.

"Book-Entry-Only Notes" means Notes which, at the election of the Commission, shall be issued in accordance with the DTC Operational Arrangements.

"Business Day" means any day other than (i) a day on which the Trustee, the Paying Agent, the Liquidity Provider, or the Credit Facility Provider or the Remarketing Agent is required, or is authorized or not prohibited, by law (including executive orders) to close and is closed and (ii) a day on which the New York Stock Exchange is closed.

"Certificate of Award" means the certificate of an Authorized Officer establishing certain terms of the Notes and authorized in the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"Costs of Issuance" means only the costs of issuing Notes as designated by the Commission; including, but not being limited to, the fees and charges of the financial advisors or Underwriter, bond counsel, Trustee, Trustee's counsel, rating agencies, note and official statement printers, Credit Facility Provider, Liquidity Provider or Remarketing Agent, and such other fees and expenses normally attendant to an issue of the Notes.

"Cost of Issuance Account" means the Cost of Issuance Account established within the Expense Fund on each Issue Date.

"Counsel" or "Counsel's Opinion" means an opinion signed by such attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds and municipal finance as may be selected by the Commission.

"Credit Facility" means with respect to any Series of Notes (A) a letter of credit having an expiration date that is no earlier than five (5) Business Days succeeding the Final Maturity

Date, a bond insurance policy or a surety bond to be issued by the Credit Facility Provider and delivered to the Trustee on the same date as the initial delivery of such Series of Notes and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (a) the principal amount of such Series of Notes outstanding to enable the Trustee to pay (i) the principal amount of such Series of Notes when due at maturity or upon redemption, and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the principal portion of the purchase price of any of such Series of Notes tendered for purchase or due upon acceleration, plus (b) the amount of interest due on such Series of Notes at the Maximum Rate to enable the Trustee to pay (i) interest on such Series of Notes when due and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the interest portion, if any, of the purchase price of such Series of Notes tendered for purchase; as the same may be transferred, reissued amended or replaced in accordance with this Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility.

"Credit Facility Obligations" means obligations of the Commission under the Credit Facility Agreement, including without limitation, obligations to reimburse the Credit Facility Provider for drawings under the Credit Facility.

"Credit Facility Provider" means the provider of a Credit Facility with respect to any Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated at a rating no lower than the then existing rating, if any, on the Notes by each Rating Service. The initial Credit Facility Provider is Commerzbank AG, acting through 1/3 New York branch.

"Debt" means, with respect to any Person, (a) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (b) all obligations of such person as lessee under capital leases; (c) all obligations of such Person to pay the deferred purchase price of property; (d) certificates of participation evidencing an undivided ownership interest in payments made by such Person as lessee under capital leases, as purchased under an installment sale agreement or otherwise as an obligor in connection therewith; and (e) all Guarantees by such Person of Debt of another Person.

"Debt Servicing Date" shall mean, as to Related Notes that are outstanding, (i) the date on which the Commission has estimated that capitalized interest in the Note Payment Fund that is attributable to a State Agency will no longer be sufficient to pay interest on the Related Notes on September 1 each year thereafter, (ii) any Interest Payment Date on which the amount in the Note Payment Fund that is attributable to the State Agency (as determined by the Commission) is not adequate to pay the amounts set forth in clauses (i) through (vi) of the definition of Debt Servicing Obligation, and (iii) if no capitalized interest is attributable to the related Notes on the date of their delivery, the date of delivery of the Related Notes; and as to any Bonds of the SPBC outstanding, the interest payment dates for the Bonds established by the Bond Resolution or otherwise agreed to by the SPBC and the State Agency, which dates shall be established to provide for timely payments of principal and interest on the Bonds.

"Debt Servicing Obligation" means, as to Related Notes that are outstanding, the entire amount included in its budget (the "Budgeted Amount") for the payment of debt service with respect to the Project, less any amount in the Note Payment Fund on the date of the payment thereof which is attributable to the State Agency (as determined by the Commission). The State Agency is required to approve a Budgeted Amount that is no less than the amount reasonably estimated to be required to be paid in respect of the Related Notes during the period to which the Budgeted Amount relates (the "Budget Period"), including (i) the scheduled maturity of principal of any Related Notes for which Bonds or renewal Notes are not being issued and the principal amount of Related Notes for which Bonds are not being issued, if any, called or to be called for redemption during the applicable Budget Period, and the premium, if any, with respect to such Related Notes, (ii) the interest required or estimated (by the Commission) to be paid on the Related Notes which will be outstanding during the applicable Budget Period, (iii) Credit Facility Obligations applicable to the Related Notes (to the extent not paid under clauses (i) and (ii)), (iv) Liquidity Facility Obligations applicable to the Related Notes, (v) its Proportionate Share of any Financing Expenses and (vi) the reasonable and agreed fees of the Credit Facility Provider, the Liquidity Facility Provider, the Remarketing Agent, the Trustee, the Paying Agent and the Registrar, but only to the extent not otherwise paid directly by the State Agency. In addition to the foregoing, if on any Interest Payment Date, the amount in the Note Payment Fund that is attributable to the State Agency (as determined by the Commission) is not adequate to pay the amounts set forth in clauses (i) through (vi) above, the State Agency shall pay, regardless of the Budget Amount, the amount required to satisfy such deficiency from whatever sources are available for such purpose.

"Debt Servicing Obligation" means, as to Related Bonds that are outstanding, the aggregate amounts required to be paid in respect of the Related Bonds on any Debt Servicing Date, including (a) the scheduled maturity of principal of the Related Bonds maturing on such Debt Servicing Date and the principal amount of the Related Bonds, if any, called for redemption on such Debt Servicing Date, and the premium, if any, with respect to such Related Bonds, (b) the interest required to be paid on the Related Bonds which were outstanding immediately prior to such Debt Servicing Date, and (c) the reasonable and agreed fees of any credit facility provider, liquidity facility provider, remarketing agent, trustee, paying agent or registrar for the Related Bonds, but only to the extent not otherwise paid directly by the State Agency.

"Electronic Means" means telecopy, telegraph, telex, facsimile transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission.

"Eligible Investments" means any investment authorized by Section 42.500 of the Kentucky Revised Statutes, as the same may be amended from time to time.

"Expense Fund" means the Fund so designated which is established and created by the Indenture.

"Expiration Date" means the stated expiration date of a Liquidity Facility or Credit Facility, as such may be extended from time to time, or any earlier date on which the Liquidity Facility or Credit Facility shall terminate, expire or be canceled.

"Fiduciary" or "Fiduciaries" means the Trustee, any Paying Agent or Agents, or any combination of them, as may be appropriate.

"Final Maturity Date" means June 30, 2002.

"Financing Agreements" means, collectively, the Financing/Lease Agreements, entered into from time to time among the Commission, the Cabinet, a State Agency and, if the SPBC is required by the Budget Act to be the issuer of the Bonds, the SPBC, by which one or more of the Projects is leased to the State Agency, and any amendments or supplements thereto.

"Financing Expenses" means all costs associated with the financing of the Projects, as may be determined by the Cabinet, other than amounts payable as interest, Credit Facility Provider fees, Liquidity Facility Provider fees and Remarketing Agent fees under the Financing Agreements, including, but not limited to, fees of the Trustee, Registrar and Paying Agents and unamortized Costs of Issuance.

"Financing Payments" means Financing Payments payable under the Financing Agreements.

"Fiscal Year" means any period of twelve (12) months commencing July 1 of any year and ending June 30 of the ensuing year.

"Fitch" means Fitch IBCA, Inc.

"Funds and Accounts" means the Expense Fund, Note Payment Fund, Project Fund ~~and~~, Rebate Fund and the accounts within such funds established by the Trust Indenture.

"Holder", "Noteholder", or "Owner", or any similar term (when used with reference to Notes), means the person in whose name a Note is registered.

"Indenture" or "Trust Indenture" means the Trust Indenture, dated as of August 1, 1998, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

"Interest Account" means the account by that name in the Note Payment Fund established under the Indenture.

"Interest Payment Date" means (i) with respect to any Series of Notes bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each month, (ii) with respect to any Series of Notes bearing interest at the Money Market Rate, the first Business Day after the end of the Money Market Period, provided that if the certificates required by Section 2.04(10) cannot be given because the Money Market Period ends on a date that is later than the first Business Day of the next month, the Interest Payment Date shall be the first Business Day of each month and the first Business Day after the end of the Money Market Period, (iii) with respect to any Series of Notes bearing interest at the Fixed Rate, the maturity date of such Series of Notes or semi-annually on such dates as set forth in the Certificate of Award for such Notes or in the Certificate of the Commission required upon conversion under the Indenture, (iv) the date any Notes are redeemed, mature or are converted from their existing Interest Rate Mode to bear interest in a different Interest Rate Mode and (v) with respect to Bank Notes, the dates set forth in the Credit Facility Agreement.

"Interest Rate Adjustment Date" means any date on which the interest rate on a Series of Notes may be adjusted, either as the result of the conversion of the interest rate on a Series of Notes to a different Interest Rate Mode, or by adjustment of the interest rate on a Series of Notes within the applicable Interest Rate Mode. An Interest Rate Adjustment Date shall be each Business Day with respect to a Series of Notes bearing interest at the Daily Rate; each Wednesday with respect to a Series of Notes bearing interest at the Weekly Rate; the Fixed Rate Commencement Date with respect to a Series of Notes to bear interest at the Fixed Rate and the first day of each Money Market Period with respect to any Series of Notes bearing interest at a Money Market Rate.

"Interest Rate Determination Date" means with respect to each Series of Notes, the Issue Date of such Series of Notes, and thereafter shall mean, (i) with respect to any Series of Notes to bear interest at the Daily Rate, each day such Series of Notes bears interest at the Daily Rate, (ii) with respect to any Series of Notes to bear interest at the Weekly Rate, Tuesday, or if such Tuesday is not a Business Day, then the next preceding Business Day, (iii) with respect to any Series of Notes to bear interest at the Money Market Rate, the first day of each Money Market Period, and (iv) with respect to any Series of Notes to bear interest at the Fixed Rate, the fifth Business Day preceding the Fixed Rate Commencement Date.

"Interest Rate Period" means that period of time for which the interest rate with respect to a Series of Notes has been determined by the Remarketing Agent or otherwise as provided in the definition of the applicable Interest Rate Mode, commencing on the applicable Interest Rate Adjustment Date, and terminating on the day immediately preceding the following Interest Rate Adjustment Date.

"Investment Grade" means any rating in one of the four highest rating categories of any Rating Agency without regard to any numerical designations or the symbols "+" or "-".

"Issue Date" means the date of any Notes issued under the Indenture as determined by the Certificate of Award authorizing such Notes.

"KRS" means the Kentucky Revised Statutes of the Commonwealth of Kentucky as the same are in full force and effect at the date of the adoption of the Indenture, and any future amendments thereof to the extent that the same will not unconstitutionally impair the obligations of contracts created under the provisions of the Indenture.

"Liquidity Advance" means each Liquidity Drawing under the Credit Facility.

"Liquidity Drawing" means a drawing by the Trustee under the Credit Facility of an amount equal to the purchase price of Notes tendered for purchase which have not been successfully remarketed or for which the purchase price has not been received by the Remarketing Agent by 12:30 p.m. New York time on the purchase date.

"Liquidity Facility" means with respect to any Series of Notes (a) the obligation of the Commission to purchase such Series of Notes that are tendered or required to be tendered for purchase as contemplated under the Indenture, (b) a standby note purchase agreement, letter of credit, line of credit, revolving credit agreement, bond insurance policy, surety bond or similar liquidity enhancement or support facility or agreement or undertaking or combination thereof issued by a Liquidity Provider in favor of the Trustee, for the account of the Commission, obligating the Liquidity Provider to pay during the periods described therein, upon request and in accordance with the terms thereof, the amounts described therein for the purposes of making certain payments on or with respect to such Series of Notes as contemplated pursuant to the Indenture or (c) upon acceptance by the Trustee of any Alternate Liquidity Facility, such Alternate Liquidity Facility; *provided*, that (i) any Alternate Liquidity Facility accepted under the Indenture shall (except as otherwise specifically required by the Indenture) support payments of the Purchase Price to the same extent as the Liquidity Facility it replaces and (ii) for purposes of drawing upon or otherwise causing moneys to be available pursuant to a Liquidity Facility on or prior to a Purchase Date relating to the acceptance by the Trustee of an Alternate Liquidity Facility, "*Liquidity Facility*" means the Liquidity Facility in effect immediately prior to acceptance of such Alternate Liquidity Facility.

"Liquidity Facility Obligations" means obligations of the Commission under a Liquidity Facility.

"Liquidity Provider" means the provider of a Liquidity Facility with respect to any Series of Notes named in the Certificate of Award relating to such Notes, the unsecured, uninsured and unguaranteed short-term debt obligations of which have been rated at a rating no lower than the then existing rating, if any, on the Notes by the Rating Agencies.

"Maximum Interest Rate" means, with respect to any Series of Notes secured by a Liquidity Facility or Credit Facility, the maximum interest rate for which draws for the payment

of interest on such Series of Notes is permitted under the applicable Liquidity Facility or Credit Facility.

"Memorandum of Instructions" means a Memorandum of Instructions Regarding Rebate which may be delivered to the Commission and the Trustee at the time of the issuance and delivery of a Series of Notes, as the same may be amended or supplemented in accordance with its terms.

"Moody's" means Moody's Investors Service, Inc.

"No Issuance Notice" means a written notice from the Credit Facility Provider stating that an event of default has occurred under the Credit Facility Agreement and directing that no Additional Notes may be issued under the Indenture.

"Note Payment Fund" means the Fund so designated which is established and created by the Indenture.

"Operating Account" means the Operating Account established within the Expense Fund on each Issue Date.

"Outstanding" when used with reference to Notes, means, as of any date, all Notes theretofore or then being authenticated and delivered under the Indenture except:

- (a) Notes canceled upon surrender, exchange or transfer or canceled because of payment or redemption at or prior to such date;
- (b) Notes for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Note Payment Fund (whether upon or prior to the maturity or redemption date of those Notes); provided that if any of those Notes are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Noteholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of those Notes are to be purchased for cancellation a firm offer for sale stating the price shall have been received and accepted;
- (c) Notes which are deemed to have been paid pursuant to the provisions of Article IX of the Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Indenture;
- (d) Notes in lieu of which others have been authenticated under Section 3.07 of the Indenture; and

(e) Notes deemed tendered under Section 3.14 of the Indenture.

"Paying Agent" means any bank or trust company so designated, and its successor or successors hereafter appointed, as paying agent for the Notes in the manner provided in the Indenture.

"Pledged Receipts" means

(i) all amounts received as drawings under the Credit Facility;

(ii) all of the Financing Payments and Additional Payments, as defined in the Financing Agreements, to be paid by the State Agencies to the Commission pursuant to the Financing Agreements except for any Financing Payments or Additional Payments payable under the Financing Agreements subsequent to the release of the pledge pursuant to Section 6.11 of the Indenture;

(iii) shall include all interest earned and gains realized on Eligible Investments (a) except for earnings and gains on any investments in the Rebate Fund and (b) unless the Indenture specifically requires such interest earned or gains realized to remain in a particular Fund or Account and does not therefor constitute a Pledged Receipt; and

(iv) the proceeds of any Bonds to the extent such proceeds are deposited in the Note Payment Fund.

"Project" means the several projects authorized for the State Agencies by the Budget Act for which a Financing Agreement has been executed and which are more particularly described in this Official Statement.

"Project Fund" means the Project Fund created by the Indenture.

"Principal Account" means the account by that name in the Note Payment Fund established under the Indenture.

"Proportionate Share" means a factor determined by dividing the principal portion of the State Agency's Debt Servicing Obligation by the principal amount of all Notes (other than any renewal Notes) issued under the Indenture.

"Purchase Account" means the account by that name within the Note Payment Fund established under the Indenture.

"Purchase Price" means (i) an amount equal to the principal amount of any Notes purchased on any Purchase Date, plus, accrued interest, if any, to the Purchase Date, or (ii) an

amount equal to the principal amount of any Notes purchased on a Mandatory Purchase Date, plus accrued interest, if any, to the Mandatory Purchase Date.

"Rating Confirmation Notice" means a written a notice from Moody's, if Moody's is then rating a Series of Notes, from S&P, if S&P is then rating a Series of Notes, and from Fitch, if Fitch is then rating a Series of Notes, confirming that the rating on the Series of Notes for which such rating was given will not be lowered or withdrawn.

"Rating Service" means Moody's, if Moody's is then rating the Notes, S&P, if S&P is then rating the Notes, and Fitch, if Fitch is then rating the Notes, and their successors and assigns.

"Rebate Fund" means the fund by that name established pursuant to the Indenture.

"Record Date" means the day (whether or not a Business Day) next preceding any Interest Payment Date.

"Redemption Date" means the date established for the redemption of Notes under the Indenture.

"Registrar" means the registrar maintaining the registration books for any Notes.

"Reimbursement Obligations" means any and all amounts including, but not limited to, fees, expenses, amounts drawn under the Credit Facility and Liquidity Advances, which may from time to time be owing by the Commission to the Credit Facility Provider under the Credit Facility Agreement, including in each instance all interest accrued thereon.

"Related Bonds" means Bonds issued or to be issued for the purpose of financing the Project.

"Related Documents" means the Indenture, the Credit Facility, the Credit Facility Agreement, the Notes, the Financing Agreements, the Bank Reimbursement Notes, the Official Statement, and the Remarketing Agreement.

"Related Notes" means Notes issued or to be issued for the purpose of financing the Project.

"Remarketing Agent" means Lehman Brothers, acting in its capacity as Remarketing Agent under the Remarketing Agreement or a successor Remarketing Agent appointed under the terms of the Indenture.

"Remarketing Agreement" means the Remarketing Agreement, dated as of August 1, 1998, between the Remarketing Agent and the Commission, as the same may be amended or supplemented from time to time in accordance with its terms.

"Renewal Term" means a period of two (2) years coinciding with the fiscal biennium of the Commonwealth, which commences on July 1 in each even-numbered year and ends on June 30 of the next ensuing even-numbered year unless hereafter modified by statute.

"Rent" means the payments requested to be made by the Cabinet and the SPBC pursuant to the Financing Agreements.

"Resolution" means the resolution of the Commission authorizing the issuance of the Notes and the execution and delivery of the Indenture.

"Series" means Series A Notes, Series B Notes or Series C Notes having the same Issue Date.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.

"SPBC" means the State Property and Buildings Commission of the Commonwealth.

"State" means the Commonwealth of Kentucky.

"State Agency" means any State Agency, as defined in the Act, which has executed and delivered a Financing Agreement.

"Stated Expiration Date" means July 5, 2002; *provided however*, that if such date is not a Business Day, the Stated Expiration Date shall be the next succeeding Business Day.

"Substitution Date" means the date on which a Liquidity Facility or Credit Facility, as the case may be, is to be substituted for another Liquidity Facility or Credit Facility in accordance with the provisions of the Indenture.

"Substitution Tender Date" means the date five Business Days prior to the Substitution Date.

"Supplemental Trust Indenture" or "Supplemental Indenture" means any trust indenture supplemental to or amendatory of the Indenture adopted by the Commission in accordance with the Indenture.

"Treasurer" means the Treasurer of the State.

"Trust Estate" means the trust estate created by the Indenture and by the pledges specifically set forth in the Indenture.

"Underwriter" means Lehman Brothers, as representative of the underwriters identified in the Note Purchase Agreement.

THE INDENTURE

Delivery of the Notes and Additional Notes

The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$110,000,000. The Notes are to be issued in anticipation of the issuance of bonds by the SPBC and certain of the State Agencies. The Indenture provides that the Commission may authorize the issuance of Notes upon execution of a Certificate of Award. Every Certificate of Award is required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes will be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of Notes (which, if such Notes are secured by a Credit Facility or Liquidity Facility, shall be the same Interest Rate Mode as any outstanding Notes), including the Interest Payment Dates for Fixed Rate Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the optional redemption provisions relating to such Series of Notes; (vii) the optional and mandatory tender provisions relating to such Series of Notes; (viii) the price at which such Series of Notes will be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; (x) that the amount that may be drawn under a Credit Facility, if such Series of Notes is to be secured by a Credit Facility or Liquidity Facility, is no less than the aggregate principal amount Outstanding of all Notes secured by such Credit Facility or Liquidity Facility plus interest at the Maximum Rate for the Applicable Interest Period; (xi) the aggregate amount payable under all Financing Agreements is no less than the aggregate principal amount Outstanding of all Notes, plus interest at the Maximum Rate for the Applicable Interest Period, plus all Financing Expenses; (xii) with respect to each State Agency for which Notes are then being delivered, there has been deposited in the Interest Account of the Note Payment Fund (i) an amount determined by (a) multiplying the amount included in the applicable State Agency's current budget for debt service with respect to the applicable Project by (b) the amount of Notes to be delivered with respect to that Project and (c) dividing that amount by the total amount of Notes authorized to be issued for that Project or (ii) there has been deposited in the Interest Account of the Note Payment Fund, Note proceeds, as capitalized interest to the first Debt Servicing Date under the related Financing Agreement in an amount equal to interest at a rate of 5.0% per annum, 5.5% per annum and 6.75% per annum respectively on the principal amount of Series A Notes, Series B Notes and Series C Notes then being delivered; (xiii) that, for Series A Notes and Series B Notes, an IRS Form 8038G will be filed in a timely manner and (xiv) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Indenture.

The Indenture provides the conditions precedent to authentication and delivery of the Notes.

All Notes will rank on a parity and equality with one another, without regard to Series designation or date of original issuance and are entitled to the benefit of the continuing pledge and lien created by the Indenture to secure the full and final payment of the principal of and interest on the Notes.

Security and Pledge of Revenues

The Notes are special obligations of the Commission, payable only from revenues and funds specifically pledged by the Commission for the payment of the principal of, if any, and interest on the Notes. There have been pledged for payment of the principal of and interest on the Notes: (i) the proceeds of sale of the Notes, (ii) Eligible Investments acquired from Note proceeds or by application of moneys in Funds and Accounts subject to the limitations of (iv) below), (iii) the Pledged Receipts, and (iv) all Funds and Accounts created and established pursuant to the Indenture except the Rebate Fund, including moneys and securities therein.

Establishment of Funds

The Indenture establishes the following special trust Funds (i) the Expense Fund (Series)(Date); (ii) the Project Fund (State Agency- Project); (iii) the Note Payment Fund (Series); and (iv) the Rebate Fund (Series). Each of these Funds is discussed below.

Expense Fund

The Indenture establishes a separate Expense Fund and within such Fund for each Series of Notes a separate Cost of Issuance Account and a separate Operating Account on each Issue Date, which separate Accounts will be identified by inserting in the designation therefor the Issue Date of the Notes for which the Accounts were established.

In each Cost of Issuance Account established on the Issue Date, there shall be deposited the amount of moneys necessary to pay the Costs of Issuance of such Notes specified and determined in the Certificate of Award authorizing the issuance of such Notes. In each Operating Account established for each Issue Date, there shall be deposited Financing Payments and Additional Payments received as payment for Financing Expenses and proceeds of Notes intended to be applied to the payment of Financing Expenses.

The Trustee is required from time to time to pay out, or to permit the withdrawal of, moneys from the applicable Cost of Issuance Account to pay any Costs of Issuance, and from the Operating Account to pay Financing Expenses, free and clear of any lien or pledge or assignment in trust created by the Indenture, upon receipt by said Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made,

for Costs of Issuance or Financing Expenses to be so paid and identifying the Account from which such requisition is to be paid.

If any moneys remain in a Cost of Issuance Account on the date which is five months from the date of issuance of the applicable Series of Notes, the Trustee is required to transfer such amounts to the Note Payment Fund. Amounts remaining in an Operating Account on the date that there will be no Notes Outstanding which are related to a Financing Agreement, as determined by the Cabinet, shall be transferred to the Principal Account or Interest Account of the Note Payment Fund in amounts determined by the Cabinet.

Project Fund

The Indenture establishes a separate Project Fund, which will be an account in the Commonwealth's statewide accounting and reporting system. The Project Fund will be separately identified from all other accounts in the Commonwealth's statewide accounting and reporting system and will be used solely for the purposes provided in the Indenture.

The proceeds of the issuance and delivery of any Notes remaining after the deposit of (a) accrued interest and capitalized interest to the Interest Account of the Note Payment Fund, (b) Costs of Issuance and amounts for the payment of Financing Expenses to the Expense Fund and (c) amounts needed to pay the principal of, interest on and premium, if any, on any Notes, as may be set forth in a Certificate of Award, to the Note Payment Fund, shall be deposited in the Project Fund which may have accounts for each State Agency for which a Financing Agreement is in effect and for each Project of such State Agencies, all in accordance with the Commonwealth's statewide accounting and reporting system.

The Indenture authorizes and directs the Treasurer to make disbursements from each State Agency account of the Project Fund on a first-in-first-out basis in accordance with and as required by the provisions of written requisitions filed from time to time by the applicable State Agency and in accordance with the provisions of the related Financing Agreement.

The Cabinet will keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom. Except for amounts which must be transferred to the Rebate Fund, all of the income derived from investment of the Project Fund will, at the option of the applicable State Agency, be transferred as received to the Note Payment Fund and disbursed therefrom on the next succeeding Interest Payment Date or held in the Project Fund and used for the purposes thereof.

Note Payment Fund

The Indenture establishes a Note Payment Fund. Under the Indenture, the Trustee is required to maintain the Note Payment Fund.

The Trustee is required to establish the following accounts in the Note Payment Fund:

(A) An Interest Account, into which shall be deposited all amounts (i) received as accrued interest and Note proceeds to be applied as capitalized interest upon the sale and delivery of any Notes; (ii) received as fees of any Remarketing Agent, Credit Facility Provider and Liquidity Facility Provider and the interest portion of Financing Payments (including any prepayments of such fees and interest portion of Financing Payments); and (iii) received as proceeds of Notes to pay interest on Notes when due.

(B) A Purchase Account for each Credit Facility and Liquidity Facility then securing any Notes into which will be deposited all amounts received (i) from the Remarketing Agent with respect to any remarketing of the Notes related to that account, which shall be deposited into a "Remarketing Proceeds Subaccount" or (ii) under a draw on any Liquidity Facility or Credit Facility for the payment of the Purchase Price for any Notes related to that account which are tendered and not remarketed by the Remarketing Agent, which shall be deposited in a "Draw Subaccount."

(C) A Principal Account, into which shall be deposited all amounts (i) transferred from the Project Fund to pay principal of and premium, if any, on the Notes due at maturity, on a Redemption Date or upon acceleration; (ii) received as the principal portion of Financing Payments (including any prepayments of the principal portion of Financing Payments); and (iii) representing proceeds of and premium, if any, on Notes to pay principal of the Notes at maturity on a Redemption Date, or upon acceleration.

(D) A Credit Facility Account, into which will be deposited all amounts received from draws under a Credit Facility to pay the principal of, interest on and premium, if any, on any Notes.

As discussed above under "Project Fund," the Commission is required to cause the Finance and Administration Cabinet to transfer moneys on each Interest Payment Date from the Project Fund to the Trustee for deposit to the Note Payment Fund for the purpose of paying principal, purchase price and interest on the Notes.

Moneys in the Note Payment Fund are required to be used as follows:

(1) Amounts in the Interest Account will be used to pay interest on the Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws (plus any related fees of the Credit Facility Provider) will be paid to the Credit Facility Provider and thereafter to pay the fees of any Remarketing Agent, Credit Facility Provider or Liquidity Facility Provider.

(2) Amounts in a Purchase Account will be used to purchase Notes (related to the Credit Facility of Liquidity Facility for which the Purchase Account was created) which are tendered for purchase, subject to certain provisions of the Indenture.

Amounts in the Remarketing Proceeds Subaccount will be used first for such purpose and then amounts in the Draw Subaccount. If the Trustee deposits moneys in the Draw Subaccount in accordance with the Indenture to pay the Purchase Price of Notes on a Purchase Date or Mandatory Purchase Date and thereafter deposits amounts in the Remarketing Proceeds Account upon the remarketing of Notes that were the subject of such deposit, the Paying Agent, by wire transfer, is required to pay to the applicable Liquidity Provider or Credit Facility Provider the amount deposited in the Remarketing Proceeds Subaccount as a result of remarketing such Notes.

If the Paying Agent fails to receive remarketing proceeds from the Remarketing Agent or moneys drawn on the Liquidity Facility or Credit Facility in an amount sufficient to pay the Purchase Price of tendered Notes, (a) the Paying Agent is required to pay to the Remarketing Agent the entire amount then on deposit in the applicable Purchase Account, and the Remarketing Agent is required to return such amount to the prospective purchasers which provided such moneys to the Remarketing Agent, (b) any amount paid by the Liquidity Provider or Credit Facility Provider on such draw will be deposited in a segregated Account of the Note Payment Fund, (c) pursuant to provisions in the Indenture, the Trustee is required to declare the Notes to be due and payable and (d) the Trustee is required to hold for payment pursuant to provision of the Indenture all such Notes tendered for purchase on the applicable Purchase Date or required to be purchased on a Mandatory Purchase Date.

Amounts deposited in the Purchase Account will remain uninvested pending application thereof in accordance with the provisions of the Indenture.

(3) Amounts in the Principal Account will be used to pay principal of and premium, if any, on the Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws (plus any related fees of the Credit Facility Provider) will be paid to the Credit Facility Provider.

(4) Amounts in the Credit Facility Account will be used to pay the principal of, interest on, and premium, if any, on Notes that are secured by a Credit Facility.

The Trustee is required to draw on any Liquidity Facility pursuant to its terms, in the amounts and at the times necessary to pay the Purchase Price on the related Notes pursuant to the Indenture.

The Trustee is required to draw on any Credit Facility pursuant to its terms, in the amounts and at the times necessary to pay the Purchase Price, principal of, interest on and premium, if any, on any Notes secured therefor. The Trustee will draw upon the Credit Facility in accordance with the terms thereof under the circumstances described in the Indenture.

The Trustee is required to transmit to any Paying Agent, as appropriate, from moneys in the Note Payment Fund applicable thereto, amounts sufficient to make timely payments of principal or Purchase Price of and interest on the Notes to be made by such Paying Agent and then due and payable. The Commission authorizes and directs the Trustee to cause withdrawal of moneys from the Note Payment Fund which are available for the purpose of paying, and are sufficient to pay, the principal or Purchase Price of, premium, if any, and interest on the Notes as they become due and payable (whether on an Interest Payment Date, upon tender thereof, at stated maturity, or upon acceleration or redemption), for the purposes of paying or transferring moneys to the Paying Agents which are necessary to pay such principal, Purchase Price, premium and interest.

Rebate Fund

The Indenture establishes a Rebate Fund, separate from any other fund established and maintained under the Indenture or any laws governing the creation and use of funds. There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Memorandum of Instructions. Subject to certain transfer provisions, all moneys at any time deposited in the Rebate Fund are required to be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Memorandum of Instructions), for payment to the federal government of the United States of America, and neither the Commission, any Governmental Agency nor the owner of any Notes will have any rights in or claim to such moneys.

Upon receipt of the Commission's written directions, the Trustee is required to remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such account or funds as directed by the Commission's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Notes and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee will be withdrawn and remitted to, or at the direction of, the Commission.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of the foregoing and the Memorandum of Instructions will survive the defeasance or payment in full of the Notes.

Investment of Funds

Amounts on deposit in any Fund or Account are required to be invested in Eligible Investments.

The Trustee is required to sell at the best price obtainable, or present for redemption or exchange, any Eligible Investment purchased by it as an investment pursuant to the Indenture whenever it will be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account from which such investment was made. The Trustee is required to advise the Commission in writing, on or before the last business day of each calendar month, of the details of all Eligible Investments held for the credit of each Fund or Account in its custody under the provisions of the Indenture as of the end of the preceding month.

The Trustee is required to keep the Commission fully advised as to the details of all such investments and is required to comply with any directions of the Commission with respect to investments in Eligible Investments. Except as otherwise provided in the Indenture, earnings and losses on Eligible Investments are required to be credited to the Fund or Account with respect to which such investments were made (or pro-rated thereto) and such earnings or losses become a part thereof for all purposes.

Defeasance

If the Commission pays or cause to be paid, or there is otherwise paid, to Holders of the Notes, such amounts as will, taking into account the investment earnings therefrom, fully provide for all of the principal and interest to become due on any particular Notes, at the times and the manner stipulated therein and in the Indenture, and all amounts payable under the Liquidity Facility and the Credit Facility Agreement shall have been satisfied and the Liquidity Facility and the Credit Facility shall have terminated in accordance with their terms, then and in that event as to those particular Notes the Indenture will cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission under the Indenture will be satisfied and discharged for those particular Notes, and in such event, the Trustee is required, upon the request of the Commission, execute and deliver to the Commission all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries are required to pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption for those particular Notes.

Notes or interest installments of particular Notes for the payment or redemption of which moneys will have been set aside and will be held in trust by Fiduciaries will, at the maturity or date of redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. Particular Notes will, prior to the maturity or redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of said Notes are to be redeemed on any date prior to their maturity, the Commission will have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption in the manner prescribed in the Indenture, (b) there

will have been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal and interest due and to become due on said Notes on and prior to the redemption or maturity date thereof, as the case may be, and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission will have given the Trustee in form satisfactory to it irrevocable instructions to notify the Holders of such Notes of such redemption in the manner provided in the Indenture for giving notice of redemption and (d) the Trustee will have received a Rating Confirmation Notice for the Notes to be defeased. Neither Defeasance Obligations or moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Notes which remain unclaimed for six (6) years after the date when all of the Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such moneys if deposited with the Fiduciary after said date when all of the Notes became due and payable, will (subject to the provisions of Article V of the Indenture), at the written request of the Commission, be repaid by the Fiduciary to the Commission, as its absolute property and free from trust, and the Fiduciary will thereupon be released and discharged.

"Defeasance Obligations" means and includes any of the following:

(i) Direct and general non-callable obligations of the United States of America, backed by the full faith and credit of the United States of America or obligations that are unconditionally guaranteed as to principal and interest by the United States of America. The obligations described in this paragraph are called "United States Obligations".

(ii) Prerefunded municipal obligations rated "AAA" by each Rating Service then rating the Notes and meeting the following conditions:

(a) the municipal obligations are (i) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (ii) the issuer has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Obligations that may be applied only to interest, principal, and premium payments of such municipal obligations;

(c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities on the municipal obligations;

(d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

(e) the United States Obligations (plus any cash in the escrow fund) are not available to satisfy any other claims, including those against the trustee or escrow agent.

Events of Default and Remedies

Each of the following events is an "Event of Default" under the Indenture:

(1) payment of any principal on any Note shall not be made when and as the same shall become due or upon call for redemption or otherwise; or

(2) payment of any installment of interest on any Note shall not be made when and as the same shall become due; or

(3) payment of any Note tendered to the Remarketing Agent for purchase pursuant to the Indenture shall not be made when due and the continuance of such failure for one Business Day after the Paying Agent has given written notice of such failure to the Remarketing Agent, the Liquidity Provider, Credit Facility Provider, and the Commission; or

(4) the Commission shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or the Notes and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by (i) the Liquidity Provider or Credit Facility Provider or (ii) the Trustee or the Holders of not less than five percent (5%) in principal amount of the Outstanding Notes; provided that the notice set forth in clause (ii) may only be given for Notes secured by a Credit Facility if the Credit Facility Provider is in default of its obligations under the Credit Facility; or

(5) receipt by the Trustee from the Credit Facility Provider, within the time period specified in a Credit Facility, of notice that it will not reinstate amounts drawn on the Credit Facility to pay interest on the Notes or the Trustee receives a written notice from the Liquidity Provider or Credit Facility Provider that an Event of Default has occurred under the Liquidity Facility or Credit Facility; or

(6) failure of the Liquidity Provider or Credit Facility Provider to honor any properly presented drawing which conforms with the requirements of the Liquidity Facility or Credit Facility, as applicable; or

(7) the Liquidity Provider or Credit Facility Provider shall: (i) commence a proceeding under any Federal or state insolvency, reorganization or similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days; or (ii) have a receiver, conservator, liquidator or trustee appointed for it or for the whole or any substantial part of its property, and such receiver, conservator, liquidator or trustee shall not be dismissed within 30 days of being appointed.

The provisions of paragraph (7) above are subject to the conditions that (1) none of the acts or circumstances specified therein constitute an Event of Default if the Commission, within 10 days thereafter, provides an Alternate Liquidity Facility or Alternate Credit Facility acceptable to the Trustee and (2) the declaration of an Event of Default due to any of the acts or circumstances specified therein, and the exercise of remedies upon any such declaration, will be subject to any applicable limitations of bankruptcy, insolvency or receivership laws applicable to the Liquidity Provider or Credit Facility Provider affecting or precluding such declaration or exercise during the pendency of or immediately following any bankruptcy, insolvency, receivership, liquidation or reorganization proceedings.

Subject to provisions in this paragraph and upon the occurrence of an Event of Default as specified in paragraph (1), (2), (3), (5) or (6) above, the Trustee is required to declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Upon the occurrence of any other Event of Default (except an Event of Default as specified in paragraph (7) above), the Trustee may, or at the direction of the Holders of not less than 25% of the Notes Outstanding will declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Upon the occurrence of an Event of Default described in paragraph (7) above, if there is not then existing an Event of Default described in paragraphs (1), (2), (3), (5) or (6) above, then the Trustee may, and upon the written request of the Holders of not less than 25% of Notes then outstanding will declare the principal of all Notes then outstanding, together with the interest accrued thereon, to be due and payable immediately. Anything in this paragraph to the contrary notwithstanding, upon the occurrence of an Event of Default (other than an Event of Default as specified in paragraph (5), (6) or (7) above, the Trustee is require to make any such declaration only upon the written direction, or upon the written consent of the Credit Facility Provider.

Any such declaration will be by notice in writing to the Commission and the Remarketing Agent, and, upon said declaration, principal and interest on all Notes will become and be immediately due and payable. The Trustee immediately upon such declaration will give notice thereof in the same manner as provided in the Indenture with respect to the redemption of the Notes without regard to the times stated for notice of redemption that the payment of principal and interest will be tendered immediately to the Holders of the Notes and that interest has ceased to accrue as of the date of such declaration of acceleration.

If an Event of Default has occurred under paragraphs (6) or (7) above or if for any reason the Liquidity Facility or Credit Facility is no longer in effect and upon the happening and continuance of any Event of Default specified in paragraphs (1), (2) or (3) above, the Trustee is required to proceed, or upon the happening and continuance of any Event of Default specified in paragraph (4) above, the Trustee may proceed, and upon the written request of the Holders of not less than 25% of the Outstanding Notes is required to proceed, in its own name, to protect and enforce its rights and the rights of the Holders by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by its counsel, will deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture.

In the enforcement of any rights and remedies under the Indenture, the Trustee will be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Commission for principal, interest or otherwise, under any provision of the Indenture or of the Notes, with interest on overdue payments at the rate or rates of interest specified in such Notes, together with any and all costs and expenses of collection and of all proceedings under the Indenture and the Notes, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce a judgment or decree against the Commission, but solely as provided in the Indenture and in the Notes for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable.

Priority of Payments After Default

In the event that upon the happening and continuance of any Event of Default, the funds held by the Fiduciaries are insufficient for the payment of principal and interest then due on the Notes, such funds (other than funds held for the payment or redemption of particular Notes which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee acting pursuant to the Act and the Indenture, after making provisions (i) for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Credit Facility Provider and the Holders of the Notes, and (ii) for the payment of the charges and expenses and liabilities incurred and advances made by the Fiduciaries in the performances of their respective duties under this Trust Indenture, it being understood that amounts drawn on the Credit Facility shall not be used for the purposes described in clauses (i) and (ii) and, will be applied as follows:

(1) Unless the principal of all of the Notes shall have become or have been declared due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installments, then to the payment thereof ratably, accordingly to the amounts due on such installments, to the persons entitled thereto, including amounts owed to the Credit Facility Provider in respect of interest, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Notes which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Notes due on any date, then to the payment thereof ratably, according to the amounts of the principal due on such date, to the persons entitled thereto, including amounts owed to the Credit Facility Provider in respect of principal, without any discrimination or preference.

(2) If the principal of all of the Notes shall have become or have been declared due and payable, to the payment of the principal and interest due and unpaid upon the Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, accordingly to the amounts due respectively for principal and interest, to the persons entitled thereto, including amounts owed to the Credit Facility Provider, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Notes.

Whenever moneys are to be applied by the Trustee as described herein, such moneys are required to be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Fiduciaries, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Commission, to any Holder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of this Trust Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee is required to give such notice as it may deem appropriate for the fixing of any such date. The Trustee is not required to make payment to the Holder of any unpaid Note unless such Note shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Supplemental Indentures

The Indenture provides procedures whereby the Commission may amend the Indenture by adoption of a Supplemental Indenture, subject to the written consent of the Trustee and the Credit Facility Provider. Amendments that may be made without the consent of the Holders and the Credit Facility Provider must be for purposes of further securing the Notes, imposing further limitations on, surrendering rights of the Commission, curing ambiguities, confirming any pledge under and the subjection to any lien, claim or pledge, modifying any of the provisions of the Indenture in any other respects (provided that such modifications will not be effective until after all Notes outstanding as of the date of execution and delivery of such Supplemental Trust Indenture will cease to be Outstanding), modifying any provisions of the Indenture in order to obtain a Liquidity Facility or Credit Facility (so long as such modifications affect only the Notes to which the Liquidity Facility or Credit Facility relate) or for any other purpose that does not materially adversely affect the rights of the Holders affected thereby.

Amendments of the respective rights and obligations of the Commission and the Holders may be made with the written consent of the Credit Facility Provider and the Holders of not less than 66 2/3% in principal amount of the Outstanding Notes affected by such amendment. No such amendment can permit a change in the terms of redemption or maturity of the principal of any Outstanding Note or of the rate of interest thereon or reduce the percentages or otherwise affect the classes of Notes the consent of the Holders of which is required to effect such amendment.

The Trustee

The Trustee will agree to perform the duties and obligations specifically set forth in the Indenture, and no duties or obligations will be implied to the Trustee. In case a default or an Event of Default has occurred and is continuing under the Indenture (of which the Trustee has been notified or is deemed to have notice), the Trustee is required to exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Indenture provides that the Trustee will be entitled to act upon opinions of counsel and will not be responsible for any loss or damage resulting from reliance thereon in good faith. In addition, the Indenture provides that the Trustee will be entitled to rely on certain other instruments, and it will not be liable for any action reasonably taken or omitted to be taken by it in good faith or be responsible other than for its own gross negligence or willful neglect.

THE FINANCING AGREEMENTS

Upon the issuance of a Certificate of Award, the Commission, the Cabinet, the SPBC and the applicable State Agency will enter into a Financing Agreement which provides for (i) interim financing for the Project by issuance of the Notes by the Commission; (ii) revenues for amortization of such State Agency's proportionate share of the Notes; (iii) the issuance of the Bonds for the payment of such Notes which have not been amortized; (iv) if the SPBC issues such Bonds, the transfer of the Project to the SPBC upon the issuance of Bonds by the SPBC; and (v) the leasing of the Project from the SPBC to such State Agency, if applicable, to provide

revenues for amortization of the Bonds. The Financing Agreements provide for revenues to reimburse the SPBC and the Commission for their commitments to amortize such Bonds and Notes, respectively.

Term, Renewals, Financing Payments and Rent

The Commission has agreed to provide interim financing for the Project, for an initial term ending June 30, 2000. Each State Agency party to a Financing Agreement has the right to continue such Financing Agreement and have the Project for succeeding biennial periods. Each State Agency party to a Financing Agreement is required to pay, as Financing Payments during the initial period ending on June 30, 2000, and during each Renewal Term in which such Financing Agreement is renewed, the Debt Service Obligation applicable to the Related Notes, due on each Debt Servicing Date, during the term of the Financing Agreement so long as any Related Notes are Outstanding or any amounts are due under a Credit Facility Agreement or Liquidity Facility.

The SPBC and certain of the State Agencies have agreed to provide permanent financing for the Project for an initial term commencing on the date of issuance of the Related Bonds and ending June 30 of the first even numbered year after the Related Bonds are issued. Each State Agency party to a Financing Agreement is required to pay, as Rent during such period, the Debt Servicing Obligation, applicable to the Related Bonds, due on each Debt Servicing Date, during the term of such Financing Agreement so long as any Related Bonds are outstanding. Each State Agency party to a Financing Agreement has the exclusive option to renew such Financing Agreement for successive ensuing Renewal Terms, commencing July 1 in each even-numbered year, and ending June 30 in the next ensuing even-numbered year, and the last Renewal Term shall end June 30 of the even numbered year following the final maturity date of the Related Bonds or such other date as may be set forth in a Supplemental Financing Agreement entered into pursuant to the Financing Agreement or otherwise agreed to by the SPBC and the State Agency. Each of the options to renew are deemed automatically exercised (and the Financing Agreements automatically renewed for the succeeding Renewal Term) unless a written notice of a State Agency's election not to renew is delivered to the Commission and the SPBC before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term.

Each State Agency party to a Financing Agreement has agreed to pay Additional Payments and Additional Rent under circumstances provided in the Financing Agreement to which it is party.

Budget Proposals

Each State Agency party to a Financing Agreement has agreed that when appropriations bills are prepared for introduction in the General Assembly, it will include in its budget and seek an appropriation for sufficient amounts in the aggregate (over and above all other requirements

of the State Agency) to enable such State Agency to pay Financing Payments, Additional Payments, Rent and Additional Rent and thereby provide the Commission with moneys sufficient for the payment of the principal and interest of the Related Notes and the Related Bonds as such amounts are due and payable, subject to the SPBC's obligation to issue Bonds or the Commission's obligation to issue renewal Notes upon the maturity of any Related Notes, and to pay any and all Credit Facility Obligations and Liquidity Facility Obligations applicable to the Related Notes or Related Bonds.

Events of Default and Remedies

Each of the following events is an "Event of Default" under the Financing Agreements:

(a) default in the due and punctual payment of any Financing Payments, Rent, Additional Payments or Additional Rent; or

(b) default in the performance of any of the covenants, terms and conditions of the Financing Agreement, and failure to remedy such default within thirty (30) days after written receipt thereof if the default relates to matters other than the payment of rent (but the State Agency shall not be deemed to be in default if the State Agency commences to remedy said defaults other than related to payment of Financing Payments, Rent, Additional Payments or Additional Rent within said thirty (30) day period, and proceed to and do remedy said default with due diligence).

If an event of default occurs under a Financing Agreement, the Commission or the SPBC, as applicable, may by written notice to the State Agency terminate the Financing Agreement or, without terminating the Financing Agreement, take possession (actually or constructively) of the Project. In such event, the Commission or the SPBC, as applicable, may lease the Project or portions thereof, and in the event of a leasing may apply the rent therefrom first to the payment of the Commission's and the SPBC's expenses incurred by reason of the State Agency's default, and the expense of leasing, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of Financing Payments, Rent, Additional Payments, Additional Rent and all other sums due from the State Agency under the applicable Financing Agreement. All remedies available to the Commission and the SPBC are declared to be cumulative and concurrent. No termination of the Financing Agreements nor any taking or recovering of possession of the Project shall deprive the Commission or the SPBC of any of its remedies or actions against the State Agencies.

Security

Each Financing Agreement secures (i) the payment of Financing Payments, Rent, Additional Payments and Additional Rent, (ii) the payment of the Related Notes in the aggregate principal amount which may from time to time be outstanding under the Indenture set forth, with interest thereon at the rates per annum borne by the Related Notes, (iii) the payment of the

Related Bonds in the aggregate principal amount which may from time to time be outstanding under the Bond Resolution, with interest thereon at the rates per annum borne by the Related Bonds, (iv) the payment of the Credit Facility Obligations, and (v) the payment of Liquidity Facility Obligations.

TAX TREATMENT

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series A Notes is excludable from gross income for Federal income tax purposes and interest on the Series A Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Bond Counsel for the Notes is also of the opinion that interest on the Series B Notes is excludable from gross income for Federal income tax purposes except while held by a Substantial User or Related Person, each as defined in the Code. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. Interest on the Series C Notes is not excludable from gross income for Federal income tax purposes.

A copy of the opinion of Bond Counsel for the Notes is set forth in Exhibit C, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series A Notes and Series B Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series A Notes and Series B Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series A Notes and Series B Notes being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series A Notes and Series B Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Notes and Series B Notes may adversely affect the tax status of the interest on the Series A Notes and Series B Notes.

Certain requirements and procedures contained or referred to the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Notes is of the opinion that interest on the Series A Notes and Series B Notes is excludable from gross income for Federal income tax purposes and that interest on all Notes is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Notes on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Bonds is of the opinion that interest on the Series A Notes will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax-exempt interest, ownership or disposition of the Series A Notes and Series B Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code, and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Series A Notes and Series B Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

The Commission has not designated the Notes as "qualified tax-exempt obligations" under Section 265 of the Code.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Notes or due existence or powers of the Commission.

APPROVAL OF LEGALITY

Certain legal matters incident to the authorization, issuance, sale and delivery of the Notes are subject to the unqualified approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the Commission. Certain other legal matters will be passed on by Brown, Todd & Heyburn PLLC, Louisville, Kentucky, counsel to the Underwriters.

RATINGS

The following rating agencies (each a "Rating Agency") have given the Notes the following respective ratings: Fitch IBCA, Inc., "AA-/F1+"; Moody's Investor's Service, Inc., "Aa3/VMIG-1" and Standard & Poor's Ratings Group, "AA-/A-1+". Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Fitch IBCA, Inc., One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investor's Service, Inc., 99 Church Street, New York, New York 10007, (212) 583-0300; and Standard & Poor's Ratings Group, 25 Broadway, New York, New York 10004 (212) 208-8000. No rating is a recommendation to buy, sell or hold the Notes, and there is no assurance that any rating will be maintained for any given period of time by a Rating Agency or that it will not be revised or withdrawn entirely by such Rating Agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of a rating may have an adverse affect on the market price of the Notes.

CONTINUING DISCLOSURE

The Commission has covenanted that it will comply with the applicable requirements of Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934. Specifically, the Commission will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the Notes, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. The Commission is exempted from other disclosure under the Rule for so long as the Notes remain in the Money Market Rate, the Weekly Rate or the Daily Rate. The Commission has covenanted to provide other disclosure as required by the Rule if the Interest Rate Mode should ever be converted to the Fixed Rate. Notwithstanding the foregoing, it should be noted that the Commonwealth of Kentucky is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

UNDERWRITING

Lehman Brothers, as representative of the Underwriters, has agreed to purchase the Notes from the Commission at a purchase price equal to the par amount of the Notes issued.

The Underwriters have advised the Commission that they intend to make a public offering of each tranche of Notes at the initial interest rates set forth in the Certificate of Award with respect to such tranche of Notes; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters deem necessary in connection with the marketing of the Notes.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Commission and the purchasers or Holders of any of the Notes.

KENTUCKY ASSET/LIABILITY COMMISSION

By s/John McCarty

John McCarty
Chairman

By _____ s/Gordon L. Mullis, Jr.

Gordon L. Mullis, Jr.
Secretary

EXHIBIT A
BALANCE SHEET OF UNIVERSITY AND COLLEGE FUNDS
AS OF JUNE 30, 1997

EXHIBIT B

DEBT INFORMATION

PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Overview of Kentucky's Debt Authorities

Kentucky's indebtedness is comprised of bonds and notes which are either direct obligations of the State or obligations of one of the debt-issuing entities created by the Kentucky General Assembly to finance various projects or programs. Direct debt is General Obligation debt that pledges the full faith, credit, and taxing powers of the state as security for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of General Obligation Bonds in amounts exceeding \$500,000. The State has not incurred any General Obligation debt since 1966. There is currently no General Obligation debt outstanding.

The second type of debt incurred by the State is project revenue debt. Project revenue debt pledges as security for repayment of the debt only the revenues produced by the projects funded from the debt. Project revenue bonds are not a direct obligation of the State. Project revenues are, in some cases, derived partially, or solely, from General Assembly appropriations which are subject to biennial renewal by the General Assembly. In other cases, revenues generated from the project financed by the debt are used to make the debt service payments in full.

The third type of debt incurred by the State is moral obligation debt. These obligations are not direct obligations of the State and no appropriations of the State are pledged to pay the debt service. Rather these entities covenant to request funds of the Governor and General Assembly in the event of a shortfall in the debt service reserve account.

Debt-Issuing Entities of the State

Project revenue debt has been incurred by eighteen of the commissions, corporations, authorities, or boards created by the General Assembly. Eleven of these eighteen debt-issuing entities are listed in Table I along with the specific statutory authority which created these debt entities and the purposes for which each entity may incur debt.

Seven of the debt-issuing authorities listed in Table I issue bonds to finance projects that are not repaid by state revenues. These are the Kentucky Housing Corporation, the Kentucky Infrastructure Authority, the Kentucky Higher Education Student Loan Corporation, the School Facilities Construction Commission, the Kentucky Economic Development Finance Authority, the Kentucky Local Correctional Facilities Construction Authority and the Kentucky

Agricultural Finance Corporation. None of these entities, except for some of the debt of the School Facilities Construction Commission and the Kentucky Infrastructure Authority, receive an appropriation of the General Assembly for the payment of debt service for their borrowings. Project revenues are used to repay debt service for these debt authorities. The General Assembly has placed specific debt limitations on the principal debt outstanding of the Kentucky Housing Corporation (\$1.125 billion), the Kentucky Higher Education Student Loan Corporation (\$950 Million) and the Kentucky Agricultural Finance Corporation (\$500 Million). The debt of the Kentucky Local Correctional Facilities Construction Authority is limited to the level of debt service supported by a \$10 fee collected from certain cases in the District Courts of the State. Currently, no debt limitation exists for the Kentucky Economic Development Finance Authority.

The remaining debt-issuing entities of the State receive a General Assembly appropriation biennially for the payment of debt service. The appropriation to the School Facilities Construction Commission is used to subsidize the debt service payments, in whole or in part, made by local school districts on local school construction projects. The subsidy has varied by project. Two financing programs of the Kentucky Infrastructure Authority; the Governmental Agencies Program and the Multiple Projects Construction Loan Program, receive no General Assembly appropriation and have a debt ceiling. Bonds and notes with a maturity of 3 years or less are limited to \$60 Million, those with maturities greater than 3 years are limited to \$125 Million in bonds outstanding. The three other financing programs of the Kentucky Infrastructure Authority created by the 1988 General Assembly, the Federally Assisted Waste Water Program, the Infrastructure Revolving Fund Program and the Solid Waste Revolving Loan and Grant Program, have been appropriated General Fund monies. The State Property and Buildings Commission, the Turnpike Authority of Kentucky and the State Universities cannot incur debt for any project without prior approval of the projects and appropriation of debt service by the General Assembly. During the 1997 First Extraordinary Session the General Assembly enacted House Bill 5 which created the Kentucky Asset/Liability Commission ("ALCO"). ALCO develops and implements programs to assist in the management of net interest rate margin and will issue tax and revenue anticipation notes and project notes or bond anticipation notes.

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY</u>	<u>PURPOSE</u>
State Property and Buildings Commission	KRS 56.450	Provide financing for capital construction projects and financing programs approved by the General Assembly.
Kentucky Asset/Liability Commission	KRS 56.860	Provide for short-term financing of Capital projects and the management of cash borrowings.
Turnpike Authority of Kentucky	KRS 175.410-175.990	Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.
The State Universities (consisting of eight)	KRS 56.495	Construct educational buildings and housing and dining facilities.
Kentucky Housing Corporation	KRS 198A	Make low interest mortgage loans and construction loans to increase the supply of housing residents in the State.
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.
Kentucky Higher Education Student Loan Corporation	KRS 164A	Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.
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.

Kentucky Economic Development Finance Authority	KRS 154	Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the Commonwealth.
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695	Provide an alternative method of constructing, improving, repairing and financing local jails.
Kentucky Agricultural Finance Corporation	KRS 247.940	Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.

Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its project revenue obligations.

Debt Management

The Office of Financial Management and Economic Analysis, Finance and Administration Cabinet, has central responsibility for the issuance and management of state debt. Specific functions of the Office include the review and approval of bonds sold by all entities which issue bonds in the name of the state, as well as all entities created by the state. The Office is also responsible for coordination and monitoring of cash needs relative to debt activity, making debt service payments, and the development and maintenance of a debt management plan. The Office serves as primary staff to the State Property and Buildings Commission and the Asset/Liability Commission.

Debt of the State Agencies

Set forth on the following pages is information on the debt of the State Agencies which had outstanding debt obligations as of June 30, 1997. The information was obtained from pages

378 and 379 of the *Kentucky Comprehensive Annual Financial Report* of the Commonwealth for the year ended June 30, 1997.

Table II (pp.378-379) from CAFR - Debt of the State and its Agencies - to go here

EXHIBIT C
FORM OF BOND COUNSEL OPINION